

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-38377

**Colony NorthStar Credit Real Estate, Inc.**

(Exact name of Registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)  
  
515 S. Flower Street, 44<sup>th</sup> Floor  
Los Angeles, CA  
(Address of principal executive offices)

38-4046290  
(I.R.S. Employer  
Identification No.)

90071  
(Zip Code)

Registrant's telephone number, including area code: (310) 282-8820

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

Class A common stock, par value  
\$0.01 per share  
(Title of each class)

New York Stock Exchange  
(Name of exchange on which registered)

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

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

The registrant was formed on August 23, 2017 and its shares of Class A common stock began trading on the New York Stock Exchange on February 1, 2018. Accordingly, there was no public market for the registrant's common stock as of June 30, 2017, the last day of the registrant's most recently completed second quarter.

As of March 21, 2018, Colony NorthStar Credit Real Estate, Inc. had 83,487,352 shares of Class A common stock outstanding. The aggregate market value of shares of Class A common stock held by non-affiliates of the Company on March 21, 2018 was approximately \$1.57 billion. As of March 21, 2018, Colony NorthStar Credit Real Estate, Inc. had 44,399,444 shares of Class B-3 common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

<sup>1</sup> As of January 1, 2018 through January 30, 2018, the date on which the registrant filed its Registration Statement on Form 8-A in connection with the listing on the New York Stock Exchange of its Class A common stock (the "Voluntary Reporting Period"), the registrant was not subject to the filing requirements of Section 13 and 15(d) of the Exchange Act. As a voluntary filer not subject to the filing requirements of Sections 13 or 15(d) of the Exchange Act during the Voluntary Reporting Period, the registrant filed all reports pursuant to Section 13 or 15(d) of the Exchange Act as if it were subject to such filing requirements.

## EXPLANATORY NOTE

This Annual Report on Form 10-K of Colony NorthStar Credit Real Estate, Inc., a Maryland corporation (the “Company”), includes the financial statements of (i) the Company and (ii) the Company’s accounting predecessor, which are investment entities in which Colony Capital Operating Company, LLC (“CLNS OP”) or its subsidiaries owned interests ranging from approximately 38% to 100% and that were contributed to the Company on January 31, 2018 in connection with the closing of the Combination (as defined below) and certain intercompany balances between those entities and CLNS OP or its subsidiaries.

On January 31, 2018, the Company completed the transactions contemplated by that certain Master Combination Agreement, dated as of August 25, 2017, as amended and restated on November 20, 2017 (the “Combination Agreement”), by and among (i) the Company, (ii) Credit RE Operating Company, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company (“Company OP”), (iii) CLNS OP, a Delaware limited liability company and the operating company of Colony NorthStar, Inc. (“Colony NorthStar”), a Maryland corporation, (iv) NRF RED REIT Corp., a Maryland corporation and indirect subsidiary of CLNS OP (“RED REIT”), (v) NorthStar Real Estate Income Trust, Inc., a Maryland corporation (“NorthStar I”), (vi) NorthStar Real Estate Income Trust Operating Partnership, L.P, a Delaware limited partnership and the operating partnership of NorthStar I (“NorthStar I OP”), (vii) NorthStar Real Estate Income II, Inc., a Maryland corporation (“NorthStar II”), and (viii) NorthStar Real Estate Income Operating Partnership II, L.P, a Delaware limited partnership and the operating partnership of NorthStar II (“NorthStar II OP”).

Pursuant to the Combination Agreement, (i) CLNS OP contributed and conveyed to the Company a select portfolio of assets and liabilities (the “CLNS OP Contributed Entities”) of CLNS OP (the “CLNS OP Contribution”), (ii) RED REIT contributed and conveyed to Company OP a select portfolio of assets and liabilities of RED REIT (the “RED REIT Contribution” and, together with the CLNS OP Contribution, the “CLNS Contributions”), (iii) NorthStar I merged with and into the Company, with the Company surviving the merger (the “NorthStar I Merger”), (iv) NorthStar II merged with and into the Company, with the Company surviving the merger (the “NorthStar II Merger” and, together with the NorthStar I Merger, the “Mergers”), and (v) immediately following the Mergers, the Company contributed and conveyed to Company OP the CLNS OP Contributed Entities and the equity interests of each of NorthStar I OP and NorthStar II OP then-owned by the Company in exchange for units of membership interest in Company OP (the “Company Contribution” and, collectively with the Mergers and the CLNS Contributions, the “Combination”). To satisfy the condition to completion of the Combination that the Company’s Class A common stock, par value \$0.01 per share, be approved for listing on a national securities exchange in connection with either an initial public offering or a listing, the Company’s Class A common stock was approved for listing by the New York Stock Exchange and began trading under the ticker “CLNC” on February 1, 2018.

As of December 31, 2017, the Company did not have any operations and did not have any assets other than \$1,000 in cash, which had been provided by Colony NorthStar to capitalize the Company. The information contained in this Annual Report on Form 10-K describes our business and portfolio on a pro forma basis as if the Combination had occurred on December 31, 2017, unless otherwise noted herein.

COLONY NORTHSTAR CREDIT REAL ESTATE, INC.  
ANNUAL REPORT ON FORM 10-K  
YEAR ENDED DECEMBER 31, 2017

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### Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and contingencies, many of which are beyond our control, and may cause actual results to differ significantly from those expressed in any forward-looking statement. Among others, the following uncertainties and other factors could cause actual results to differ from those set forth in the forward-looking statements:

- operating costs and business disruption may be greater than expected;
- the fair value of our investments may be subject to uncertainties;
- changes in market and economic conditions may adversely impact the commercial real estate sector and our investments;
- our use of leverage could hinder its ability to make distributions and may significantly impact our liquidity position;
- given our dependence on our external manager, an affiliate of Colony NorthStar, any adverse changes in the financial health or otherwise of our manager or Colony NorthStar could hinder our operating performance and return on stockholder’s investment;
- our external manager may not be successful in locating or allocating suitable investments;
- our external manager may be unable to retain or hire key investment professionals;
- we may be unable to realize substantial efficiencies as well as anticipated strategic and financial benefits from the Combination;
- we may be unable to maintain our qualification as a real estate investment trust for U.S. income tax purposes;
- we may be unable to maintain our exemption from registration as an investment company under the Investment Company Act of 1940, as amended; and
- changes in laws or regulations governing our operations may impose additional costs on us or increase competition.

The foregoing list of factors is not exhaustive. We urge you to carefully review the disclosures we make concerning risks in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We caution investors not to unduly rely on any forward-looking statements. The forward-looking statements speak only as of the date of this Annual Report on Form 10-K. The Company is under no duty to update any of these forward-looking statements after the date of this Annual Report on Form 10-K, nor to conform prior statements to actual results or revised expectations, and the Company does not intend to do so.

**PART I****ITEM 1. BUSINESS****Our Company**

References to “we,” “us,” “our,” or the “Company” refer to Colony NorthStar Credit Real Estate, Inc., a Maryland corporation, together with its consolidated subsidiaries, unless the context specifically requires otherwise. References to the “Company OP” refer to Credit RE Operating Company, LLC, a Delaware limited liability company, the operating company of the Company. References to “Colony NorthStar” refers to Colony NorthStar, Inc. a Maryland corporation, and its subsidiaries.

We are a newly formed commercial real estate (“CRE”) credit real estate investment trust (“REIT”) focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE senior mortgage loans, mezzanine loans, preferred equity, debt securities and net leased properties predominantly in the United States. Our objective is to create a premier CRE credit REIT focused on consistently providing attractive risk-adjusted returns to our stockholders. We seek to achieve these returns primarily through cash distributions and the preservation of invested capital, and secondarily through capital appreciation. The real estate credit markets continually evolve, and we believe the 26-year track record of Colony NorthStar and its affiliates of successfully investing across the real estate capital structure uniquely positions us to produce attractive returns across a variety of market conditions and economic cycles.

We are externally managed by a subsidiary of Colony NorthStar, a NYSE-listed global real estate and investment management firm with over \$24 billion of total consolidated assets and over \$43 billion of assets under management. Immediately upon completion of the Combination (as defined below) and related transactions, Colony NorthStar owned approximately 37% of our common equity on a fully diluted basis, evidencing a strong alignment of interests between Colony NorthStar and our stockholders.

**Our Formation Transactions**

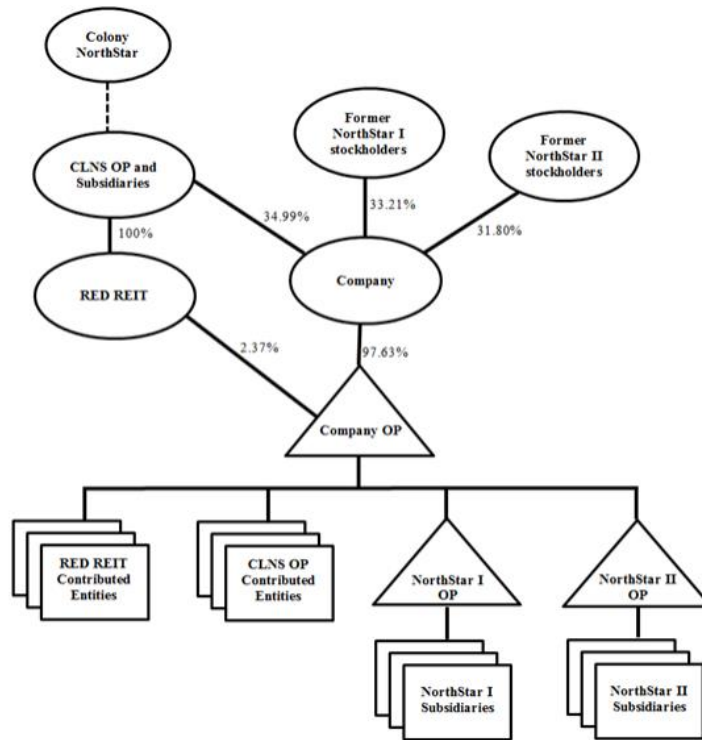
On January 31, 2018, we completed a combination of a select portfolio of Colony Capital Operating Company, LLC (“CLNS OP”) assets and liabilities (the “CLNS OP Contributed Entities”), a select portfolio of assets and liabilities of NRF RED REIT Corp. (“RED REIT”), a Maryland corporation and indirect subsidiary of CLNS OP (the “RED REIT Contributed Entities”), substantially all of the assets and liabilities of NorthStar Real Estate Income Trust, Inc., a Maryland corporation (“NorthStar I”), and all of the assets and liabilities of NorthStar Real Estate Income II, Inc., a Maryland corporation (“NorthStar II”) (collectively, the “Combination”). The Combination consisted of the following steps:

- CLNS OP, together with one or more of its subsidiaries, contributed to us and our operating company the CLNS OP Contributed Entities and the RED REIT Contributed Entities, with CLNS OP receiving approximately 44.4 million shares of the Company’s Class B-3 common stock and RED REIT receiving approximately 3.1 million common membership units in the Company OP (“OP Units”);
- NorthStar I merged with and into the Company with the Company as the surviving corporation (the “NorthStar I Merger”), with stockholders of NorthStar I (including Colony NorthStar and its affiliates) receiving approximately 42.1 million shares of our Class A common stock in exchange for outstanding shares of NorthStar I common stock as a result of the NorthStar I Merger in an all-stock transaction;
- NorthStar II merged with and into the Company with the Company as the surviving corporation (the “NorthStar II Merger” and, together with the NorthStar I Merger, the “Mergers”), with stockholders of NorthStar II (including Colony NorthStar and its affiliates) receiving approximately 40.4 million shares of our Class A common stock in exchange for the outstanding shares of NorthStar II common stock as a result of the NorthStar II Merger in an all-stock transaction; and
- We contributed to our operating company (i) the CLNS OP Contributed Entities, (ii) the equity interests of NorthStar Real Estate Income Trust Operating Partnership, LP (“NorthStar OP I”), a Delaware limited partnership and the operating partnership of NorthStar I, and (iii) the equity interests of NorthStar Real Estate Income Operating Partnership II, LP (“NorthStar OP II”), a Delaware limited partnership and the operating partnership of NorthStar II, and in connection with that transaction we received approximately 126.9 million OP Units.

As a result of the Combination, we assumed substantially all of the outstanding assets and liabilities of NorthStar I, all of the assets and liabilities of NorthStar II, the assets and liabilities of the CLNS OP Contributed Entities and the assets and liabilities of the RED REIT Contributed Entities. We will conduct substantially all of our business through the Company OP. The Company owns 97.6% of the outstanding OP Units in the Company OP.

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The following chart summarizes our organizational structure and equity ownership immediately after giving effect to the Combination and related transactions. This chart is provided for illustrative purposes only and does not show all of our legal entities or ownership percentages of such entities.



**Our Relationship with Our Manager and Colony NorthStar**

We are externally managed by our manager, CLNC Manager, LLC (our “Manager”). Our Manager is a subsidiary of Colony NorthStar and benefits from the expertise and resources of Colony NorthStar. Colony NorthStar and its predecessors have a 26-year track record and have made over \$100 billion of investments. Colony NorthStar’s senior management team, which is led by Executive Chairman Thomas J. Barrack, Jr. and Chief Executive Officer and President Richard B. Saltzman, has a long track record and extensive experience managing and investing in our target assets and other real estate-related investments through a variety of credit cycles and market conditions. Colony NorthStar’s global footprint and corresponding network provides its investment and asset management teams with proprietary market knowledge, exceptional sourcing capabilities and the local presence required to identify, execute and manage complex transactions, although Colony NorthStar and its predecessors have not been immune to national and local economic trends that are unrelated to its management of assets. Colony NorthStar’s successful history of external management includes its previous management of Colony Financial, Inc. (“Colony Financial”), an externally managed commercial mortgage REIT listed on the NYSE and focused on secondary loan acquisitions, high-yielding originations and real estate equity, its current management of NorthStar Realty Europe Corp. (“NorthStar Europe”), a publicly traded REIT listed on the NYSE and focused on European CRE with over \$2 billion in assets, and its management of various non-traded REITs (previously including NorthStar I and NorthStar II) and registered investment companies with in excess of \$4 billion of equity commitments.

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Colony NorthStar and its affiliates have more than 500 employees located domestically and internationally across 18 cities in ten countries, with its principal offices located in Los Angeles, California and New York, New York, including more than 70 dedicated investment professionals. Its operations are broad and diverse and include the management of real estate, both owned and on behalf of a diverse set of institutional and individual investors. Colony NorthStar has a highly experienced management team of diverse backgrounds with a demonstrated track record of success and, on average, 32 years of operational and management experience at asset managers and investment firms, private investment funds, investment banks and other financial service companies, which provides an enhanced perspective for managing our portfolio. Kevin P. Traenkle, a 24-year veteran of Colony NorthStar, serves as our Chief Executive Officer and President; Sujan S. Patel, an 11-year veteran of Colony NorthStar, serves as our Chief Financial Officer; Neale W. Redington, a nine-year veteran of Colony NorthStar, serves as our Chief Accounting Officer; and David A. Palamé, an 11-year veteran of Colony NorthStar, serves as our General Counsel.

We draw on Colony NorthStar's substantial real estate investment platform and relationships to source, underwrite, structure and manage a robust pipeline of investment opportunities, as well as to access debt and equity capital to fund our operations. We believe we are able to originate, acquire, finance and manage investments with attractive in-place cash flows and the potential for meaningful capital appreciation over time. We also benefit from Colony NorthStar's portfolio management, finance and administration functions, which provide us with legal, compliance, investor relations, asset valuation, risk management and information technology services.

### **Our Investment Strategy**

Our objective is to generate consistent and attractive risk-adjusted returns to our stockholders. We seek to achieve this objective primarily through cash distributions and the preservation of invested capital and secondarily through capital appreciation. We believe our diversified investment strategy across the CRE capital stack provides flexibility through economic cycles to achieve attractive risk-adjusted returns. This approach is driven by a disciplined investment strategy, focused on:

- capitalizing on asset level underwriting experience and market analytics to identify investments with pricing dislocations and attractive risk-return profiles;
- originating and structuring CRE senior mortgage loans, mezzanine loans and preferred equity with attractive return profiles relative to the underlying value and financial operating performance of the real estate collateral, given the strength and quality of the sponsorship;
- identifying appropriate CRE debt securities investments based on the performance of the underlying real estate assets, the impact of such performance on the credit return profile of the investments and our expected return on the investments;
- identifying net leased real estate investments based on property location and purpose, tenant credit quality, market lease rates and potential appreciation of, and alternative uses for, the real estate;
- creating capital appreciation opportunities through active asset management and equity participation opportunities; and
- structuring transactions with a prudent amount of leverage, if any, given the risk of the underlying asset's cash flows, attempting to match the structure and duration of the financing with the underlying asset's cash flows, including through the use of hedges, as appropriate.

The period for which we intend to hold our investments will vary depending on the type of asset, interest rates, investment performance, micro and macro real estate environment, capital markets and credit availability, among other factors. We generally expect to hold debt investments until the stated maturity and equity investments in accordance with each investment's proposed business plan. We may sell all or a partial ownership interest in an investment before the end of the expected holding period if we believe that market conditions have maximized its value to us or the sale of the asset would otherwise be in the best interests of our stockholders.

Our investment strategy is dynamic and flexible, enabling us to adapt to shifts in economic, real estate and capital market conditions and to exploit market inefficiencies. We may expand or change our investment strategy or target assets over time in response to opportunities available in different economic and capital market conditions. This flexibility in our investment strategy allows us to employ a customized, solutions-oriented approach, which we believe is attractive to borrowers and tenants. We believe that our diverse portfolio, our ability to originate, acquire and manage our target assets and the flexibility of our investment strategy positions us to capitalize on market inefficiencies and generate attractive long-term risk-adjusted returns for our stockholders through a variety of market conditions and economic cycles.

## Our Target Assets

Our investment strategy is to originate and selectively acquire our target assets, which consist of the following:

- **Senior Mortgage Loans.** We focus on originating and selectively acquiring senior mortgage loans that are backed by CRE assets. These loans are secured by a first mortgage lien on a commercial property and provide mortgage financing to a commercial property developer or owner. The loans may vary in duration, bear interest at a fixed or floating rate and amortize, if at all, over varying periods, often with a balloon payment of principal at maturity. Senior mortgage loans include junior participations in our originated senior loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio. We believe these junior participations are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
- **Mezzanine Loans.** We may originate or acquire mezzanine loans, which are structurally subordinate to senior loans, but senior to the borrower's equity position. Mezzanine loans may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We may also pursue equity participation opportunities in instances when the risk-reward characteristics of the investment warrant additional upside participation in the possible appreciation in value of the underlying assets securing the investment.
- **Preferred Equity.** We may make investments that are subordinate to senior and mezzanine loans, but senior to the common equity in the mortgage borrower. Preferred equity investments may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We also may pursue equity participation opportunities in preferred equity investments, similar to such participations in mezzanine loans.
- **CRE Debt Securities.** We may make investments that consist of bonds comprising certain tranches of CRE securitization pools, such as commercial mortgage backed securities ("CMBS") (including "B-pieces" of a CMBS securitization pool) or CRE collateralized loan obligations ("CLOs") (collateralized by pools of CRE debt instruments). These bonds may be investment grade or below investment grade and are collateralized by CRE debt, typically secured by senior mortgage loans and may be fixed rate or floating rate securities. Due to their first-loss position, CMBS B-pieces are typically offered at a discount to par. These investments typically carry a 10-year weighted average life due to prepayment restrictions. We generally intend to hold these investments through maturity, but may, from time to time, opportunistically sell positions should liquidity become available or be required.
- **Net Leased Real Estate.** We may also invest directly in well-located commercial real estate with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. In addition, tenants of our properties typically pay rent increases based on: (1) increases in the consumer price index (typically subject to ceilings), (2) fixed increases, or (3) additional rent calculated as a percentage of the tenants' gross sales above a specified level. We believe that a portfolio of properties under long-term, net lease agreements generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

The allocation of our capital among our target assets will depend on prevailing market conditions at the time we invest and may change over time in response to different prevailing market conditions. In addition, in the future, we may invest in assets other than our target assets or change our target assets. With respect to all of our investments, we invest so as to maintain our qualification as a REIT for U.S. federal income tax purposes and our exclusion or exemption from regulation under the Investment Company Act of 1940, as amended (the "Investment Company Act").

The CLNS OP Contributed Entities and the RED REIT Contributed Entities conducted their business through two operating segments, real estate debt and real estate equity, which was based on how management reviews and manages its business. See "Item 8. Financial Statements and Supplementary Data" of this report for further information on the reporting segments of these entities, which are reflected in the financial statements of the CLNS Investment Entities. These operating segments may differ from how we conduct our business.

## Initial Portfolio

As of December 31, 2017, the Company did not have any assets other than \$1,000 in cash that was provided to capitalize the Company. As a result of the Combination and related transactions, on January 31, 2018 we acquired the assets described below. The following discussion refers to our initial portfolio on a pro forma basis as if the Combination and related transactions had occurred on December 31, 2017.



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As of December 31, 2017, our initial portfolio consisted of 156 investments representing approximately \$7.6 billion in pro forma book value (excluding cash, cash equivalents and certain other assets). Our loan portfolio consisted of 90 senior mortgage loans, mezzanine loans and preferred equity investments and had a weighted average cash coupon of 8.1% and a weighted average all-in yield of 8.5%. Our CRE debt securities portfolio had a weighted average cash coupon of 3.9%. Our owned real estate portfolio (including net lease and other real estate) consisted of approximately 12.7 million total square feet of space and the total annualized base rent of that portfolio was approximately \$128 million (based on leases in place as of December 31, 2017).

As of December 31, 2017, our initial portfolio consisted of the following investments (dollars in thousands):

Asset	Count	Pro forma book value	Noncontrolling interest(1)	Pro forma book value at our share(2)
Senior mortgage loans(3)	59	\$ 1,494,318	\$ 9,453	\$ 1,484,865
Mezzanine loans(4)	25	564,283	10,181	554,102
Preferred equity(5)	6	220,020	—	220,020
CMBS(6)	38	339,560	32,894	306,666
Mortgage loans held in securitization trusts (6)	—	3,057,195	—	3,057,195
Owned real estate—Net lease(7)	10	724,822	47,021	677,801
Owned real estate—Other(7)(8)	12	903,934	113,538	790,396
Private equity interests	6	263,489	—	263,489
<b>Total</b>	<b>156</b>	<b>\$ 7,567,621</b>	<b>\$ 213,087</b>	<b>\$ 7,354,534</b>

(1) Non-controlling interest (“NCI”) represent interests in assets held by third party partners.

(2) Pro forma book value at our share represents the proportionate pro forma book value based on our ownership by asset; pro forma book values at our share for securitization assets are net of the accounting impact from consolidation.

(3) Senior mortgage loans include junior participations in our originated senior mortgage loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio and contiguous mezzanine loans where we own both the senior and junior loan positions. We believe these investments are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.

(4) Mezzanine loans include other subordinated loans.

(5) Preferred equity balances include \$59.1 million of pro forma book value at our share attributable to related equity participation interests.

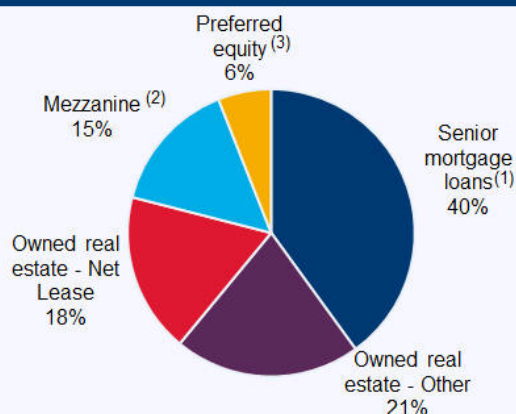
(6) Mortgage loans held in securitization trusts includes \$3.2 billion of pro forma book value assets in three securitization trusts in which we own the controlling class of securities and therefore consolidate. The consolidated liabilities related to these consolidated assets are \$3.1 billion. The difference between the carrying values of the mortgage loans held in securitization trusts and the carrying value of the mortgage obligations issued by the securitization trusts was \$141.7 million as of December 31, 2017 and approximates the fair value of the Company’s underlying investments in the subordinate tranches of the securitization trusts.

(7) Owned real estate – net lease and owned real estate – other include deferred leasing costs and intangible assets.

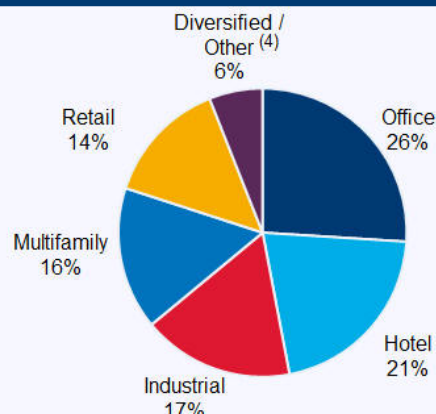
(8) Owned real estate – other consists of multi-tenant office and multifamily residential assets.

The following charts illustrate the diversification of our initial portfolio (not including CMBS, mortgage loans held in securitization trusts, and private equity interests) based on investment type, underlying property type, interest rate category and geography, as of December 31, 2017 (percentages based on pro forma book value at our share, which represents the proportionate pro forma book value based on our ownership by asset):

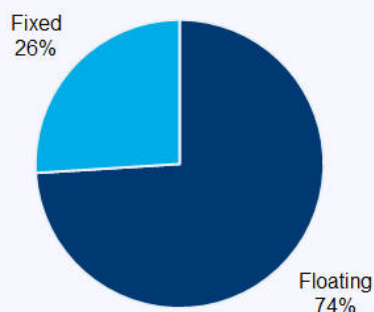
### Investment Type



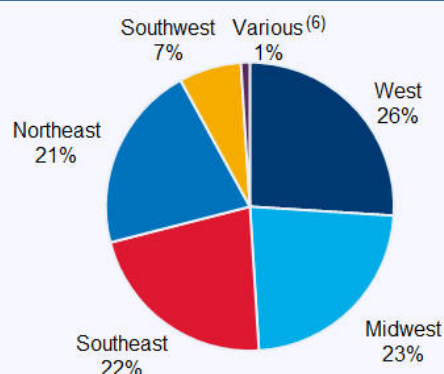
### Property Type



### Fixed / Floating Loan Mix<sup>(5)</sup>



### Geography



- (1) Senior mortgage loans include junior participations in our originated senior mortgage loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio and contiguous mezzanine loans where we own both the senior and junior loan positions. We believe these investments are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
- (2) Mezzanine loans include other subordinated loans.
- (3) Preferred equity balances include \$59.1 million of pro forma book value at our share attributable to related equity participation interests.
- (4) Diversified/Other includes (i) manufactured housing communities and (ii) commercial and residential development and predevelopment assets.
- (5) Includes our loan portfolio only.
- (6) Various includes one non-U.S. collateral asset.

### Loan Portfolio

Our loan portfolio consists of senior mortgage loans, mezzanine loans and preferred equity interests, some of which have equity participation interests.

The following table provides a summary of our loan portfolio as of December 31, 2017 (dollars in thousands):

Asset	Count	Book Value		Principal Balance			Weighted Average <sup>(5)</sup>				
		Pro forma book value	NCI	Pro forma book value at our share <sup>(4)</sup>	Pro forma principal balance	NCI	Pro forma principal balance at our share <sup>(4)</sup>	Cash Coupon <sup>(6)</sup>	All-in yield <sup>(7)</sup>	Remaining term <sup>(8)</sup>	Extended remaining term <sup>(9)</sup>
Senior loans <sup>(1)</sup>	59	\$ 1,494,318	\$ 9,453	\$ 1,484,865	\$ 1,483,761	\$ 9,404	\$ 1,474,357	6.7%	6.9%	1.4	2.9
Mezzanine loans <sup>(2)</sup>	25	564,283	10,181	554,102	557,355	9,202	548,153	10.6%	11.7%	2.3	3.4
Preferred equity <sup>(3)</sup>	6	220,020	—	220,020	159,601	—	159,601	13.0%	13.1%	6.8	6.9
<b>Total / Weighted average</b>	<b>90</b>	<b>\$ 2,278,621</b>	<b>\$ 19,634</b>	<b>\$ 2,258,987</b>	<b>\$ 2,200,717</b>	<b>\$ 18,606</b>	<b>\$ 2,182,111</b>	<b>8.1%</b>	<b>8.5%</b>	<b>2.1</b>	<b>3.3</b>

- (1) Senior mortgage loans include junior participations in our originated senior mortgage loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio and contiguous mezzanine loans where we own both the senior and junior loan positions. We believe these investments are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
- (2) Mezzanine loans include other subordinated loans.
- (3) Preferred equity balances include \$59.1 million of pro forma book value at our share attributable to related equity participation interests.
- (4) Pro forma book and principal value at our share represents the proportionate pro forma book value based on our ownership by asset.
- (5) Weighted average metrics weighted by our pro forma principal balance at our share.
- (6) Represents the stated coupon on loans; for floating rate loans, assumes USD 1-month LIBOR, which was 1.56% as of December 31, 2017.
- (7) In addition to cash coupon, all-in yield includes non-cash payment in-kind interest income and the accrual of both extension and exit fees. All-in yield for the loan portfolio assumes the applicable floating benchmark rate as of December 31, 2017 for weighted average calculations.
- (8) Represents the remaining term based on the current contractual maturity date of loans.
- (9) Represents the remaining term based on a maximum maturity date assuming all extension options on loans are exercised by the borrower term based on a maximum maturity date assuming all extension options on loans are exercised by the borrower.

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The following table details our loan portfolio by rate-type as of December 31, 2017 (dollars in thousands):

	Number of loans	Book Value		Principal Balance			Unfunded Loan Commitments			Weighted Average(2)				
		Pro forma book value	NCI	Pro forma book value at our share(1)	Pro forma principal balance	NCI	Pro forma principal balance at our share (1)	Unfunded loan commitments	NCI	Unfunded loan commitments at our share (1)	Spread to LIBOR	All-in yield (3)	Remaining term(4)	Extended remaining term (5)
Floating rate loans	66	\$1,685,500	\$18,465	\$1,667,035	\$1,671,839	\$18,442	\$1,653,397	\$ 75,342	\$533	\$ 74,809	5.6%	7.4%	1.4	2.9
Fixed rate loans (6)	24	593,121	1,169	591,952	528,877	164	528,714	9,432	—	9,432	—	12.3%	4.1	4.6
<b>Total/ Weighted average</b>	<b>90</b>	<b>\$2,278,621</b>	<b>\$19,634</b>	<b>\$2,258,987</b>	<b>\$2,200,717</b>	<b>\$18,606</b>	<b>\$ 2,182,111</b>	<b>\$ 84,774</b>	<b>\$533</b>	<b>\$ 84,241</b>	<b>—</b>	<b>8.5%</b>	<b>2.1</b>	<b>3.3</b>

- (1) Pro forma book value at our share represents the proportionate pro forma book value, principal value, and unfunded loan commitments based on our ownership by asset. Pro forma principal balance at our share represents the proportionate principal value based on our ownership by asset.
- (2) Weighted average metrics weighted by our pro forma principal balance at our share.
- (3) In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, purchase price premium and discount, loan origination costs and accrual of both extension and exit fees. All-in yield for the loan portfolio assumes the applicable floating benchmark rate as of December 31, 2017 for weighted average calculations.
- (4) Represents the remaining term in years based on the original maturity date or current extension maturity date of loans.
- (5) Represents the remaining term in years based on a maximum maturity date assuming all extension options on loans are exercised by the borrower.
- (6) Includes preferred equity investments.

The following table details the types of properties securing our loan portfolio and geographic distribution as of December 31, 2017 (dollars in thousands):

Collateral property type	Pro forma book value		Pro forma book value at our share(1)		% of total
	Pro forma book value	NCI	Pro forma book value at our share(1)	NCI	
Office	\$ 287,322	\$ 4,491	\$ 282,831	—	13%
Multifamily	365,431	—	365,431	—	16%
Industrial	162,480	—	162,480	—	7%
Hotel	776,580	7,332	769,248	7,332	34%
Retail	472,603	6,357	466,246	6,357	21%
Other(2)	214,205	1,454	212,751	1,454	9%
<b>Total</b>	<b>\$ 2,278,621</b>	<b>\$19,634</b>	<b>\$ 2,258,987</b>	<b>\$19,634</b>	<b>100%</b>

Region	Pro forma book value		Pro forma book value at our share(1)		% of total
	Pro forma book value	NCI	Pro forma book value at our share(1)	NCI	
West	\$ 775,606	\$ 9,844	\$ 765,762	9,844	35%
Northeast	600,900	4,114	596,786	4,114	26%
Southwest	258,790	850	257,940	850	11%
Southeast	410,390	3,089	407,301	3,089	18%
Midwest	212,173	1,737	210,436	1,737	9%
Other(3)	20,762	—	20,762	—	1%
<b>Total</b>	<b>\$ 2,278,621</b>	<b>\$19,634</b>	<b>\$ 2,258,987</b>	<b>\$19,634</b>	<b>100%</b>

- (1) Pro forma book value at our share represents the proportionate pro forma book value based on our ownership by asset.
- (2) Other includes manufactured housing communities and commercial and residential development and predevelopment assets.
- (3) Other includes one non U.S. collateral asset.

**CRE Debt Securities**

The following table presents an overview of our CRE debt securities portfolio as of December 31, 2017 (dollars in thousands):

CRE Debt Securities by ratings category (1)	Number of Securities	Pro forma book value		Pro forma book value at our share(2)		Weighted Average(3)		
		Pro forma book value	NCI	Pro forma book value at our share(2)	NCI	Cash coupon	Weighted Average term	Ratings
Investment grade rated	25	\$162,662	\$ —	\$ 162,662	—	3.3%	8.4	BBB-
Non-investment grade rated	9	104,336	32,894	71,442	32,894	4.2%	6.5	BB-
Non-rated	4	72,562	—	72,562	—	4.2%	5.4	—
<b>Total/Weighted Average</b>	<b>38</b>	<b>\$339,560</b>	<b>\$32,894</b>	<b>\$ 306,666</b>	<b>\$32,894</b>	<b>3.7%</b>	<b>7.3</b>	<b>—</b>

- (1) As of December 31, 2017, all CRE debt securities consisted of CMBS.
- (2) Pro forma book value at our share represents the proportionate pro forma book value based on our ownership by asset; at our share values for securitization assets are presented net of the impact from consolidation.
- (3) Weighted average metrics weighted by our pro forma book value at our share.

See “Item 2. Properties” of this report for further information on our owned real estate.

### **Our Competitive Strengths**

We believe that we distinguish ourselves from other CRE finance and investment companies in a number of ways, including the following:

#### ***Large diversified initial portfolio.***

We are one of the largest publicly traded CRE credit/mortgage REITs. Our portfolio is comprised of a diverse set of CRE assets across the capital stack, including senior mortgage loans, mezzanine loans, preferred equity, debt securities, net leased properties and other real estate equity investments, all of which have been underwritten and asset managed by Colony NorthStar (or its affiliates and predecessors). We believe that the scale of our portfolio gives us a competitive advantage by providing us with significant portfolio diversification, economies of scale and advantageous access to capital.

#### ***Nimble and differentiated investment strategy.***

We focus on originating, acquiring, financing and managing CRE senior mortgage loans, mezzanine loans, preferred equity, debt securities and net leased properties. Our investment strategy is dynamic and flexible, enabling us to adapt to shifts in economic, real estate and capital market conditions and to exploit market inefficiencies, as demonstrated by Colony NorthStar’s 26-year history. This flexible investment strategy will allow us to employ a customized, solutions-oriented approach to investment, which we believe is attractive to our borrowers and tenants and which will allow us to deploy capital across a broader opportunity set.

#### ***Relationship with Colony NorthStar.***

We believe that our affiliation with Colony NorthStar, through our Manager, provides us with a number of competitive advantages, including:

- ***Seasoned Management Team.*** The highly experienced Colony NorthStar senior management team is led by Thomas J. Barrack, Jr. and Richard B. Saltzman, and consists of real estate professionals from diverse CRE backgrounds with, on average, 32 years of operational and management experience. We expect that this Colony NorthStar team will work seamlessly with our senior management team, which is led by Kevin P. Traenkle and Sujun S. Patel. Messrs. Traenkle and Patel, as well as other members of our management team, have significant CRE experience through multiple real estate cycles and have been extensively involved in the investment and management of our predecessors’ portfolio of credit assets, including our initial portfolio.
- ***Colony NorthStar Has a Substantial Equity Stake In Us.*** Immediately following the Combination and related transactions, Colony NorthStar owned approximately 37% of our common stock, on a fully diluted basis, evidencing a strong alignment of interests between Colony NorthStar and our stockholders. As a result, Colony NorthStar derives a substantial amount of value from its investment in us through our stock performance and the distributions that we expect to make.
- ***Extensive Sourcing Capabilities.*** Colony NorthStar employs more than 70 dedicated investment professionals and has access to extensive relationships with borrowers and intermediaries, expertise in identifying, evaluating and structuring real estate investments across the capital stack in different market conditions, and real-time information on markets in which it owns and operates real estate assets. Colony NorthStar and its predecessors have a 26-year track record and have made over \$100 billion of investments throughout economic cycles by focusing on opportunities that were often overlooked by or unavailable to other investors. We expect this experience will help us identify market trends and conditions to deploy capital successfully and provide us with access to proprietary investment opportunities.
- ***Disciplined Underwriting and Asset Selection.*** Colony NorthStar’s fully integrated in-house operating platform has extensive experience underwriting, conducting due diligence and valuing real estate and real estate-related assets. The foundation of this underwriting platform is Colony NorthStar’s credit-oriented culture and its in-depth, asset level evaluation of each investment opportunity using rigorous quantitative and qualitative analysis. We believe that these tools provide us with an advantage relative to many of our competitors and enable Colony NorthStar to better identify attractive investment opportunities and assess the performance, risk and returns that we should expect from any particular investment.

- **Robust Asset Management Capabilities.** Colony NorthStar maintains best-in-class asset management and risk management capabilities. We expect Colony NorthStar to maximize the value of our invested capital and create potential capital appreciation opportunities through active management of our portfolio. The senior personnel of Colony NorthStar and its affiliates are highly experienced in loan, securities and real estate asset management, and have been successful in formulating and executing various asset management strategies through a variety of economic cycles and in complex capital structures. We are able to draw on the experience of Colony NorthStar's more than 75 dedicated asset management professionals, who, in collaboration with the investments team, will formulate a strategic plan to extract the maximum amount of value from each investment through, among other things, repositioning, restructuring, intensive management and, when appropriate, enforcing our rights and remedies.
- **Public Company and REIT Management Experience.** Colony NorthStar and its predecessors have a successful track record managing publicly registered investment platforms, including Colony Financial, which was an externally managed NYSE-listed commercial mortgage REIT with an investment strategy similar to ours, focused on high-yielding loan originations and acquisitions and real estate equity before consummating a business combination and management internalization transaction with Colony Capital, LLC in April 2015. In addition, Colony NorthStar currently manages other publicly traded REITs, non-traded REITs and registered investment companies, including NYSE-listed NorthStar Europe and previously managed NorthStar I and NorthStar II prior to the Combination. Through the management of these companies, Colony NorthStar has developed significant expertise in operating publicly registered companies, including public company reporting, internal controls and risk management, legal and regulatory compliance (including REIT and Investment Company Act compliance), stock exchange requirements, operations, financing and accessing the capital markets.

#### **Our Financing Strategy**

We have a multi-pronged financing strategy that includes an up to \$400 million secured revolving credit facility, up to approximately \$1.3 billion in secured revolving repurchase facilities, non-recourse securitization financing, commercial mortgages and other asset-level financing structures. In addition, we may use other forms of financing, including additional warehouse facilities, public and private secured and unsecured debt issuances and equity or equity-related securities issuances by us or our subsidiaries. We may also finance a portion of our investments through the syndication of one or more interests in a whole loan or securitization. We will seek to match the nature and duration of the financing with the underlying asset's cash flow, including through the use of hedges, as appropriate.

#### **Leverage Policies**

See the section entitled "Leverage Policies" in Item 7 below for a discussion of our leverage policies.

#### **Investment Guidelines**

We have no prescribed limitation on any particular investment type. However, the Company's board of directors ("Board of Directors") has adopted the following investment guidelines:

- no investment shall be made that would cause the Company to fail to qualify as a REIT for U.S. federal income tax purposes;
- no investment shall be made that would cause the Company or any subsidiary to be required to be registered as an investment company under the Investment Company Act;
- until appropriate investments can be identified, the Manager may invest the proceeds of any future offerings of the Company in interest-bearing, short-term investments, including money market accounts and/or U.S. treasury securities, that are consistent with the Company's intention to qualify as a REIT and maintain its exemption from registration under the Investment Company Act;
- no investment shall require prior approval of the Board of Directors or a majority of the independent directors solely because such investment constitutes (1) a co-investment made by and between the Company or any subsidiary, on the one hand, and one or more investment vehicles formed, sponsored and managed by Colony NorthStar or any of its subsidiaries, on the other hand, regardless of when such co-investment is made, or (2) a transaction related to any such co-investment;
- any investment with a total net commitment by the Company OP of greater than 5% of the Company OP's net equity (computed using the most recently available publicly filed balance sheet) shall require the approval of the Board of Directors or a duly constituted committee of the Board of Directors (with total net commitment by the Company OP being the aggregate amount of funds directly or indirectly committed by the Company OP to such investment net of any upfront fees received by the Company or any subsidiary in connection with such investment); and

- any investment with a total net commitment by the Company OP of between 3% and 5% of the Company OP's net equity (computed using the most recently available publicly filed balance sheet) shall require the approval of the Board of Directors or a duly constituted committee of the Board of Directors (with total net commitment by the Company OP being the aggregate amount of funds directly or indirectly committed by the Company OP to such investment net of any upfront fees received by the Company or any subsidiary in connection with such investment), unless the investment falls within specific parameters approved by the Board of Directors and in effect at the time such commitment is made.

The investment guidelines can be amended or waived with the approval of the Board of Directors (which must include a majority of the independent directors) and the Manager.

## **Operating and Regulatory Structure**

### ***REIT Qualification***

We intend to elect to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ending December 31, 2018. If we qualify as a REIT, we generally will not be subject to U.S. federal income tax on the "REIT taxable income" that we distribute annually to our stockholders.

### ***Investment Company Act Matters***

We and our subsidiaries conduct our operations so that we are not required to register as an investment company under the Investment Company Act.

We believe we are not an investment company under Section 3(a)(1)(A) of the Investment Company Act because we do not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. Rather, we, through our subsidiaries, are primarily engaged in non-investment company businesses related to real estate. In addition, we intend to conduct our operations so that we do not come within the definition of an investment company under Section 3(a)(1)(C) of the Investment Company Act because less than 40% of our total assets on an unconsolidated basis will consist of "investment securities." Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and that owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items). Excluded from the term "investment securities" (as that term is defined in the Investment Company Act) are securities issued by majority-owned subsidiaries that are themselves not investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Under the Investment Company Act, a subsidiary is majority-owned if a company owns 50% or more of its outstanding voting securities. To avoid the need to register as an investment company, the securities issued to us by any wholly-owned or majority-owned subsidiaries that we may form in the future that are excluded 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 may own, may not have a value in excess of 40% of the value of our total assets on an unconsolidated basis. We monitor our holdings to ensure ongoing compliance with this test.

We hold our assets primarily through direct or indirect wholly-owned or majority-owned subsidiaries, certain of which are excluded from the definition of investment company pursuant to Section 3(c)(5)(C) of the Investment Company Act. To qualify for the exclusion pursuant to Section 3(c)(5)(C), based on positions set forth by the staff of the SEC, each such subsidiary generally is required to hold at least (i) 55% of its assets in "qualifying" real estate assets and (ii) at least 80% of its assets in "qualifying" real estate assets and real estate-related assets. For our subsidiaries that maintain this exclusion or another exclusion or exception under the Investment Company Act (other than Section 3(c)(1) or Section 3(c)(7) thereof), our interests in these subsidiaries do not and will not constitute "investment securities." "Qualifying" real estate assets for this purpose include senior mortgage loans, certain B-notes and certain mezzanine loans that satisfy various conditions as set forth in SEC staff no-action letters and other guidance, and other assets that the SEC staff in various no-action letters and other guidance has determined are the functional equivalent of senior loans for the purposes of the Investment Company Act. We treat as real estate-related assets B-pieces and mezzanine loans that do not satisfy the conditions set forth in the relevant SEC staff no-action letters and other guidance, and debt and equity securities of companies primarily engaged in real estate businesses. Unless a relevant SEC no-action letter or other guidance applies, we expect to treat preferred equity interests as real estate-related assets. The SEC has not published guidance with respect to the treatment of CMBS for purposes of the Section 3(c)(5)(C) exclusion. Unless the SEC or its staff issues guidance with respect to CMBS, we intend to treat CMBS as a real estate-related asset. To the extent that the SEC staff publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. For our subsidiaries that maintain this exclusion or another exclusion or exception under the Investment Company Act (other than Section 3(c)(1) or Section 3(c)(7) thereof), our interests in these subsidiaries do not and will not constitute "investment securities."

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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.

As a consequence of our seeking to avoid the need to register under the Investment Company Act on an ongoing basis, we and/or our subsidiaries may be restricted from making certain investments or may structure investments in a manner that would be less advantageous to us than would be the case in the absence of such requirements. In particular, a change in the value of any of our assets could negatively affect our ability to avoid the need to register under the Investment Company Act and cause the need for a restructuring of our investment portfolio. For example, these restrictions may limit our and our subsidiaries' ability to invest directly in mortgage-backed securities that represent less than the entire ownership in a pool of senior loans, debt and equity tranches of securitizations and certain asset-backed securities, non-controlling equity interests in real estate companies or in assets not related to real estate. In addition, seeking to avoid the need to register under the Investment Company Act may cause us and/or our subsidiaries to acquire or hold additional assets that we might not otherwise have acquired or held or dispose of investments that we and/or our subsidiaries might not have otherwise disposed of, which could result in higher costs or lower proceeds to us than we would have paid or received if we were not seeking to comply with such requirements. Thus, avoiding registration under the Investment Company Act may hinder our ability to operate solely on the basis of maximizing profits.

There can be no assurance that we and our subsidiaries will be able to successfully avoid operating as an unregistered investment company. If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company, and that we would be subject to limitations on corporate leverage that would have an adverse impact on our investment returns.

### ***Government Regulation Relating to the Environment***

Our properties are subject to various federal, state and local environmental laws, statutes, ordinances and regulations. Such laws and other regulations relate to a variety of environmental hazards, including asbestos-containing materials ("ACM"), toxins or irritants, regulated substances, emissions to the environment, fire codes and other hazardous or toxic substances, materials or wastes. Under these laws, a current or previous owner or operator of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for costs and liabilities related to contamination or other environmental issues at or with respect to the property. Such cleanup laws typically impose cleanup responsibility and liability without regard to whether the owner or operator party knew of or was responsible for the release or presence of such hazardous or toxic substances. These liabilities and costs, including for investigation, remediation or removal of those substances, third party tort claims resulting from personal injury or property damage, and costs to properly manage or abate asbestos may be substantial. Absent succeeding to ownership, operation or other control of real property, a secured lender is not likely to be directly subject to any of these forms of environmental liability, although a borrower could be subject to these liabilities impacting its ability to make loan payments.

Prior to closing any property acquisition, we intend to obtain environmental assessments in a manner we believe prudent in order to attempt to identify potential environmental concerns with respect to such properties. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the result of the first phase of the environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures.

We are not currently aware of any environmental liabilities that could materially affect the Company. Refer to the risk factor "Environmental compliance costs and other environmental liabilities associated with our current or former properties or our CRE debt or real estate-related investments may materially impair the value of our investments and expose us to material liability" in the section entitled "Risk Factors—Risks Related to Our Business and Our Investments" for more details regarding potential environmental liabilities and risk related to the Company.

### ***Other Regulation***

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; (5) set collection, foreclosure, repossession and claims handling procedures and other trade practices; and (6) regulate affordable housing rental activities. Although most states do not regulate commercial

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finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans and the Fair Housing Act. We intend to conduct our business so that we comply with such laws and regulations.

### **Competition**

We are engaged in a competitive business. In our lending and investing activities, we compete for opportunities with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including funds that Colony NorthStar or its affiliates may in the future sponsor, advise and/or manage), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT rule compliance or maintenance of an exclusion from registration under 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 loans and investments, offer more attractive pricing or other terms and establish more relationships than us. Furthermore, competition for originations of and investments in our target assets may lead to the yields of such assets decreasing, which may further limit our ability to generate satisfactory returns.

In addition, changes in the financial regulatory regime following the 2016 U.S. Presidential election could decrease the current restrictions on banks and other financial institutions and allow them to compete with us for investment opportunities that were previously not available to them. For example, the Financial CHOICE Act was introduced in Congress as an avenue for significant amendments to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and may diminish or eliminate risk retention requirements. If the Financial CHOICE Act or similar legislation is enacted, it could increase competition with our business.

We believe access to our Manager's and Colony NorthStar's professionals and their industry expertise and relationships provide us with competitive advantages in assessing risks and determining appropriate pricing for potential investments. We believe these relationships enable us to compete more effectively for attractive investment opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

### **Employees**

We do not have any employees. We are externally managed by our Manager pursuant to the Management Agreement between our Manager and us (the "Management Agreement"). Our executive officers are employees of our Manager or one or more of its affiliates.

### **Implications of Being an Emerging Growth Company**

We qualify as an "emerging growth company" as defined in Section 2(a) of the Securities Act of 1933, as amended (the "Securities Act"), as modified by the Jumpstart Our Business Startups Act of 2012, as amended. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies that are not emerging growth companies. These provisions include, but are not limited to:

- permission to present fewer than five years of selected financial information in this Annual Report on Form 10-K;
- reduced disclosure about our executive compensation arrangements;
- exemption from the requirement to seek non-binding stockholder advisory votes on executive compensation or golden parachute arrangements;
- exemption from the requirement to obtain an auditor attestation of our internal control over financial reporting; and
- extension of time to comply with new or revised accounting standards available until those standards would otherwise apply to private companies.

We may take advantage of these exemptions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.07 billion in annual gross revenues as of the end of our fiscal year, if we have more than \$700 million in market value of our stock held by non-affiliates as of the end of our second fiscal quarter or if we issue more than \$1.0 billion of non-convertible debt over a three-year period. We may choose to take advantage of some or all of these reduced disclosure obligations.



**Corporate Information**

The Company was formed as a Maryland corporation on August 23, 2017. Our principal executive offices are located at 515 S. Flower Street, 44th Floor, Los Angeles, CA 90071, and our telephone number is (310) 282-8820. Our website is [www.clncredit.com](http://www.clncredit.com). We make available, free of charge, on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. Our website address is included in this Annual Report on Form 10-K as a textual reference only and the information on the website is not incorporated by reference into this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

*The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. Set forth below are the risks and uncertainties that we believe are material to stockholders but are not the only ones we face. Additional risks and uncertainties not presently known to us that we currently deem immaterial or that generally apply to all businesses also may adversely impact our business. If any of the following risks occur, our business, financial condition, operating results, cash flow and liquidity could be materially adversely affected. Some statements in this Annual Report on Form 10-K, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled "Special Note Regarding Forward-Looking Statements" at the beginning of this Annual Report on Form 10-K.*

**Risks Related to Our Manager and Conflicts of Interests**

*We depend upon our Manager, Colony NorthStar and their key personnel for our success. The loss of or the inability to obtain key investment professionals at our Manager, Colony NorthStar or their affiliates, or limits on or the loss of Colony NorthStar's support to us or our Manager, could delay or hinder implementation of our investment strategy. We may not find a suitable replacement for our Manager if the Management Agreement is terminated.*

Our ability to achieve our investment objectives depends in substantial part upon the performance of our Manager in the origination, acquisition and management of our investments, including the determination of any financing arrangements, as well as the performance of the third-party servicers (including any affiliated Colony NorthStar servicer) of our real estate debt investments. Subject to investment, leverage and other guidelines or policies adopted by the Board of Directors, our Manager has discretion regarding the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success will depend significantly upon the experience, skill, resources, relationships and contacts of the executive officers and key personnel of our Manager, Colony NorthStar and their affiliates. Executive officers and key personnel of our Manager and Colony NorthStar will evaluate, negotiate, close and monitor our investments; therefore, our success will depend on their continued service. We cannot assure stockholders that such key personnel will continue to be associated with our Manager, Colony NorthStar or their affiliates in the future. The departure of any of these persons could have a material adverse effect on our performance and we can provide no assurance that our Manager, Colony NorthStar or their affiliates could attract other highly skilled professionals.

Neither our Manager nor Colony NorthStar is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our Manager or Colony NorthStar will dedicate to the management of our business. Moreover, each of our officers and non-independent directors is also an employee of our Manager, Colony NorthStar or one of their affiliates, has significant responsibilities for other investment vehicles currently managed by Colony NorthStar or its affiliates, and may not always be able to devote sufficient time to the management of our business. Consequently, we may not receive the level of support and assistance that we otherwise might receive if we were internally managed.

Uncertainty regarding business events and operations at our Manager, Colony NorthStar and their affiliates may have an adverse effect on us. These uncertainties could disrupt our business, and cause clients and others that deal with us or our Manager to seek to change existing business relationships, cease doing business with us or our Manager or cause potential new clients to delay doing or elect not to do business with us.

In addition, we can offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's and Colony NorthStar's officers and key personnel. The current term of the Management Agreement will extend to January 31, 2021, the third anniversary of the completion of the Combination and will be automatically renewed for a one-year term each anniversary thereafter; provided, however, that our Manager may terminate the Management Agreement annually upon 180 days' prior notice following the expiration of the initial three-year term or any subsequent renewal term. If the Management Agreement is terminated and no suitable replacement manager 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 our Manager, Colony NorthStar and their affiliates, which could result in decisions which are not in the best interest of our stockholders.*

We are subject to conflicts of interest arising out of our relationship with our Manager, Colony NorthStar and their affiliates. We rely on our Manager's or its affiliates' executive officers and investment professionals to identify suitable investment opportunities for our Company. These executive officers and investment professionals may also be executive officers, directors and managers of Colony NorthStar and its affiliates, including closed-end or open-end investment funds, vehicles (including public non-traded real estate investment trusts, registered investment companies and externally managed public companies), accounts, products and/or other similar arrangements sponsored, branded, advised and/or managed by Colony NorthStar or any of its affiliates, in existence or subsequently established (including any related successor funds, alternative vehicles, supplemental capital vehicles, co-investment vehicles and

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other entities formed and managed in connection with Colony NorthStar's investment management activities) (collectively, the "Managed Companies"). As a result, those executive officers and investment professionals owe duties to each of these entities, their members and limited partners and investors, which duties may from time-to-time conflict with the duties that they owe to us and our stockholders.

The Manager and its affiliates, including Colony NorthStar, and their respective officers, directors, employees and personnel may engage in business opportunities that are the same or similar to our activities and provide investment advisory services to others with investment objectives or policies that are similar to ours, including advising Managed Companies. Therefore, many investment opportunities sourced by our Manager or its affiliates that are suitable for us may also be suitable for Colony NorthStar and/or other Managed Companies. In addition, the activities of other Managed Companies of Colony NorthStar or its affiliates could restrict our ability to pursue certain asset acquisitions or take other actions related to our business.

As of December 31, 2017, there were four other Managed Companies with investment objectives or guidelines that overlapped in part with ours and remain in their investment stage, with approximately \$540 million of uncommitted capital availability in the aggregate as of December 31, 2017. Two of those Managed Companies are continuing to raise additional capital.

Furthermore, our Manager's associated persons who are responsible for allocating investment opportunities among clients must ensure that allocations comply with the requirements of the investment allocation policy, the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and other applicable laws and regulations, any exemptive relief provided to our Manager or its affiliates or clients, and the terms of each relevant client operating agreement or constituent documents, offering materials and/or advisory agreements. A dedicated mandate may cause certain Managed Companies to have priority over other Managed Companies (including us) with respect to specific investment opportunities. A preference for such a dedicated mandate may result in fewer of such investment opportunities being made available to us to the extent they are within our investment strategy.

If it is determined that an investment is most suitable for a particular client, the investment will be allocated to such client. If it is determined that an investment is equally suitable for two or more clients, then our Manager may allocate the investment among such clients on a rotational basis. In general, a rotational allocation methodology means that if a client has been previously allocated an investment as a result of the rotational process, it may be skipped in the rotation until all other clients for which a particular investment is equally suitable have been allocated an investment. However, there is no guarantee that additional investment opportunities will become available in the future. Subject to regulatory restrictions, SEC guidance and any exemptive orders obtained by one or more Managed Companies (as applicable), our Manager may deem it appropriate for us and one or more other Managed Companies to co-invest in an investment opportunity (based on available capital, among other relevant factors, to the extent required). To the extent that a Managed Company has significant available capital, the likelihood that we may co-invest in a particular asset with such fund could increase significantly. In addition, because affiliates of Colony NorthStar also manage the Managed Companies, and fees payable to such affiliates by the Managed Companies may be more advantageous than fees payable to our Manager, our interests in such investments may conflict with the interests of the Managed Companies, and our Manager or its affiliates may take actions that may not be most favorable to us, including in the event of a default or restructuring of assets subject to co-investment rights.

The decision of how any potential investment should be allocated among clients in many cases may be a matter of highly subjective judgment, which will be made by our Manager in its sole discretion. Stockholders may not agree with the determination, and such determination could have an adverse effect on our investment strategy. Our right to participate in the investment allocation process described above will terminate once we are no longer advised by our Manager or its affiliates.

In addition, subject to compliance with the Advisers Act, and the rules promulgated thereunder, we may enter into principal transactions with our Manager or its affiliates or cross-transactions with other Managed Companies. For certain cross-transactions, our Manager may receive a fee from us or another Managed Company and conflicts may exist. There is no guarantee that any such transactions will be favorable to us. Because our interests and the interests of Colony NorthStar and our Manager may not be aligned, we may face conflicts of interest that result in action or inaction that is detrimental to us.

Further, there are conflicts of interest that arise when our Manager makes expense allocation determinations, as well as in connection with any fees payable between us and our Manager. These fees and allocation determinations are sometimes based on estimates or judgments, which may not be correct and could result in our Manager's failure to allocate certain fees and costs to us appropriately.

In addition, as certain Managed Companies are, and other co-investment funds managed by Colony NorthStar and its affiliates in the future likely will be, closed-end funds with finite lives, such funds are expected to dispose of substantially all of the assets in their respective portfolios prior to dissolution. As a result, prior to such dissolutions, we may need to sell our interests in the co-investment assets before we otherwise would in order to avoid a potential conflict. Our decision to sell such interests will depend, among other things, on our ability to sell the interests at favorable prices or at all. It is also possible that our Manager or its affiliates, who also manage such funds, may sell such co-investment assets at times or prices that are not in the best interests of us or our stockholders. In

addition, to the extent that such funds dispose of co-investment assets that are qualifying assets, we may be required to purchase additional qualifying assets (subject to the availability of capital at favorable prices or at all) or sell non-qualifying assets at inopportune times or prices in order to maintain our qualification as a REIT and our exemption from registration under the Investment Company Act. Even if our interests are not in conflict with those of funds with co-investment rights, we will not realize the full economic benefits of the investment. If any of the foregoing were to occur, our Manager's ability to operate our business in a manner consistent with our business strategy could be hindered materially, which could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

***Our Manager and its affiliates receive fees in connection with the management of our investments regardless of their quality or performance. As a result, our Manager may be incentivized to allocate investments that have a greater cost to increase the amount of fees payable to them.***

Our Manager and its affiliates receive fees in connection with the management of our investments regardless of their quality or performance or the services provided. Our Manager's entitlement to base management fees, which are not based upon performance metrics or goals, could reduce its incentive to devote its time and effort to seeking loans and investments that provide attractive risk-adjusted returns for our portfolio. Consequently, we are required to pay our Manager base management fees in a particular period despite experiencing a net loss or a decline in the value of our portfolio during that period.

These management fees could influence the advice given to us by the key personnel of our Manager and its affiliates, including our Manager's investment committee. Among other matters, these compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with our Manager and its affiliates, including the Management Agreement; and
- whether we seek approval to internalize our management, which may entail acquiring assets from Colony NorthStar (such as office space, furnishings and technology costs) and employing our Manager or its affiliates' professionals performing services for us for consideration that would be negotiated at that time and may result in these investment professionals receiving more compensation from us than they currently receive from our Manager or its affiliates.

In addition, our Manager has the ability to earn incentive fees each quarter based on our earnings, which may create an incentive for our Manager to invest in assets with higher yield potential, which are generally riskier or more speculative, or sell an asset prematurely for a gain, in an effort to increase our short-term net income and thereby increase the incentive fees to which it is entitled. If our interests and those of our Manager are not aligned, the execution of our business plan and our results of operations could be adversely affected, which could materially and adversely affect our results of operations and financial condition. Payment of these fees may also result in the immediate dilution of the value of stockholders' investment and reduces the amount of cash available for investment or distribution to stockholders.

***Our ability to achieve our investment objectives and to pay distributions depends in substantial part upon the performance of our Manager and third-party servicers. Any adverse changes in our Manager and its affiliates' financial health, the public perception of our Manager, or our relationship with our Manager or its affiliates could hinder our operating performance and the return on stockholders' investment.***

We depend on our Manager for the identification and origination or acquisition of investments and the management of our assets and operation of our day-to-day activities. If our Manager performs poorly and as a result is unable to originate and/or acquire our investments successfully, we may be unable to achieve our investment objectives or to pay distributions to stockholders at presently contemplated levels, if at all. Our Manager's platform may not be scalable if our business grows substantially, it may be unable to make significant investments on a timely basis or at reasonable costs, or its service providers may be strained by our growth, which could disrupt our business and operations. Similarly, if our third-party servicers (including any affiliated Colony NorthStar servicer) perform poorly, we may be unable to realize all cash flow associated with our real estate debt and debt-like investments.

Because Colony NorthStar is a publicly traded company, any negative reaction by the stock market reflected in its stock price or deterioration in the public perception of Colony NorthStar or other publicly traded Managed Companies, such as NorthStar Europe, could result in an adverse effect on our ability to acquire assets and obtain financing from third parties on favorable terms or at all. Any adverse changes in the financial condition of our Manager or its affiliates, including Colony NorthStar, or our relationship with them could hinder their ability to successfully manage our operations and our portfolio of investments.

***Our Manager may not be successful, or there may be delays, in locating or allocating suitable investments, which could limit our ability to make distributions and lower the overall return on stockholders' investment.***

Our Manager may not be successful in locating suitable investments on financially attractive terms. If we, through our Manager, are unable to find and allocate suitable investments promptly, we may hold the funds available for investment in an interest-bearing account or invest the proceeds in short-term assets. We expect that the income we earn on these temporary investments will not be substantial. In the event we are unable to timely locate suitable investments, we may be unable or limited in our ability to pay distributions, and we may not be able to meet our investment objectives. Further, the more money we have available for investment, the more difficult it will be to invest the funds promptly and on attractive terms. If our Manager is able to identify suitable investments, it may not be successful in consummating the investment, resulting in increased costs and diversion in the investment professionals' time, or if consummated, the returns on the investments may be below expectations.

***Our Manager manages our portfolio pursuant to investment guidelines and is not required to seek the approval of our Board of Directors for each investment, financing, asset allocation or hedging decision made by it (subject to the net commitment thresholds set forth in our investment guidelines), which may result in riskier loans and investments and which could adversely affect our results of operations and financial condition.***

Our Manager is authorized to follow investment guidelines that provide it with broad discretion in investment, financing, asset allocation and hedging decisions to the extent, generally, that any such investment contemplates a total net commitment by the Company OP of less than 3% of the Company OP's net equity. Our investment guidelines may be changed at any time with the consent of our Board of Directors, but without the consent of our stockholders. Our Board of Directors will periodically review our investment guidelines and our loan and investment portfolio but is not required to review and approve in advance all of our proposed loans and investments or our Manager's financing, asset allocation or hedging decisions, subject to the net commitment thresholds set forth in our investment guidelines. Subject to maintaining our REIT qualification and our exclusion from registration under the Investment Company Act, our Manager has latitude within the investment guidelines in determining the types of loans and investments it makes for us and how such loans and investments are financed or hedged and there are no limits on geographic or industry concentration, which could result in investment returns that are substantially below expectations or that result in losses, which could adversely affect our results of operations and financial condition.

Colony NorthStar and/or our Manager may revise our investment allocation policy and may in the future change then-existing, or adopt additional, conflicts of interest resolution policies and procedures designed to support the fair and equitable allocation of investments and to prevent the preferential allocation of investment opportunities among entities with overlapping investment objectives. The result of such a revision to the investment allocation policy may, among other things, be to increase the number of parties who have the right to participate in investment opportunities sourced by our Manager and its affiliates and/or its partners, thereby reducing the number of investment opportunities available to us. The investment allocation policy may not be materially amended in any manner that is reasonably likely to be adverse to us unless such amendment has been approved by a majority of our independent directors. Material changes to the investment allocation policy will be disclosed to clients and in public filings with the SEC, as appropriate. Our independent directors will periodically review our Manager's and Colony NorthStar's compliance with these conflicts of interest and allocation provisions.

***The Management Agreement with our Manager was negotiated among related parties 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 directors are executives of Colony NorthStar. The Management Agreement was negotiated among related parties and its terms, including the fees to be paid to our Manager and its affiliates for services they provide for us were not determined on an arm's length basis. Subject to certain limitations and exceptions, we also reimburse our Manager for both direct expenses as well as indirect costs, including our allocable share of personnel and employment costs of our Manager and its affiliates, which may include certain executive officers and non-investment personnel of our Manager and its affiliates, as well as expenses related to any office or office facilities, technology, travel and other general and administrative costs and expenses. As a result, the fees and reimbursements may be in excess of amounts that we would otherwise pay to third parties for such services.

Termination of the Management Agreement without cause will be difficult and costly. We may elect not to renew the Management Agreement upon the expiration of the initial three-year term or any subsequent renewal term by providing at least 180 days' prior written notice to our Manager only if there has been an affirmative vote of at least two-thirds of our independent directors then serving on our Board of Directors that (i) there has been unsatisfactory performance by our Manager that is materially detrimental to us or (ii) the compensation we pay to our Manager, in the form of base management fees and incentive fees, or the amount thereof, is unfair to us, subject to our Manager's right to prevent any termination due to unfair fees by accepting a reduction of management and/or incentive fees agreed to by at least two-thirds of our independent directors. Upon such a termination, or if we materially breach the Management Agreement and our Manager terminates the Management Agreement, the Management Agreement provides that we will be required to pay our Manager a termination fee, which is equal to three (3) times the sum of (x) the average annual base

management fee and (y) the average annual incentive fee, in each case earned by our Manager during the 24-month period immediately preceding the most recently completed calendar quarter prior to the date of termination. Additionally, upon termination of the Management Agreement for any reason, including for cause, we will be required to pay our Manager all accrued and unpaid fees and expense reimbursements earned prior to the date of termination.

***To the extent permitted by law, our Manager maintains a contractual as opposed to a fiduciary relationship with us. Our Manager's liability is limited under the Management Agreement, and we have agreed to indemnify our Manager against certain liabilities.***

Pursuant to the Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations. To the extent permitted by law, our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the Management Agreement, our Manager and its affiliates, including their respective directors, members, officers, managers, employees, trustees, control persons, partners, stockholders and equityholders, will not be liable to us, any subsidiary of ours, our Board of Directors, our stockholders or any of our subsidiaries' stockholders, members or partners for acts or omissions performed in accordance with and pursuant to the Management Agreement, unless such acts or omissions constitute gross negligence, fraud, willful misconduct, bad faith or reckless disregard of their duties under the Management Agreement. We have agreed to indemnify our Manager and its affiliates, including their respective directors, members, officers, managers, employees, trustees, control persons, partners, stockholders and equityholders from and against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature, including reasonable legal fees and other expenses reasonably incurred in respect of, arising out of or in connection with our business and operations or any action taken or omitted by any such person in good faith by or on our behalf pursuant to authority granted by the Management Agreement, except where found by a court of competent jurisdiction to be attributable to the gross negligence, fraud, willful misconduct or bad faith by such person or the reckless disregard by such person of their duties under the Management Agreement. As a result, we could experience poor performance or losses for which our Manager would not be liable.

## Risks Related to Our Company and Our Structure

***We have no operating history and may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.***

We were organized in August 2017 and began operations in February 2018, following the closing of the Combination. We cannot assure you that we will be able to operate our business successfully or implement our operating policies and strategies as described in this Annual Report on Form 10-K. The results of our operations depend on several factors, including the availability of opportunities for the acquisition of our target assets, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and economic conditions.

***We may not realize the anticipated benefits of the Combination.***

Our management will have to dedicate substantial effort to integrating the businesses of the CLNS OP Contributed Entities, the RED REIT Contributed Entities, NorthStar I and NorthStar II. These efforts may divert management's focus and resources from our business, corporate initiatives or strategic opportunities. In addition, the actual integration may result in additional and unforeseen expenses and delays and the anticipated benefits of the integration may not be realized. Actual growth and cost savings, if achieved, may be lower than what we expect and may take longer to achieve than anticipated. Difficulties associated with managing our large and complex portfolio could prevent us from realizing the anticipated benefits of the Combination and have a material adverse effect on our business. If we are not able to address integration challenges adequately, we may be unable to integrate successfully the operations of the CLNS OP Contributed Entities and the RED REIT Contributed Entities, NorthStar I and NorthStar II or to realize the anticipated benefits of the integration of the CLNS OP Contributed Entities, the RED REIT Contributed Entities, NorthStar I and NorthStar II.

***We expect to incur significant costs in connection with the integration of the CLNS OP Contributed Entities, the RED REIT Contributed Entities, NorthStar I and NorthStar II.***

We expect to incur significant costs in connection with integrating the portfolios of the CLNS OP Contributed Entities, the RED REIT Contributed Entities, NorthStar I and NorthStar II, including unanticipated costs and the assumption of known and unknown liabilities. While we have assumed that a certain level of transaction and integration expenses will be incurred, there are factors beyond our control that could affect the total amount or the timing of our integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Although NorthStar I and NorthStar II expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of their businesses, should allow us to offset these incremental expenses over time, the net benefit may not be achieved in the near term, or at all.

We have assumed the liabilities and obligations of the CLNS OP Contributed Entities and the RED REIT Contributed Entities, NorthStar I and NorthStar II. These liabilities could have a material adverse effect on our business to the extent the CLNS OP Contributed Entities and the RED REIT Contributed Entities, NorthStar I or NorthStar II have not identified such liabilities or have underestimated the nature, amount or significance, based on amount or otherwise, of such liabilities.

***We have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future.***

We are generally required to distribute to our stockholders at least 90% of our REIT taxable income each year for us to qualify as a REIT under the Code, which requirement we currently intend to satisfy through monthly 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 make distributions may be materially and adversely affected by a number of factors, including the risk factors described herein. Distributions to our stockholders, if any, will be authorized by our Board of Directors in its sole discretion and declared by us out of funds legally available therefor and will be dependent upon a number of factors, including our targeted distribution rate, access to cash in the capital markets and other financing sources, historical and projected results of operations, cash flows and financial condition, our view of our ability to realize gains in the future through appreciation in the value of our assets, general economic conditions and economic conditions that more specifically impact our business or prospects, our financing covenants, maintenance of our REIT qualification, applicable provisions of the Maryland General Corporation Law (the "MGCL") and such other factors as our Board of Directors deems relevant.

We believe that a change in any one of the following factors could adversely affect our results of operations and cash flows and impair our ability to make distributions to our stockholders:

- our ability to make attractive investments;

- margin calls or other expenses that reduce our cash flows;
- defaults or prepayments in our investment portfolio or decreases in the value of our investment 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 make distributions to our stockholders at any time in the future or that the level of any 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 out of our current earnings and profits that we make to our stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as (i) “capital gain dividends” to the extent that they are attributable to capital gain income recognized by us, (ii) “qualified dividend income,” or (iii) may constitute a return of capital to the extent that they exceed our current earnings and profits as determined for U.S. federal income tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder’s investment in our Class A common stock.

***Stockholders have limited control over changes in our policies and operations, which increases the uncertainty and risks they face as stockholders.***

Our Board of Directors determines our major policies, including our policies regarding growth, REIT qualification and distributions. Our Board of Directors may amend or revise these and other policies without a vote of the stockholders. We may change our investment policies without stockholder notice or consent, which could result in investments that are riskier or different than our current investments. Our Board of Directors’ broad discretion in setting policies and stockholders’ inability to exert control over those policies increases the uncertainty and risks stockholders face. Our Board of Directors’ broad discretion in setting policies and stockholders’ inability to exert control over those policies increases the uncertainty and risks stockholders face.

***Certain provisions of Maryland law may limit the ability of a third party to acquire control of us.***

Certain provisions of the MGCL may have the effect of inhibiting a third party from acquiring our Company or of impeding a change of control under circumstances that otherwise could provide our Company’s stockholders with the opportunity to realize a premium over the then-prevailing market price of our Class A common stock, including:

- “*business combination*” provisions that, subject to limitations, prohibit certain business combinations between an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our Company’s outstanding shares of voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding stock of the corporation) or an affiliate of any interested stockholder and our Company for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter imposes two super-majority stockholder voting requirements on these combinations; and
- “*control share*” provisions that provide that holders of “control shares” of our Company (defined as outstanding voting shares of stock that, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the acquisition of issued and outstanding “control shares”) have no voting rights except to the extent approved by the affirmative vote of the holders entitled to cast two-thirds of the votes entitled to be cast on the matter, excluding all interested shares.

In accordance with Maryland Business Combination Act our Board of Directors has exempted any business combinations between us and any person, provided that any such business combination is first approved by our Board of Directors. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to any future business combinations between us and any of our interested stockholders (or their affiliates) that are first approved by our Board of Directors, including any future business combination with Company OP or any current or future affiliates of Company OP. Our bylaws contain a provision exempting us from the Maryland Control Share Acquisition Act. There can be no assurance that these resolutions or exemptions will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Directors, without stockholder approval and regardless of what currently is provided in our charter and our bylaws, to implement certain takeover defenses, such as a classified board, some of which we do not have.



***Ownership limitations may delay, defer or prevent a transaction or a change in our control that might involve a premium price for our Class A common stock or otherwise be in the best interest of our stockholders.***

In order for us to maintain our qualification as a REIT under the Code, not more than 50% of the value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year. Our charter, with certain exceptions, authorizes our Board of Directors to take the actions that are necessary or appropriate to preserve our qualification as a REIT. Unless exempted by our Board of Directors, no person may actually or constructively own more than 9.8% of the aggregate of the outstanding shares of our capital stock (as defined in our charter) by value or 9.8% of the aggregate of the outstanding shares of our common stock (as defined in our charter) by value or by number of shares, whichever is more restrictive. Our Board of Directors, in its sole discretion, may exempt (prospectively or retroactively) a person from this limitation if it obtains such representations, covenants and undertakings as it deems appropriate to conclude that granting the exemption will not cause us to lose our status as a REIT. These ownership limitations in our charter are standard in REIT charters and are intended to provide added assurance of compliance with the tax law requirements, and to reduce administrative burdens. However, these ownership limits might also delay, defer or prevent a transaction or a change in control that might involve a premium price for our Class A common stock or otherwise be in the best interest of our stockholders or result in the transfer of shares acquired in excess of the ownership limits to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

***Our charter contains provisions that make removal of our directors difficult, which makes it more difficult for our stockholders to effect changes to our management and may prevent a change in control of our Company that is otherwise in the best interests of our stockholders.***

Our charter provides that a director may be removed only for cause and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies on our Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors then in office, even if the remaining directors do not constitute a quorum, and directors elected to fill a vacancy will serve for the full term of the class of directors in which the vacancy occurred. These requirements make it more difficult for our stockholders to effect changes to our management by removing and replacing directors and may prevent a change in control of our company that is otherwise in the best interests of our stockholders.

***Our charter permits our Board of Directors to issue stock with terms that may subordinate the rights of our Class A common stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to stockholders.***

Our Board of Directors may classify or reclassify any unissued shares of common stock, classify any unissued shares of our preferred stock, as applicable, and reclassify any previously classified but unissued shares of our preferred stock into other classes or series of stock and set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption of any such stock. Thus, our Board of Directors could authorize the issuance of preferred stock with priority as to distributions and amounts payable upon liquidation over the rights of the holders of our Class A common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our Class A common stock. Additionally, our Board of Directors may amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of any class or series of stock without stockholder approval.

***Our umbrella partnership real estate investment trust, or UPREIT, structure may result in potential conflicts of interest with members of our operating company whose interests may not be aligned with those of stockholders.***

Members of our operating company have the right to vote on certain amendments to the limited liability company agreement, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our stockholders. As managing member of our operating company, we are obligated to act in a manner that is in the best interest of our operating company. Circumstances may arise in the future when the interests of members in our operating company may conflict with the interests of our stockholders. These conflicts may be resolved in a manner stockholders do not believe are in their best interests.

***Failure to obtain, maintain or renew required licenses and authorizations necessary to operate our mortgage-related activities may have a material adverse effect us.***

We and our Manager are required to obtain, maintain or renew certain licenses and authorizations (including “doing business” authorizations and licenses to act as a commercial mortgage lender) from U.S. federal or state governmental authorities, government sponsored entities or similar bodies in connection with some or all of our mortgage-related activities. There is no assurance that we or our Manager will be able to obtain, maintain or renew any or all of the licenses and authorizations that we require or that we or our Manager will avoid experiencing significant delays in connection therewith. The failure of our Company or our Manager to obtain,

maintain or renew licenses will restrict our options and ability to engage in desired activities, and could subject us to fines, suspensions, terminations and various other adverse actions if it is determined that we or our Manager have engaged without the requisite licenses or authorizations in activities that required a license or authorization, which could have a material adverse effect on us.

***If we are unable to implement and maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be negatively affected.***

As a public company, we will be required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, beginning with our second annual report on Form 10-K, we will be required to furnish a report by management on the effectiveness of our internal controls over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act. Once we are no longer an emerging growth company, our independent registered public accounting firm will be required to formally attest to the effectiveness of our internal controls over financial reporting on an annual basis. The process of designing, implementing and testing the internal controls over financial reporting required to comply with this obligation is time consuming, costly and complicated. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or to assert that our internal controls over financial reporting is effective or if, once we are no longer an emerging growth company, our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our Class A common stock could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

***Failure to implement effective information and cyber security policies, procedures and capabilities could disrupt our business and harm our results of operations.***

Our business is highly dependent on communications and information systems of Colony NorthStar. We are dependent on the effectiveness of such information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that resides on or is transmitted through them. An externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential information and could result in material financial loss, loss of competitive position, regulatory actions, breach of contracts, reputational harm or legal liability.

***We are an “emerging growth company,” and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.***

We are an “emerging growth company” as defined in Section 2(a) of the Securities Act, as modified by the JOBS Act. We may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if we have more than \$1.07 billion in annual gross revenues as of the end of our fiscal year, we have more than \$700 million in market value of our stock held by non-affiliates as of the end of our second fiscal quarter or we issue more than \$1.0 billion of non-convertible debt over a three-year period. We cannot predict if investors will find our Class A common stock less attractive because we may rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock, and our per share trading price may be adversely affected and become more volatile.

***We do not own the Colony NorthStar name, but have entered into a license agreement with an affiliate of Colony NorthStar granting us the right to use the Colony NorthStar name. Use of the name by other parties or the termination of our license agreement may harm our business.***

Concurrently with the completion of the Combination, we entered into a license agreement pursuant to which we have a non-exclusive, royalty-free license to use the name “Colony NorthStar.” Under this agreement, we have a right to use the “Colony NorthStar” name as long as our Manager is affiliated with Colony NorthStar. Colony NorthStar will retain the right to continue using the “Colony NorthStar” name. We will further be unable to preclude Colony NorthStar from licensing or transferring the ownership of the “Colony NorthStar” name to third parties, some of whom may compete against us. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of Colony NorthStar or others. Furthermore, in the event the license agreement is terminated, we will be required to change our name and cease using the “Colony NorthStar” name. Any of these events could disrupt our recognition in the marketplace, damage any goodwill we may have generated and otherwise harm our business.

## Risks Related to Our Business and Our Investments

***Our CRE debt, select equity and securities investments are subject to the risks typically associated with real estate.***

Our CRE debt, select equity and securities investments are subject to the risks typically associated with real estate, including:

- tenant mix;
- real estate conditions, such as an oversupply of or a reduction in demand for real estate space in an area;
- lack of liquidity inherent in the nature of the assets;
- borrower/tenant/operator mix and the success of the borrower/tenant/operator business;
- success of tenant businesses;
- ability to collect interest/loan obligation/principal;
- 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;
- compliance with environmental laws, including costs of remediation and liabilities associated with environmental conditions affecting properties;
- 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.

The value of each investment is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of financing/interest payments, rental or other income that can be generated net of expenses required to be incurred with respect to the investment. Many expenses associated with properties (such as operating expenses and capital expenses) cannot be reduced when there is a reduction in income from the properties. Some of our CRE securities may be subject to the risk of first loss and therefore could be adversely affected by payment defaults, delinquencies and others of these risks.

These factors may have a material adverse effect on the value and the return that we can realize from our assets, as well as the ability of our borrowers to pay their loans and the ability of the borrowers on the underlying loans securing our securities to pay their loans.

***The B-Notes that we may acquire may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in significant operating losses to us and may limit our ability to make distributions to our stockholders.***

We may acquire B-Notes. A B-Note is a mortgage loan typically (1) secured by a first mortgage on a single large commercial property or group of related properties (and therefore reflect the risks associated with significant concentration) and (2) subordinated to an A-Note secured by the same first mortgage on the same collateral. A privately negotiated intercreditor agreement between the holders of the A-Note and B-Note may restrict the rights of the B-Note holders. In particular, the intercreditor agreement may prohibit the B-Note holder from calling the loan, making modifications with respect to the loan or filing a bankruptcy petition without the consent of the A-Note holder. As a result, to the extent that we acquire B-Notes, the A-Note holder may take actions that we do not agree with and that are not in our stockholders' best interests.

In addition, because the rights of the B-Note holder are subordinated to the rights of the A-Note holder, the B-Note may be the first to incur loss if the loan does not perform and the collateral value diminishes. 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. If there are insufficient funds after payment to the A-Note holders, we could incur significant losses related to our B-Notes, which would result in operating losses for us and may limit our ability to make distributions to our stockholders.

***The mezzanine loan assets that we may acquire will involve greater risks of loss than senior loans secured by income-producing properties.***

We may acquire 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 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. 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 is paid in full. Where debt senior to our loan exists, the presence of intercreditor arrangements between the holder of the mortgage loan and us, as the mezzanine lender, may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies and control decisions made in bankruptcy proceedings relating to borrowers. As a result, we may not recover some or all of our investment, which could result in losses. In addition, even if we are able to foreclose on the underlying collateral following a default on a mezzanine loan, we would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, may need to commit substantial additional capital to stabilize the property and prevent additional defaults to lenders with existing liens on the property. Significant losses related to our mezzanine loans could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

***Participating interests may not be available and, even if obtained, may not be realized.***

In connection with the origination or acquisition of certain structured finance assets, subject to maintaining our qualification as a REIT, we may obtain participating interests, or equity “kickers,” in the owner of the property that entitle us to payments based upon a development’s cash flow or profits or any increase in the value of the property that would be realized upon a refinancing or sale thereof. Competition for participating interests is dependent to a large degree upon market conditions. Participating interests are more difficult to obtain when real estate financing is available at relatively low interest rates. Participating interests are not insured or guaranteed by any governmental entity and are therefore subject to the general risks inherent in real estate investments. Therefore, even if we are successful in making investments that provide for participating interests, there can be no assurance that such interests will result in additional payments to us.

***Any distressed loans or investments we make, or loans and investments that later become distressed, may subject us to losses and other risks relating to bankruptcy proceedings.***

While our investment strategy focuses primarily on investments in “performing” real estate-related interests, our investment program may include making distressed investments from time to time (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt securities) or may involve investments that become “non-performing” following our acquisition thereof. Certain of our investments may, therefore, include specific securities of companies that typically are highly leveraged, with significant burdens on cash flow and, therefore, involve a high degree of financial risk. During an economic downturn or recession, securities of financially troubled or operationally troubled issuers are more likely to go into default than securities of other issuers. Securities of financially troubled issuers and operationally troubled issuers are less liquid and more volatile than securities of companies not experiencing financial difficulties. The market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. Investment in the securities of financially troubled issuers and operationally troubled issuers involves a high degree of credit and market risk.

In certain limited cases (e.g., in connection with a workout, restructuring and/or foreclosing proceedings involving one or more of our debt investments), the success of our investment strategy with respect thereto will depend, in part, on our ability to effectuate loan modifications and/or restructures. Identifying and implementing any such restructuring programs entails a high degree of uncertainty. There can be no assurance that we will be able to successfully identify and implement restructuring programs. Further, such modifications and/or restructuring may entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan, debt securities or other interests. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, debt securities or other interests replacement “takeout” financing will not be available.

These financial difficulties may never be overcome and may cause borrowers to become subject to bankruptcy or other similar administrative proceedings. There is a possibility that we may incur substantial or total losses on our investments and in certain circumstances, become subject to certain additional potential liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In any reorganization or liquidation proceeding relating to our investments, we may lose our entire investment, may be

required to accept cash or securities with a value less than our original investment and/or may be required to accept payment over an extended period of time. In addition, under certain circumstances, payments to us and distributions by us to the stockholders may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, bankruptcy laws and similar laws applicable to administrative proceedings may delay our ability to realize on collateral for loan positions held by us or may adversely affect the priority of such loans through doctrines such as equitable subordination or may result in a restructure of the debt through principles such as the “cramdown” provisions of the bankruptcy laws.

***Provisions for loan losses and impairment charges are difficult to estimate, particularly in a challenging economic environment and if they turn out to be incorrect, our results of operations and financial condition could be materially and adversely impacted.***

In a challenging economic environment, we may experience an increase in provisions for loan losses and asset impairment charges, as borrowers may be unable to remain current in payments on loans and declining property values weaken our collateral. Our determination of provision for loan losses requires us to make certain estimates and judgments based on a number of factors, including projected cash flow from the collateral securing our CRE debt, structure, including the availability of reserves and recourse guarantees, likelihood of repayment in full at the maturity of a loan, potential for refinancing and expected market discount rates for varying property types, all of which remain uncertain and are subjective. Some of our investments have limited liquidity or are not publicly traded and so we estimate the fair value of these investments on a quarterly basis. Also, the analysis of the value or income-producing ability of commercial property is highly subjective. Our estimates and judgments may not be correct, particularly during challenging economic environments when market volatility may make it difficult to determine the fair value of certain of our assets and liabilities or the likelihood of repayment of loans we originate. Subsequent valuations and estimates, in light of factors then prevailing, may result in decreases in the values of our assets resulting in impairment charges or increases in loan loss provisions and therefore our results of operations, financial condition and our ability to make distributions to stockholders could be materially and adversely impacted.

***Prepayment rates may adversely affect the value of our portfolio of assets.***

Generally, our borrowers may repay their loans prior to their stated final maturities. In periods of declining interest rates and/or credit spreads, prepayment rates on loans generally increase. If general interest rates or credit spreads decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the value of our assets may be affected by prepayment rates on loans. If we originate or acquire mortgage-related securities or a pool of mortgage securities, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their loans slower than expected, the decrease in corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. In addition, as a result of the risk of prepayment, the market value of the prepaid assets may benefit less than other fixed income securities from declining interest rates.

Prepayment rates on loans may be affected by a number of factors including, but not limited to, the then-current level of interest rates and credit spreads, fluctuations in asset values, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the loans, possible changes in tax laws, other opportunities for investment, and other economic, social, geographic, demographic and legal factors and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks.

***We invest in preferred equity interests, which involve a greater risk than conventional senior, junior or mezzanine debt financing.***

Our preferred equity 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, have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

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

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

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

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

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

***We have investments in private equity real estate ("PE") funds, and there is no assurance these investments will achieve the returns expected upon initial execution of the respective investments.***

The success of our PE investments in general is subject to a variety of risks, including, without limitation, risks related to: (i) the quality of the management of the portfolio funds in which we invest and the ability of such management to successfully select, manage and dispose of investment opportunities; (ii) general economic conditions; and (iii) the ability of the portfolio funds and, if applicable, us, to liquidate investments on favorable terms or at all. Factors that could cause actual results to differ materially from our expectations include, but are not limited to, the possibility that: (a) the agreed upon net asset value ("NAV") does not necessarily reflect the fair value of the fund interests on such date and the current fair value could be materially different; (b) the actual amount of future capital commitments underlying all of the fund interests that will be called and funded by us could vary materially from our expectations; and (c) because, among other matters, the sponsors of the private equity funds, rather than us, will control the investments in those funds, we could lose some or all of our investment. Furthermore, the timing in which we will realize proceeds, if any, from our PE investments could differ materially from expectations and our actual yield could be substantially lower than our assumed yield. There can be no assurance that the management team of a portfolio fund or any successor will be able to operate the portfolio fund in accordance with our expectations or that we will be able to recover on our investments. In addition, investments in a real estate private equity fund generally will be illiquid and entail the payment of certain expenses, plus management fees and carried interest to the general partner or investment manager of the fund, which are in addition to the fees and expenses incurred directly by us. In certain cases, the general partner or investment manager of the fund may be Colony NorthStar. Such fees and expenses reduce our returns. Furthermore, we have and may continue to acquire PE investments as co-investments with Colony NorthStar or other Managed Companies, which increases the likelihood that our Manager could have conflicts of interest with that company.

***We invest in CRE securities, including CMBS and collateralized debt obligations ("CDOs"), which entail certain heightened risks and are subject to losses.***

We invest in a variety of CRE securities, including CMBS, CDOs and other subordinate securities. The market for CRE securities is dependent upon liquidity for refinancing and may be negatively impacted by a slowdown in new issuance. For example, the equity interests of CDOs are illiquid and often must be held by a REIT. CRE securities such as CMBS may be subject to particular risks, including lack of standardized terms and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. The value of CRE securities may change due to interest rates, credit spreads, as well as shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the CRE debt market as a whole. The exercise of

remedies and successful realization of liquidation proceeds relating to CRE securities may be highly dependent upon the performance of the servicer or special servicer. Ratings for CRE securities can also adversely affect their value. Moreover, some CRE securities, such as CDO notes, generally do not qualify as real estate assets for purposes of the gross asset and income requirements that apply to REITs, which could adversely affect our ability to qualify for tax treatment as a REIT.

Our investments in CMBS and CDOs are also subject to losses. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder (generally, the "B-Piece" buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related CMBS or CDO, 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.

***Adverse changes in general economic conditions could adversely impact our business, financial condition and results of operations.***

Our business is also closely tied to general economic conditions of the areas where our investments are located and in the real estate industry generally. As a result, our economic performance, the value of our CRE debt and debt-like investments, real estate and real estate related investments, and our ability to implement our business strategies may be significantly and adversely affected by changes in economic conditions in the United States where a substantial number of our investments are located and in international geographic areas, as applicable. The condition of the real estate markets in which we operate is cyclical and depends on the condition of the economy in the United States, Europe, China and elsewhere as a whole and to the perceptions of investors of the overall economic outlook. Rising interest rates, declining employment levels, declining demand for real estate, declining real estate values or periods of general economic slowdown or recession, increasing political instability or uncertainty, or the perception that any of these events may occur have negatively impacted the real estate market in the past and may in the future negatively impact our operating performance. Declining real estate values could reduce our level of new loan originations and make borrowers less likely to service the principal and interest on our CRE debt investments. Slower than expected economic growth pressured by a strained labor market, could result in lower occupancy rates and lower lease rates across many property types, which could create obstacles for us to achieve our business plans. In addition, the economic condition of each local market where we operate may depend on one or more key industries within that market, which, in turn, makes our business sensitive to the performance of those industries.

Adverse changes in general economic conditions may also disrupt the debt and equity capital markets and lack of access to capital or prohibitively high costs of obtaining or replacing capital may materially and adversely affect our business.

We have only a limited ability to change our portfolio promptly in response to economic or other conditions. Certain significant expenditures, such as debt service costs, real estate taxes, and operating and maintenance costs, are generally not reduced when market conditions are poor. These factors impede us from responding quickly to changes in the performance of our investments and could adversely impact our business, financial condition and results of operations.

***We are subject to significant competition, and we may not be able to compete successfully for investments, which could have a material adverse effect on our business, financial condition and results of operations.***

We are subject to significant competition for attractive investment opportunities from other financing institutions and investors, including those focused primarily on real estate and real estate-related investment activities, some of which have greater financial resources than we do, including publicly traded REITs, non-traded REITs, insurance companies, commercial and investment banking firms, private institutional funds, hedge funds, private equity funds and other investors (including other funds managed by Colony NorthStar). Several of our competitors, including other REITs, have recently raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with our investment objectives, which may create additional competition for lending and other investment opportunities. Some of our competitors may have a lower cost of funds and access to funding sources that may not be available to us or are only available to us on substantially less attractive terms. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exclusion or 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 lending relationships than we can. If we pay higher prices for investments or originate loans on less advantageous terms to us, our returns may be lower and the value of our assets may not increase or may decrease significantly below the amount we paid for such assets. As we reinvest capital, we may not realize risk adjusted returns that are as attractive as those we have realized in the past. In addition, changes in the financial regulatory regime following the 2016 U.S. Presidential election could decrease the current restrictions on banks and other financial institutions and allow

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them to compete with us for investment opportunities that were previously not available to them. For example, the Financial CHOICE Act was introduced in Congress as an avenue for significant amendments to the Dodd-Frank Act and may diminish or eliminate risk retention requirements, among other things. If the Financial CHOICE Act or similar legislation is enacted, it could increase competition with our business.

As a result of this competition, desirable loans and investments in our target assets may be limited in the future, and we may not be able to take advantage of attractive lending and investment opportunities from time to time. In addition, reduced CRE transaction volume could increase competition for available investment opportunities. We can provide no assurance that we will be able to identify and originate loans or make investments that are consistent with our investment objectives. 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.

### ***We may not have control over certain of our loans and investments.***

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes, special servicers or collateral managers under intercreditor, servicing agreements or securitization documents;
- pledge our investments as collateral for financing arrangements;
- acquire only a minority and/or a non-controlling participation in an underlying investment;
- co-invest with others through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or
- rely on independent third-party management or servicing with respect to the management of an asset.

Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third parties controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, we may, in certain circumstances, be liable for the actions of our partners or co-venturers.

### ***Most of the commercial mortgage loans that we originate or acquire are non-recourse loans.***

Except for customary non-recourse carve-outs for certain actions and environmental liability, most commercial mortgage loans are effectively non-recourse obligations of the sponsor and borrower, meaning that there is no recourse against the assets of the borrower or sponsor other than the underlying collateral. In the event of any default under a commercial mortgage loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and the principal of and accrued interest on the mortgage loan, which could materially and adversely affect us. There can be no assurance that the value of the assets securing our commercial mortgage loans will not deteriorate over time due to factors beyond our control, as was the case during the credit crisis and the economic recession that began in 2008. Even if a commercial mortgage loan is recourse to the borrower (or if a non-recourse carve-out to the borrower applies), in most cases, the borrower's assets are limited primarily to its interest in the related mortgaged property. Further, although a commercial mortgage loan may provide for limited recourse to a principal or affiliate of the related borrower, there is no assurance that any recovery from such principal or affiliate will be made or that such principal's or affiliate's assets would be sufficient to pay any otherwise recoverable claim. In the event of the bankruptcy of a borrower, the 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 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.

### ***We may be subject to risks associated with future advance or capital expenditure obligations, such as declining real estate values and operating performance.***

Our CRE debt investments may require us to advance future funds. We may also need to fund capital expenditures and other significant expenses for our real estate property investments. Future funding obligations subject us to significant risks, such as a decline in value of the property, cost overruns and the borrower or tenant may be unable to generate enough cash flow and execute its business plan, or sell or refinance the property, in order to repay its obligations to us. We could determine that we need to fund more money than we originally anticipated in order to maximize the value of our investment even though there is no assurance additional funding would be the best course of action. Further, future funding obligations may require us to maintain higher liquidity than we might otherwise maintain and this could reduce the overall return on our investments. We could also find ourselves in a position with insufficient liquidity to fund future obligations.



***We may be unable to restructure our investments in a manner that we believe maximizes value, particularly if we are one of multiple creditors in a large capital structure.***

In order to maximize value, we may be more likely to extend and work out an investment rather than pursue other remedies such as taking title to collateral. However, in situations where there are multiple creditors in large capital structures, it can be particularly difficult to assess the most likely course of action that a lender group or the borrower may take and it may also be difficult to achieve consensus among the lender group as to major decisions. Consequently, there could be a wide range of potential principal recovery outcomes, the timing of which can be unpredictable, based on the strategy pursued by a lender group or other applicable parties. These multiple creditor situations tend to be associated with larger loans. If we are one of a group of lenders, we may not independently control the decision-making. Consequently, we may be unable to restructure an investment in a manner that we believe would maximize value.

***We may make investments in assets with lower credit quality, which will increase our risk of losses and may reduce distributions to stockholders and may adversely affect the value of our Class A common stock.***

We may invest in unrated or non-investment grade CRE securities, enter into leases with unrated tenants or participate in subordinate, unrated or distressed mortgage loans. 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 borrower owners or the properties underlying the loans or securities, the borrowers' credit history, the properties' underlying cash flow or other factors. Because the ability of obligors of properties and mortgages, including mortgage loans underlying CMBS, to make rent or principal and interest payments may be impaired during an economic downturn, prices of lower credit quality investments and CRE securities may decline. As a result, these investments may have a higher risk of default and loss than investment grade rated assets. The existing credit support in the securitization structure may be insufficient to protect us against loss of our principal on these investments. Any loss we incur may be significant, reduce distributions to stockholders and adversely affect the value of our Class A common stock.

***Insurance may not cover all potential losses on CRE investments, which may impair the value of our assets.***

We generally require that each of the borrowers under our CRE debt investments obtain comprehensive insurance covering the collateral, including liability, fire and extended coverage. We also generally obtain insurance directly on any property we acquire. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods and hurricanes that may be uninsurable or not economically insurable. We may not obtain, or require borrowers to obtain, certain types of insurance if it is deemed commercially unreasonable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it infeasible to use insurance proceeds to replace a property if it is damaged or destroyed. Further, it is possible that our borrowers could breach their obligations to us and not maintain sufficient insurance coverage. Under such circumstances, the insurance proceeds, if any, might not be adequate to restore the economic value of the property, which might decrease the value of the property and in turn impair our investment.

***We depend on borrowers and tenants for a substantial portion of our revenue and, accordingly, our revenue and our ability to make distributions to stockholders will be dependent upon the success and economic viability of such borrowers and tenants.***

The success of our origination or acquisition of investments significantly depends on the financial stability of the borrowers and tenants underlying such investments. Before making a loan to a borrower, we assess the strength and skills of an entity's management and other factors that we believe are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, we rely on the resources available to us and, in some cases, an investigation by third parties. There can be no assurance that our due diligence processes will uncover all relevant facts or that any investment will be successful. The inability of a single major borrower or tenant, or a number of smaller borrowers or tenants, to meet their payment obligations could result in reduced revenue or losses.

***The leases at the properties underlying CRE debt investments or the properties held by us may not be relet or renewed on favorable terms, or at all, which may result in a reduction in our net income, and as a result we may be required to reduce or eliminate cash distributions to stockholders.***

Our investments in real estate will be pressured if economic conditions and rental markets continue to be challenging. For instance, upon expiration or early termination of leases for space located at our properties, the space may not be relet or, if relet, the terms of the renewal or reletting (including the cost of required renovations or concessions to tenants) may be less favorable than current lease terms. We may be receiving above market rental rates which will decrease upon renewal, which will adversely impact our income and could harm our ability to service our debt and operate successfully. Weak economic conditions would likely reduce tenants' ability to

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make rent payments in accordance with the contractual terms of their leases and lead to early termination of leases. Furthermore, commercial space needs may contract, resulting in lower lease renewal rates and longer releasing periods when leases are not renewed. Any of these situations may result in extended periods where there is a significant decline in revenues or no revenues generated by a property. Additionally, to the extent that market rental rates are reduced, property-level cash flow would likely be negatively affected as existing leases renew at lower rates. If we are unable to relet or renew leases for all or substantially all of the space at these properties, if the rental rates upon such renewal or reletting are significantly lower than expected, or if our reserves for these purposes prove inadequate, we will experience a reduction in net income and may be required to reduce or eliminate cash distributions to stockholders.

***Because real estate investments are relatively illiquid, we may not be able to vary our portfolio in response to changes in economic and other conditions, which may result in losses to us.***

Many of our investments are illiquid. A variety of factors could make it difficult for us to dispose of any of our assets on acceptable terms even if a disposition is in the best interests of stockholders. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Certain properties may also be subject to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of financing that can be placed or repaid on that property. We may be required to expend cash to correct defects or to make improvements before a property can be sold, and we cannot provide assurance that we will have cash available to correct those defects or to make those improvements. The Code also places limits on our ability as a REIT to sell certain properties held for fewer than two years.

Borrowers under certain of our CRE debt investments may give their tenants or other persons similar rights with respect to the collateral. Similarly, we may also determine to give our tenants a right of first refusal or similar options. Such rights could negatively affect the residual value or marketability of the property and impede our ability to sell the collateral or the property.

As a result, our ability to sell investments in response to changes in economic and other conditions could be limited. To the extent we are unable to sell any property for its book value or at all, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our earnings. Limitations on our ability to respond to adverse changes in the performance of our investments may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to stockholders.

***Environmental compliance costs and other environmental liabilities associated with our current or former properties or our CRE debt or real estate-related investments may materially impair the value of our investments and expose us to material liability.***

Under various federal, state and local environmental laws, statutes, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real property, such as us, our borrowers and our tenants, may be liable in certain circumstances for the costs of investigation, removal or remediation of, or related to releases of hazardous or toxic substances, materials or wastes, including petroleum and materials containing asbestos, present or released at, under, on, from, or disposed of or treated from or in connection with such property, as well as certain other potential liabilities relating to such substances, including government fines and penalties and damages for injuries to persons and property. In addition, some environmental laws can create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence, release or disposal of such substances, such liability may be joint and several, and liability may be imposed on the current or former owner or operator of a property in connection with the activities of a tenant at the property. The presence of contamination or the failure to remediate contamination may adversely affect our or our tenants' ability to sell, develop, operate or lease real estate, or to borrow using the real estate as collateral, which, in turn, could reduce our revenues. We, as owner or operator of a site, including if we take ownership through foreclosure, or our tenants or borrowers may be liable under common law or otherwise to third parties for damages and injuries resulting from environmental contamination at or emanating from the site. Some of our properties are or have been used for commercial or industrial purposes involving the use or presence of hazardous substances, materials or waste, which could have resulted in environmental impacts at or from these properties, including contamination of which we are not presently aware.

Our properties are also subject to federal, state and local environmental, health and safety laws and regulations and zoning requirements, including those regarding the handling of regulated substances and wastes, emissions to the environment and fire codes. If we, or our tenants or borrowers, fail to comply with these various laws and requirements, we might incur costs and liabilities, including governmental fines and penalties. Moreover, we do not know whether existing laws and requirements will change or, if they do, whether future laws and requirements will require us to make significant unanticipated expenditures that could have a material adverse effect on us. Environmental noncompliance liability also could affect a tenant's ability to make rental payments to us.

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Some of our properties may contain, or may have contained, asbestos-containing building materials. Environmental, health and safety laws require that owners or operators of or employers in buildings with asbestos-containing materials (“ACM”) properly manage and maintain these materials, adequately inform or train those who may come into contact with ACM and undertake special precautions, including removal or other abatement, in the event that ACM is disturbed during building maintenance, renovation or demolition. These laws may impose fines and penalties on employers, building owners or operators for failure to comply with these laws. In addition, third parties may seek recovery from employers, owners or operators for personal injury associated with exposure to asbestos.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants and others if property damage or personal injury occurs.

These costs and liabilities, including for any required investigation, remediation, removal, fines, penalties, costs to comply with environmental law or personal or property injury or damages and our or our tenants’ or borrowers’ liability could significantly exceed the value of the property without any limits.

The scope of any indemnification our tenants or borrowers have agreed to provide us for environmental liabilities may be limited. For instance, some of our agreements with our tenants or borrowers do not require them to indemnify us for environmental liabilities arising before such tenant or borrower took possession of the premises. Further, we cannot assure stockholders that any such tenant or borrower would be able to fulfill its indemnification obligations. If we were deemed liable for any such environmental liabilities and were unable to seek recovery against our tenant or borrower, our business, financial condition and results of operations could be materially and adversely affected.

Furthermore, we may invest in real estate, or CRE debt secured by real estate or subordinate interests, with environmental impacts or issues that materially impair the value of the real estate. Even as a lender, if we take title to collateral with environmental problems or if other circumstances arise, we could be subject to environmental liability. There are substantial risks associated with such an investment.

### ***Laws, regulations or other issues related to climate change could have a material adverse effect on us.***

If we, or other companies with which we do business, particularly utilities that provide our facilities with electricity, become subject to laws or regulations related to climate change, it could have a material adverse effect on us. The United States may enact new laws, regulations and interpretations relating to climate change, including potential cap-and-trade systems, carbon taxes and other requirements relating to reduction of carbon footprints and/or greenhouse gas emissions. Other countries have enacted climate change laws and regulations, and the United States has been involved in discussions and agreements regarding international climate change treaties. The federal government and some of the states and localities in which we operate have enacted certain climate change laws and regulations and/or have begun regulating carbon footprints and greenhouse gas emissions. Although these laws and regulations have not had any known material adverse effect on us to date, they could limit our ability to develop properties or result in substantial costs, including compliance costs, retrofit costs and construction costs, monitoring and reporting costs and capital expenditures for environmental control facilities and other new equipment. In addition, these laws and regulations could lead to increased costs for the electricity that our tenant’s require to conduct operations. Furthermore, our reputation could be damaged if we violate climate change laws or regulations. We cannot predict how future laws and regulations, or future interpretations of current laws and regulations, related to climate change will affect our business, results of operations, liquidity and financial condition. Lastly, the potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. Any of these matters could have a material adverse effect on us.

### ***Our joint venture partners could take actions that decrease the value of an investment to us and lower our overall return.***

We currently have, and may in the future enter into, joint ventures with third parties, affiliates of our Manager and other Managed Companies to make investments. We may also make investments in partnerships or other co-ownership arrangements or participations. Such investments may involve risks not otherwise present with other methods of investment, including, for instance, the following risks:

- our joint venture partner in an investment could become insolvent or bankrupt;
- fraud or other misconduct by our joint venture partners;
- we may share decision-making authority with our joint venture partners regarding certain major decisions affecting the ownership of the joint venture and the joint venture investment, such as the management of the CRE debt, sale of the property or the making of additional capital contributions for the benefit of the loan or property, which may prevent us from taking actions that are opposed by our joint venture partner;
- such joint venture partner may at any time have economic or business interests or goals that are or that become in conflict with our business interests or goals, including for example the management of the CRE debt or operation of the properties;
- such joint venture partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives;
- our joint venture partners may be structured differently than us for tax purposes and this could create conflicts of interest and risk to our REIT status;
- we may rely upon our joint venture partners to manage the day-to-day operations of the joint venture and underlying loans or assets, as well as to prepare financial information for the joint venture and any failure to perform these obligations may have a negative impact our performance and results of operations;
- our joint venture partner may experience a change of control, which could result in new management of our joint venture partner with less experience or conflicting interests to ours and be disruptive to our business;
- the terms of our joint ventures could restrict our ability to sell or transfer our interest to a third party when we desire on advantageous terms, which could result in reduced liquidity;
- our joint venture partners may not have sufficient personnel or appropriate levels of expertise to adequately support our initiatives; and
- to the extent we partner with other Managed Companies, our Manager and Colony NorthStar may have conflicts of interest that may not be resolved in our favor.

Any of the above might subject us to liabilities and thus reduce our returns on our investment with that joint venture partner. In addition, disagreements or disputes between us and our joint venture partner could result in litigation, which could increase our expenses and potentially limit the time and effort our officers and directors are able to devote to our business.

Further, in some instances, we and/or our partner may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest may be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it.

## Risks Related to Our Financing Strategy

### ***Our indebtedness may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.***

We use a variety of structures to finance the origination and acquisition of our investments, including our credit facilities, securitization financing transactions and other term borrowings, including repurchase agreements. Subject to market conditions and availability, we may incur a significant amount of debt through bank credit facilities (including term loans and revolving facilities), warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset-specific funding arrangements and additional repurchase agreements. We may also issue debt or equity securities to fund our growth. The type and percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders, the type of asset we are funding, whether the financing is recourse or nonrecourse, debt restrictions contained in those financing arrangements and the lenders' and rating agencies' estimate of the stability of our investment portfolio's cash flow. We may significantly increase the amount of leverage we utilize at any time without approval of our Board of Directors. In addition, we may leverage individual assets at substantially higher levels. We may be unable to obtain necessary additional financing on favorable terms or, with respect to our investments, on terms that parallel the maturities of the debt originated or acquired, if we are unable to obtain additional financing at all. If our strategy is not viable, we will have to find alternative forms of long-term financing for our assets, as secured revolving credit facilities and repurchase agreements may not accommodate long-term financing. If we do obtain additional debt or financing, the 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 our debt or we may fail to comply with covenants contained in our debt agreements, which is likely to result in (1) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision), which we then may be unable to repay from internal funds or to refinance on favorable terms, or at all, (2) our inability to borrow undrawn amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, which would result in a decrease in our liquidity, and/or (3) the loss of some or all of our collateral 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 in an amount sufficient to offset the 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;
- we may not be able to refinance any debt that matures prior to the maturity (or realization) of an underlying investment it was used to finance on favorable terms or at all; and
- we will have increased exposure to risks if the counterparties of our debt obligations are impacted by credit market turmoil or exposure to financial or other pressures.

There can be no assurance that a leveraging strategy will be successful and may subject us to increased risk of loss, harm our liquidity and could adversely affect our results of operations and financial condition.

### ***Our master repurchase agreements impose, and additional lending facilities may impose, restrictive covenants, which would restrict our flexibility to determine our operating policies and investment strategy and to conduct our business.***

We borrow funds under master repurchase agreements with various counterparties. The documents that govern these master repurchase agreements and the related guarantees contain, and additional lending facilities may contain, customary affirmative and negative covenants, including financial covenants applicable to us that may restrict our ability to further incur borrowings, restrict our distributions to stockholders prohibit us from discontinuing insurance coverage, replacing our Manager and restrict our flexibility to determine our operating policies and investment strategy. In particular, our master repurchase agreements require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would otherwise choose, which could reduce our return on assets. 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 in our other debt facilities. Further, this could also make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes or to maintain our exclusion from registration under the Investment Company Act. In addition, in the event that the lender files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or

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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. Our master repurchase agreements also grant certain consent rights to the lenders thereunder, which give them the right to consent to certain modifications to the pledged collateral. This could limit our ability to manage a pledged investment in a way that we think would provide the best outcome for our stockholders.

These types of financing arrangements also involve the risk that the market value of the assets pledged or sold by us to the provider of the financing may decline in value, in which case the lender or counterparty may require us to provide additional collateral or lead to margin calls that may require us 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 including by selling assets at a time when we might not otherwise choose to do so, which we may not be able to achieve on favorable terms or at all.

Posting additional collateral would reduce our cash available to make other, higher yielding investments (thereby decreasing our return on equity). If we cannot meet these requirements, the lender or counterparty could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from it, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In the case of repurchase transactions, if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will likely incur a loss on our repurchase transactions.

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

Our financial performance is influenced by changes in interest rates, in particular, as such changes may affect our CRE securities, floating-rate borrowings and CRE debt to the extent such debt does not float as a result of floors or otherwise. 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 (when we match maturities and interest rates of our liabilities with our assets to manage risks of being forced to refinance), the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. We may fail to appropriately employ a match-funded structure on favorable terms or at all. Consequently, changes in interest rates particularly short term interest rates may significantly influence our net income. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions and other factors beyond our control. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us.

### ***Hedging against interest rate and currency exposure may adversely affect our earnings, limit our gains or result in losses, which could adversely affect cash available for distribution to our stockholders.***

We may enter into swap, cap or floor agreements or pursue other interest rate or currency hedging strategies. Our hedging activity will vary in scope based on interest rate levels, currency exposure, the type of investments held and other changing market conditions. Interest rate and/or currency hedging may fail to protect or could adversely affect us because, among other things:

- interest rate and/or currency hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate and/or currency hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability or asset;
- our hedging opportunities may be limited by the treatment of income from hedging transactions under the rules determining REIT qualification;
- the credit quality of the party 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;
- the counterparties with which we trade may cease making markets and quoting prices in such instruments, which may render us unable to enter into an offsetting transaction with respect to an open position;
- the party owing money in the hedging transaction may default on its obligation to pay;

- we may purchase a hedge that turns out not to be necessary (i.e., a hedge that is out of the money); and
- we may enter into hedging arrangements that would 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).

Any hedging activity we engage in may adversely affect our earnings, which could adversely affect cash available for distribution to stockholders. Therefore, while we may enter into such transactions to seek to reduce interest rate and/or currency risks, unanticipated changes in interest rates or exchange rates 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 being hedged or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not be able to establish a perfect correlation between hedging instruments and the investments being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. We may also be exposed to liquidity issues as a result of margin calls or settlement of derivative hedges. Our hedging activities, if not undertaken in compliance with certain U.S. federal income tax requirements, could also adversely affect our ability to qualify for taxation as a REIT. In addition, hedging instruments involve risk since 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, there are no regulatory or statutory requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements.

***We use short-term borrowings to finance our investments, and we may need to use such borrowings for extended periods of time to the extent we are unable to access long-term financing. This may expose us to increased risks associated with decreases in the fair value of the underlying collateral, which could have an adverse impact on our results of operations.***

While we have and may continue to seek non-recourse, non-mark-to-market, matched-term, long-term financing through securitization financing transactions or other structures, such financing may be unavailable to us on favorable terms or at all. Consequently, we may be dependent on short-term financing arrangements that are not matched in duration to our financial assets. Short-term borrowing through repurchase arrangements, credit facilities and other types of borrowings may put our assets and financial condition at risk. Repurchase agreements economically resemble short-term, floating rate financing and usually require the maintenance of specific loan-to-collateral value ratios. Posting additional collateral to support our financing arrangements could significantly reduce our liquidity and limit our ability to leverage our assets. Furthermore, the cost of borrowings may increase substantially if lenders view us as having increased credit risk during periods of market distress. Any such short-term financing may also be recourse to us, which will increase the risk of our investments.

In addition, the value of assets underlying any such short-term financing may be marked-to-market periodically by the lender, including on a daily basis. To the extent these financing arrangements contain mark-to-market provisions, if the market value of the investments pledged by us declines due to credit quality deterioration, we may be required by our lenders to provide additional collateral or pay down a portion of our borrowings. In a weakening economic environment, we would generally expect credit quality and the value of the investment that serves as collateral for our financing arrangements to decline, and in such a scenario, it is likely that the terms of our financing arrangements would require partial repayment from us, which could be substantial.

These facilities may also be restricted to financing certain types of assets, such as first mortgage loans, which could impact our asset allocation. In addition, such short-term borrowing facilities may limit the length of time that any given asset may be used as eligible collateral. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on assets. Further, such borrowings may require us to maintain a certain amount of cash reserves or to set aside unleveraged assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. In the event that we are unable to meet the collateral obligations for our short-term borrowings, our financial condition could deteriorate rapidly.

***We are subject to risks associated with obtaining mortgage financing on our real estate, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders.***

As of December 31, 2017, our initial portfolio had \$847.1 million of total mortgage financing on a pro forma basis. We are subject to risks normally associated with financing, including the risks that our cash flow is insufficient to make timely payments of interest or principal, that we may be unable to refinance existing borrowings or support collateral obligations and that the terms of refinancing may not be as favorable as the terms of existing borrowing. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds from other capital transactions or the sale of the underlying property, our cash flow may not be sufficient in all years to make distributions to stockholders and to repay all maturing borrowings. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, the interest expense relating to that refinanced borrowing would increase, which could reduce our profitability, result in losses and negatively impact the amount of distributions we are able to pay to stockholders. Moreover, additional financing increases the amount of our leverage, which could negatively affect our ability to obtain additional financing in the future or make us more vulnerable in a downturn in our results of operations or the economy generally.

***Any warehouse facilities that we may obtain in the future may limit our ability to acquire assets, and we may incur losses if the collateral is liquidated.***

In the event that securitization financings become available, we may utilize, if available, warehouse facilities pursuant to which we would accumulate mortgage loans in anticipation of a securitization financing, which assets would be 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. Currently, we have no warehouse facilities in place, and no assurance can be given that we will be able to obtain one or more warehouse facilities on favorable terms, or at all.



## Risks Related to Regulatory Matters

*Changes in laws or regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us, subject us to increased competition or otherwise adversely affect our business.*

The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. For example, from time to time the market for real estate debt transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. Furthermore, if regulatory capital requirements—whether under the Dodd-Frank Act, Basel III (voluntary minimum requirements for internationally active banks) or other regulatory action—are imposed on private lenders that provide us with funds, or were to be imposed on us, they or we may be required to limit, or increase the cost of, financing they provide to us or that we provide to others. Among other things, this could potentially increase our financing costs, reduce our ability to originate or acquire loans and reduce our liquidity or require us to sell assets at an inopportune time or price.

There has been increasing commentary amongst regulators and intergovernmental institutions on the role of nonbank institutions in providing credit and, particularly, so-called “shadow banking,” a term generally referring to credit intermediation involving entities and activities outside the regulated banking system and increased oversight and regulation of such entities. In the United States, the Dodd-Frank Act established the Financial Stability Oversight Council (the “FSOC”), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system’s systemic risk regulator. The FSOC has the authority to review the activities of non-bank financial companies predominantly engaged in financial activities and designate those companies as “systemically important” for supervision by the Federal Reserve. On April 18, 2016, the FSOC released an update on its multi-year review of asset management products and activities and created an interagency working group to assess potential risks associated with certain leveraged funds. While it cannot be known at this time whether any regulation will be implemented or what form any new law or regulation or amendment will take, compliance with any increased regulation of non-bank credit extension could require changes to certain of our business practices, negatively impact our operations, cash flows or financial condition or impose additional costs on us.

*The loss of our Investment Company Act exclusion could require us to register as an investment company or substantially change the way we conduct our business, either of which may have an adverse effect on us and the value of our Class A common stock.*

On August 31, 2011, the SEC published a concept release (Release No. 29778, File No. S7-34-11, Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments), pursuant to which it is reviewing whether certain companies that invest in mortgage-backed securities and rely on the exclusion from registration under Section 3(c)(5)(C) of the Investment Company Act, such as us, should continue to be allowed to rely on such an exclusion from registration. If the SEC or its staff takes action with respect to this exclusion, these changes could mean that certain of our subsidiaries could no longer rely on the Section 3(c)(5)(C) exclusion, and would have to rely on Section 3(c)(1) or 3(c)(7), which would mean that our investment in those subsidiaries would be investment securities. This could result in our failure to maintain our exclusion from registration as an investment company. If we fail to maintain an exclusion from registration as an investment company, either because of SEC interpretational changes or otherwise, 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, either of which could have an adverse effect on us and the value of our Class A common stock. If we are 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.

*Our Manager is subject to extensive regulation, including as an investment adviser in the United States, which could adversely affect its ability to manage our business.*

Certain of Colony NorthStar’s affiliates, including our Manager, are subject to regulation as investment advisers and/or fund managers by various regulatory authorities that are charged with protecting our interests. Instances of criminal activity and fraud by participants in the investment management industry and disclosures of trading and other abuses by participants in the financial services industry have led the U.S. government and regulators in foreign jurisdictions to consider increasing the rules and regulations governing, and oversight of, the financial system. This activity is expected to result in continued changes to the laws and regulations governing the investment management industry and more aggressive enforcement of the existing laws and regulations. Our Manager could be subject to civil liability, criminal liability, or sanction, including revocation of its registration as an investment adviser in the United States, revocation of the licenses of its employees, censures, fines or temporary suspension or permanent bar from conducting business if it is found to have violated any of these laws or regulations. Any such liability or sanction could adversely affect its ability to manage our business.

Our Manager must continually address conflicts between its interests and those of its Managed Companies, and us. In addition, the SEC and other regulators have increased their scrutiny of potential conflicts of interest. However, appropriately dealing with conflicts of interest is complex and difficult and if our Manager fails, or appears to fail, to deal appropriately with conflicts of interest, it could face litigation or regulatory proceedings or penalties, any of which could adversely affect its ability to manage our business.

## Risks Related to Taxation

### ***Our qualification as a REIT involves complying with highly technical and complex provisions of the Code.***

We intend to elect to be taxed as a REIT under the U.S. federal income tax laws commencing with our taxable year ending December 31, 2018. Our qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986 (the “Code”) for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. New legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT.

Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis:

- With respect to the gross income and asset tests, our compliance depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Moreover, we invest in certain assets with respect to which the rules applicable to REITs are particularly difficult to interpret or to apply, including, but not limited to, the rules applicable to financing arrangements that are structured as sale and repurchase agreements; mezzanine loans; and investments in real estate mortgage loans that are acquired at a discount, subject to work-outs or modifications, or reasonably expected to be in default at the time of acquisition. If the IRS challenged our treatment of these assets as real estate assets for purposes of the REIT asset tests, and if such a challenge were sustained, we could fail to meet the asset tests applicable to REITs and thus fail to qualify as a REIT.
- The fact that we own direct or indirect interests in a number of entities that have elected to be taxed as REITs under the U.S. federal income tax laws (a “Subsidiary REIT”), further complicates the application of the REIT requirements for us. Each Subsidiary REIT is subject to the various REIT qualification requirements that are applicable to us. If a Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to regular U.S. federal corporate income tax, (ii) our interest in such Subsidiary REIT would cease to be a qualifying asset for purposes of the REIT asset tests, and (iii) it is possible that we would fail certain of the REIT asset tests, in which event we also would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions.
- Our ability to satisfy the distribution and other 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 limited partner or non-managing member interests in partnerships and limited liability companies that are joint ventures or funds.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax on our taxable income at regular corporate rates, and dividends paid 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 Class A common stock. In addition, we would no longer be required to make distributions to stockholders. 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.

### ***We may incur adverse tax consequences if NorthStar I or NorthStar II were to have failed to qualify as a REIT for U.S. federal income tax purposes prior to the Mergers.***

In connection with the closing of the Mergers, we received an opinion of counsel to each of NorthStar I and NorthStar II to the effect that it qualified as a REIT for U.S. federal income tax purposes under the Code through the time of the Mergers. Neither NorthStar I nor NorthStar II, however, requested a ruling from the IRS that it qualified as a REIT. If, notwithstanding these opinions, NorthStar I’s or NorthStar II’s REIT status for periods prior to the Mergers were successfully challenged, we would face serious adverse tax consequences that would substantially reduce our core funds from operations (“Core FFO”), and cash available for distribution (“CAD”), including cash available to pay dividends to our stockholders, because:

- NorthStar I or NorthStar II, as applicable, would be subject to U.S. federal, state and local income tax on its net income at regular corporate rates for the years it did not qualify as a REIT (and, for such years, would not be allowed a deduction for dividends paid to stockholders in computing its taxable income) and we would succeed to the liability for such taxes;
- if we were considered to be a “successor” of such entity, we would not be eligible to elect REIT status until the fifth taxable year following the year during which such entity was disqualified, unless it were entitled to relief under applicable statutory provisions;

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- even if we were eligible to elect REIT status, we would be subject to tax (at the highest corporate rate in effect at the date of the sale) on the built-in gain on each asset of NorthStar I or NorthStar II, as applicable, existing at the time of the Mergers if we were to dispose of such asset for up to five years following the Mergers; and
- we would succeed to any earnings and profits accumulated by NorthStar I or NorthStar II, as applicable, for tax periods that such entity did not qualify as a REIT and we would have to pay a special dividend and/or employ applicable deficiency dividend procedures (including interest payments to the IRS) to eliminate such earnings and profits to maintain our REIT qualification.

As a result of these factors, NorthStar I's or NorthStar II's failure to qualify as a REIT prior to the Mergers could impair our ability to expand our business and raise capital and could materially adversely affect the value of our Class A common stock. In addition, even if they qualified as REITs for the duration of their existence, if there is an adjustment to NorthStar I's or NorthStar II's taxable income or dividends-paid deductions for periods prior to the Mergers, we could be required to elect to use the deficiency dividend procedure to maintain NorthStar I's or NorthStar II's, as applicable, REIT status for periods prior to the Mergers. That deficiency dividend procedure could require us to make significant distributions to our stockholders and to pay significant interest to the IRS.

### ***If the Company OP is treated as a corporation for U.S. federal income tax purposes, we will cease to qualify as a REIT.***

We believe that the Company OP qualifies as a partnership for U.S. federal income tax purposes. As such, it is not subject to U.S. federal income tax on its income. Instead, its members, including us, generally are required to pay tax on their respective allocable share of the Company OP's income. No assurance can be provided, however, that the IRS will not challenge the Company OP's status as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating the Company OP as a corporation for U.S. federal income tax purposes, we would fail to meet the gross income and asset tests applicable to REITs and, therefore, cease to qualify as a REIT, and the Company OP would become subject to U.S. federal, state and local income tax.

### ***Dividends payable by REITs do not qualify for the preferential tax rates available for some dividends.***

The maximum rate applicable to "qualified dividend income" paid by non-REIT "C" corporations to U.S. stockholders that are individuals, trusts and estates generally is 20%. Dividends payable by REITs to those U.S. stockholders, however, generally are not eligible for the current reduced rate, except to the extent that certain holding requirements have been met and a REIT's dividends are attributable to dividends received by a REIT from taxable corporations (such as a taxable REIT subsidiary ("TRS")), to income that was subject to tax at the REIT/corporate level, or to dividends properly designated by the REIT as "capital gains dividends." Effective for taxable years before January 1, 2026, those U.S. stockholders may deduct 20% of their dividends from REITs (excluding qualified dividend income and capital gains dividends). For those U.S. stockholders in the top marginal tax bracket of 37%, the deduction for REIT dividends yields an effective income tax rate of 29.6% on REIT dividends, which is higher than the 20% tax rate on qualified dividend income paid by non-REIT "C" corporations, but still lower than the effective rate that applied prior to 2018, which is the first year that this special deduction for REIT dividends is available. Although the reduced rates applicable to dividend income from non-REIT "C" corporations do not adversely affect the taxation of REITs or dividends payable by REITs, it could cause investors who are non-corporate taxpayers to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT "C" corporations that pay dividends, which could adversely affect the value of our Class A common stock.

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

We generally must distribute annually at least 90% of our "REIT taxable income" (subject to certain adjustments and excluding any net capital gain), in order to qualify as a REIT, and any REIT taxable income that we do not distribute will be subject to U.S. corporate income tax at regular rates. In addition, from time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with U.S. 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, mortgage-backed securities ("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 acquire distressed debt investments that are subsequently modified by agreement with the borrower, which could cause us to have to recognize gain in certain circumstances;
- we may recognize substantial amounts of "cancellation of debt" income for U.S. federal income tax purposes (but not for U.S. GAAP purposes) due to discount repurchases of our liabilities, which could cause our REIT taxable income to exceed our U.S. GAAP income;
- we or our TRSs may recognize taxable "phantom income" as a result of modifications, pursuant to agreements with borrowers, of debt instruments that we acquire if the amendments to the outstanding debt are "significant modifications" under the applicable Treasury regulations. In addition, our TRSs may be treated as a "dealer" for U.S. federal income tax purposes, in which case the TRS would be required to mark-to-market its assets at the end of each taxable year and recognize taxable gain or loss on those assets even though there has been no actual sale of those assets;

- we may deduct our capital losses only to the extent of our capital gains and not against our ordinary income, in computing our REIT taxable income for a given taxable year;
- certain of our assets and liabilities are marked-to-market for U.S. GAAP purposes but not for tax purposes, which could result in losses for U.S. GAAP purposes that are not recognized in computing our REIT taxable income; and
- under the “Tax Cut and Jobs Act of 2017” (the “TCJA”), we generally must accrue income for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, which could create additional differences between REIT taxable income and the receipt of cash attributable to such income. Furthermore, the TCJA places a per-employee limit of \$1 million on the amount of compensation that a publicly held corporation may deduct in any one year with respect to its chief executive officer and certain other highly compensated executive officers. These changes may have the effect of increasing or accelerating our REIT taxable income.

As a result of both the requirement to distribute 90% of our income each year (and to pay tax on any income that we do not distribute) and the fact that our taxable income may well exceed our cash income due to the factors mentioned above as well as other factors, we may find it difficult to meet the REIT distribution requirements in certain circumstances while also having adequate cash resources to execute our business plan. 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 of Class A common stock as part of a distribution in which stockholders may elect to receive shares of Class A common stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with REIT requirements. These alternatives could increase our costs, reduce our equity, and/or result in stockholders being taxed on distributions of shares of stock without receiving cash sufficient to pay the resulting taxes. Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could adversely affect the value of our Class A common stock.

***Even if we continue to qualify as a REIT, we may face other tax liabilities that reduce our cash available for distribution to stockholders.***

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. We also are subject to U.S. federal and state income tax (and any applicable non-U.S. taxes) on the net income earned by our TRSs. Due to the nature of the assets in which we invest, we expect our TRSs will have a material amount of assets and net taxable income. In addition, we have substantial operations and assets outside of the U.S. that are subject to tax in those countries — those taxes, unless incurred by a TRS, are not likely to generate an offsetting credit for taxes in the U.S. In addition, if we have net income from “prohibited transactions,” that income will be subject to a 100% tax. In general, “prohibited transactions” are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a sale of the loans for U.S. federal income tax purposes that is subject to the prohibited transactions tax. 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 such sales or structures might otherwise be beneficial to us. Finally, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. Any of these taxes would decrease cash available for distribution to our stockholders.

***Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.***

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and 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 qualified 75% asset test 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 qualified 75% asset test assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by stock or securities of one or more TRSs. Debt instruments issued by “publicly offered REITs,” to the extent not secured by real property or interests in real property, qualify for the 75% asset test but the value of such debt instruments cannot exceed 25% of the value of our total assets. The compliance with these limitations, particularly given the nature of some of our investments, may hinder our ability to make, and, in certain cases, maintain ownership of certain attractive investments that might not qualify for the 75% asset test. If we fail to comply with the REIT asset tests 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, or

contribute to a TRS, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income, increasing our income tax liability, and reducing amounts available for distribution to our stockholders. In addition, 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 (or, in some cases, forego the sale of such 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.

***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 by us or our subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a result, we could have “excess inclusion income.” In general, dividend income that a tax-exempt entity receives from us should not constitute unrelated business taxable income (“UBTI”), as defined in Section 512 of the Code. If, however, we realize excess inclusion income and allocate it to stockholders, then this income would be fully taxable as UBTI to a tax-exempt entity under Section 512 of the Code. A foreign stockholder would generally be subject to U.S. federal income tax withholding on this excess inclusion income without reduction pursuant to any otherwise applicable income tax treaty. U.S. stockholders would not be able to offset such income with their net operating losses.

Although the law is not entirely clear, the IRS has taken the position that we are subject to tax at the highest corporate rate on the portion of our excess inclusion income equal to the percentage of our stock held in record name by “disqualified organizations” (generally tax-exempt investors, such as certain state pension plans and charitable remainder trusts, that are not subject to the tax on unrelated business taxable income). To the extent that our stock owned by “disqualified organizations” is held in street name by a broker-dealer or other nominee, the broker-dealer or nominee would be liable for a tax at the highest corporate rate on the portion of our excess inclusion income allocable to the stock held on behalf of the “disqualified organizations.” A regulated investment company or other pass-through entity owning our stock may also be subject to tax at the highest corporate tax rate on any excess inclusion income allocated to their record name owners that are “disqualified organizations.”

Excess inclusion income could result if a REIT held a residual interest in a real estate mortgage investment conduit (“REMIC”). In addition, excess inclusion income also may be generated if a REIT issues debt with two or more maturities and the terms of the payments of those debt instruments bear a relationship to the payments that the REIT received on mortgage loans or mortgage-backed securities securing those liabilities. If any portion of our dividends is attributable to excess inclusion income, then the tax liability of tax-exempt stockholders, non-U.S. stockholders, stockholders with net operating losses, regulated investment companies and other pass-through entities whose record name owners are disqualified organizations and brokers-dealers and other nominees who hold stock on behalf of disqualified organizations will very likely increase.

***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 limit our ability to hedge certain of our liabilities. Under these provisions, any income from a hedging transaction that 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, or to manage the risk of certain currency fluctuations, and that is properly identified under applicable Treasury Regulations, does not constitute “gross income” for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of the REIT gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques that do not qualify for the exclusion from the REIT gross income tests or implement those hedges through a 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.

***There is a risk of changes in the tax law applicable to REITs.***

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect our taxation or our stockholders. In particular, the TCJA makes many significant changes to the U.S. federal income tax laws that will profoundly impact the taxation of individuals and corporations (both non-REIT “C” corporations as well as corporations that have elected to be taxed as REITs). A number of changes that affect non-corporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes will impact us and our stockholders in various ways, some of which are adverse or potentially adverse compared to prior law. To date, the IRS has issued only limited guidance with respect to certain of the new provisions, and there are numerous interpretive issues that will require guidance. It is highly likely that technical corrections legislation will be needed to clarify certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical clarifications or changes needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future.

***Our ownership of assets and conduct of operations through our TRSs is limited and involves certain risks for us.***

We use our TRSs to hold assets and earn income that would not be qualifying assets or income if held or earned directly by us. Apart from the fact that income from those TRSs may be subject to U.S. federal, foreign, state and local income tax on their taxable income and only their after-tax net income is available for distribution to us, our use of the TRS for this purpose is subject to certain costs, risks and limitations:

- No more than 20% of the value of our gross assets may consist of stock or securities of one or more TRSs.
- The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.
- We treat income that we earn from certain foreign TRSs, including issuers in CDO transactions, as qualifying dividend income for purposes of the REIT income tests, based on several private letter rulings that the IRS has issued to other taxpayers (which technically may be relied upon only by those taxpayers), but there can be no assurance that the IRS might not successfully challenge our treatment of such income as qualifying income, in which event we might not satisfy the REIT 95% gross income test, and we either could be subject to a penalty tax with respect to some or all of that income we could fail to continue to qualify as a REIT.
- We generally structure our foreign TRSs with the intent that their income and operations will not be subject to U.S. federal, state and local income tax. If the IRS successfully challenged that tax treatment, it would reduce the amount that those foreign TRSs would have available to pay to their creditors and to distribute to us.

We are mindful of all of these limitations and analyze and structure the income and operations of our TRSs to mitigate these costs and risks to us to the extent practicable, but we may not always be successful in all cases.

***We are restricted in our ability to transfer cash from the Company OP to the Company within two years following the Mergers without incurring adverse tax consequences.***

Under the “disguised sale” rules that apply when a member transfers property to a limited liability company and the limited liability company transfers cash to the partner within two years of that transfer, we are restricted in our ability to transfer cash from the Company OP to the Company within two years following the Mergers, unless that transfer can qualify for an exception provided for the applicable regulations or was not contemplated at the time of the Mergers, without incurring adverse tax consequences. We do not anticipate that these rules will limit our ability to pay regular dividends from the operating cash flow of the Company OP, but they could restrict our ability to make repurchases of our Class A common stock pursuant to our previously announced stock repurchase program. We believe that we will have the capacity to make substantial repurchases, but we may not have the flexibility to repurchase as much stock as we would otherwise elect, depending upon future market conditions.

## Risks Related to Ownership of Our Common Stock

*Our Class A common stock may not be actively traded, which could cause our Class A common stock to trade at a discount and make it difficult for holders of our Class A common stock to sell their shares.*

Our shares of Class A common stock are newly issued securities that have recently been listed on the NYSE. There can be no assurance that an active trading market for our Class A common stock will develop in the near term, or if one develops, be maintained. If an active trading market does not develop and the value of those shares might be materially impaired. No assurance can be given as to the ability of our stockholders to sell their shares of our common stock or the price that our stockholders may obtain for their shares.

Some of the factors that could negatively affect the market price of our Class A 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, Colony NorthStar or their affiliates and individuals, including our executives;
- equity issuances by us, or resales of our shares by our stockholders, or the perception that such issuances or resales may occur;
- loss of a major funding source;
- 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 and/or Colony NorthStar's key personnel or adverse effects on the business or operations of our Manager, Colony NorthStar or their affiliates;
- 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 Class A common stock and would result in increased interest expenses on our debt;
- a compression of the yield on our investments and an increase in the cost of our liabilities;
- failure to operate in a manner consistent with our intention to qualify as a REIT or exclusion from registration under the Investment Company Act;
- price and volume fluctuations in the overall stock market from time to time;
- general market and economic conditions and trends including inflationary concerns, and the current state of the credit and capital markets;
- significant volatility in the market price and trading volume of securities of publicly traded REITs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to REITs;
- changes in the value of our portfolio;



- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our Class A common stock or REITs generally; and
- uncertainty surrounding the strength of the U.S. economic recovery, particularly in light of the recent debt ceiling and budget deficit concerns, and other U.S. and international political and economic affairs.

Any of the foregoing factors could negatively affect our stock price or result in fluctuations in the price or trading volume of our Class A common stock.

***Future offerings of debt or equity securities, which would rank senior to our Class A common stock, may adversely affect the market price of our Class A common stock.***

If we decide to issue debt or equity securities in the future, which would rank senior to our Class A common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our Class A common stock and may result in dilution to owners of our Class A common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity 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 offerings. Thus holders of our Class A common stock will bear the risk of our future offerings reducing the market price of our Class A common stock and diluting the value of their stock holdings in us.

***We may issue additional equity securities, which may dilute your interest in us.***

Stockholders do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue a total of 1,000,000,000 shares of capital stock, of which 950,000,000 shares are classified as common stock and 50,000,000 shares are classified as preferred stock. Our Board of Directors, with the approval of a majority of our entire Board of Directors and without stockholder approval, may amend our charter to increase or decrease the aggregate number of authorized shares of capital stock or the number of shares of capital stock of any class or series that we are authorized to issue. Our Board of Directors may elect to: (i) sell additional shares in one or more future public offerings; (ii) issue equity interests in private offerings; (iii) issue shares to our Manager, or its successors or assigns, in payment of an outstanding fee obligation; (iv) issue shares of our common stock to sellers of assets we acquire in connection with an exchange of limited partnership interests of our operating company; or (v) issue shares of our common stock to pay distributions to existing stockholders. If we issue and sell additional shares of our Class A common stock, the ownership interests of our existing stockholders will be diluted to the extent they do not participate in the offering.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

**Owned Real Estate**

As of December 31, 2017, the Company did not have any assets other than \$1,000 in cash that was provided to capitalize the Company. As a result of the Combination and related transactions, on January 31, 2018 we acquired the properties described below. The following discussion refers to our initial properties on a pro forma basis as if the Combination and related transactions had occurred on December 31, 2017.

The following table details our owned real estate portfolio as of December 31, 2017 (dollars in thousands):

Property type	Pro forma book value (1)	NCI	Pro forma book value at our share (1)	% of total	Selected real estate metrics							
					Number of properties	Number of buildings	Total square feet	Units	% leased	Weighted Average lease maturity (2)	Total annualized base rent (3)	
<b>Net Lease</b>												
Industrial	\$ 513,616	\$ 47,021	\$ 466,595	32%	45	45	8,792,792	—	95%	3.5	\$ 32,754	
Office	137,860	—	137,860	9%	4	4	841,689	—	75%	4.4	8,042	
Retail	73,346	—	73,346	5%	10	10	467,971	—	100%	5.8	5,462	
<b>Total net lease</b>	<b>724,822</b>	<b>47,021</b>	<b>677,801</b>	<b>46%</b>	<b>59</b>	<b>59</b>	<b>10,102,452</b>	<b>—</b>	<b>92%</b>	<b>3.9</b>	<b>46,258</b>	
<b>Other</b>												
Office	611,886	65,000	546,886	37%	16	33	2,600,882	—	91%	4.8	51,549	
Multifamily	283,975	48,244	235,731	16%	6	107	—	3,721	93%	N/A	29,853	
Hotel	8,073	294	7,779	1%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>Total other</b>	<b>903,934</b>	<b>113,538</b>	<b>790,396</b>	<b>54%</b>	<b>22</b>	<b>140</b>	<b>2,600,882</b>	<b>3,721</b>	<b>91%</b>	<b>4.8</b>	<b>81,402</b>	
<b>Total owned real estate</b>	<b>\$ 1,628,756</b>	<b>\$ 160,559</b>	<b>\$ 1,468,197</b>	<b>100%</b>	<b>81</b>	<b>199</b>	<b>12,703,334</b>	<b>3,721</b>	<b>92%</b>	<b>4.4</b>	<b>\$ 127,660</b>	

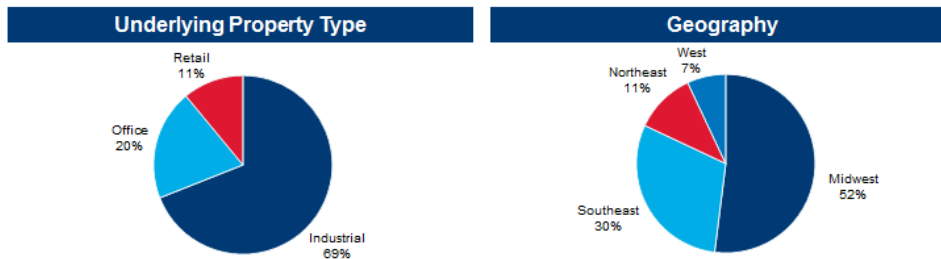
- (1) Pro forma book value and pro forma book value at our share includes deferred leasing costs and intangible assets.
- (2) The calculation of weighted average lease term is based on leases in-place (defined as occupied and paying leases) as of December 31, 2017; assumes that no renewal options are exercised and is weighted by our pro forma book value.
- (3) Total annualized base rent is based on in-place leases multiplied by 12, excluding straight-line adjustments and rent concessions as of December 31, 2017.

**Net Lease Real Estate**

Our net lease portfolio is comprised of industrial, office and retail assets. These assets are leased to tenants on a net lease basis where such tenants generally will be responsible for property operating expenses such as insurance, utilities and capital expenditures and real estate taxes. Our leases range from 3 to 10 years and 75% include annual contractual rent increases that are based on fixed rate escalators that range from 2% to 3%.

Our industrial net lease portfolio includes 45 properties located across the Midwest and Southeast. These properties are primarily warehouse and distribution facilities that are strategically located in major distribution markets with strong access to transportation. Our industrial assets are leased to a diverse group of tenants that have demonstrated long-leasing tenure. Our office net lease portfolio includes four properties located across the Midwest, West and Northeast. These properties are leased to corporate tenants from a variety of industries which include aerospace and defense, business services, retail net lease and healthcare. Our retail net lease portfolio consists of properties primarily leased to Dick's Sporting Goods, with ten locations throughout the Northeast and Midwest. We believe the properties that comprise our net lease portfolio are adequately covered by insurance.

The following charts illustrate the diversification of our net lease real estate portfolio based on property type and geography:



The following table details lease expirations by number of leases, square footage and total annual base rent for our net lease real estate portfolio as of December 31, 2017.

Year of maturity	Net lease real estate			
	Number of expiring leases	Total square feet	Total annualized base rent(1)	% of total annualized base rent
2018	26	1,614,398	\$ 6,820	15%
2019	21	1,606,659	5,252	11%
2020	21	741,147	3,664	8%
2021	20	1,210,551	5,413	12%
2022	13	1,023,461	9,121	20%
2023	15	2,334,965	9,678	21%
2024	4	186,309	1,045	2%
2025	2	396,724	2,952	6%
2026	3	95,349	830	2%
2027	2	218,085	1,029	2%
Thereafter	1	46,533	454	1%
Vacant	—	628,271	—	—
<b>Total</b>	<b>128</b>	<b>10,102,452</b>	<b>\$ 46,258</b>	<b>100%</b>

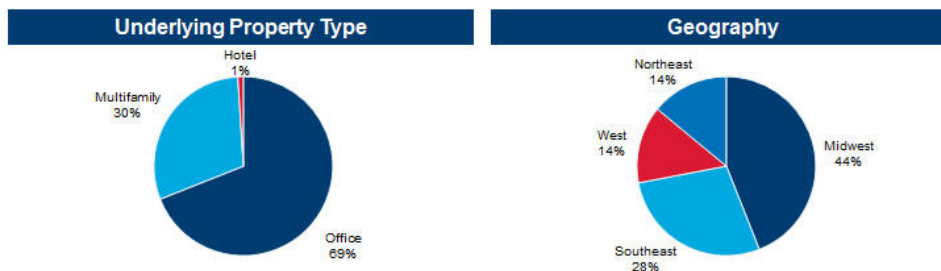
(1) Total annualized base rent is based on in-place leases multiplied by 12, excluding straight-line adjustments and rent concessions as of December 31, 2017.

**Other Real Estate**

Our other real estate portfolio consists primarily of multi-tenant office and multifamily residential assets. These assets are leased to tenants on a gross basis, where we are responsible for property operating expenses. We expect to make ongoing capital expenditures to maintain the value of these properties over time.

Our office portfolio includes 16 office properties located in attractive sub-markets of Northwest, Midwest and Southeast. These properties are leased to a diverse group of corporate tenants with initial lease terms that range from 5 to 15 years. Our multifamily portfolio consists of six residential communities that are located in Midwest and Southeast markets with strong economies and attractive demographics. Three of these properties are student housing communities located in close proximity to major universities. Leases for our multifamily properties range from 1 to 12 months. We believe the properties that comprise our other real estate portfolio are adequately covered by insurance.

The following charts detail the geographic diversity of our other owned real estate portfolio based on pro forma book value at our share as of December 31, 2017.



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The following table details lease expirations by number of leases, square footage and total annual base rent for our other real estate portfolio, excluding multifamily and hotel assets as of December 31, 2017.

Year of maturity	Other real estate			
	Number of expiring leases	Total square feet	Total annualized base rent(1)(2)	% of total annualized base rent
2018	38	159,973	\$ 3,678	7%
2019	44	154,531	3,288	6%
2020	65	554,907	12,880	26%
2021	39	212,229	5,100	10%
2022	37	240,766	5,161	10%
2023	19	84,924	1,557	3%
2024	11	316,239	7,584	15%
2025	9	196,732	3,821	7%
2026	5	157,075	3,523	7%
2027	11	177,421	3,182	6%
Thereafter	17	81,923	1,775	3%
Vacant	—	264,162	—	—
<b>Total</b>	<b>295</b>	<b>2,600,882</b>	<b>\$ 51,549</b>	<b>100%</b>

(1) Total annualized base rent is based on in-place leases multiplied by 12, excluding straight-line adjustments and rent concessions as of December 31, 2017.

(2) All leases for multifamily properties are short-term in nature and as such are not included.

### ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor our Manager is currently subject to any material legal proceedings. We anticipate that we may from time to time be involved in legal actions arising in the ordinary course of business, the outcome of which we would not expect to have a material adverse effect on our financial position, results of operations or cash flows.

### 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**

**Overview**

Our Class A common stock began trading on the New York Stock Exchange on February 1, 2018 under the symbol "CLNC." Prior to February 1, 2018, our Class A common stock was not listed on a national securities exchange and there was no established public trading market for such shares. As of March 21, 2018, we had approximately 83.5 million shares of Class A common stock outstanding held by a total of 8,369 holders of record. This figure does not reflect the beneficial ownership of shares held in nominee name.

Our Class B-3 common stock is not listed on a national securities exchange and there is no established public trading market for such shares. As of March 21, 2018, there were approximately 44.4 million shares of Class B-3 common stock outstanding held by one holder of record (an affiliate of Colony NorthStar). Our Class B-3 common stock will automatically convert to Class A common stock upon the close of trading on February 1, 2019.

**Distributions**

We intend to make regular monthly 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, determined 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 REIT taxable income. We currently expect to distribute substantially all of our net taxable income to our stockholders on an annual basis. We did not make any distributions on either our Class A common stock or Class B-3 common stock in 2017. On February 26, 2018, our Board of Directors declared its initial monthly cash dividend of \$0.145 per share of Class A common stock and Class B-3 common stock for the monthly period ended February 28, 2018. The distribution was paid on March 16, 2018, to stockholders of record on March 8, 2018. On March 15, 2018, our Board of Directors declared a monthly cash dividend of \$0.145 per share of Class A common stock and Class B-3 common stock for the monthly period ending March 31, 2018. The distribution will be paid on April 10, 2018, to stockholders of record on March 29, 2018. These distributions represent an annualized dividend of \$1.74 per share of Class A common stock and Class B-3 common stock.

The credit agreement governing our \$400 million revolving credit facility limits our ability to make dividends and other payments with respect to our shares of common stock. The credit agreement prohibits us from making distributions in excess of the amount required to maintain our status as a REIT unless we are in compliance with the financial covenants in the credit agreement after giving pro forma effect to such distribution. The credit agreement also generally provides that if a default occurs and is continuing, we will be precluded from making distributions on our common stock (other than those required to allow the Company to qualify and maintain its status as a REIT, so long as such default does not arise from a payment default or event of insolvency).

**Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities**

In connection with our formation, we issued 100 shares of common stock to Colony NorthStar on September 15, 2017 for total consideration of \$1,000 in cash in order to provide initial capitalization. The shares were issued in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act, as a transaction not involving a public offering. We repurchased the shares on January 31, 2017 in connection with the closing of the Combination. There were no other sales of unregistered securities during the year ended December 31, 2017.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**ITEM 6. SELECTED FINANCIAL DATA**

**Selected Historical Financial Information of the Company**

As of December 31, 2017, the Company did not have any operations and did not have any assets other than \$1,000 in cash, which had been provided to capitalize the Company. Therefore, statement of operations data of the Company is not presented. The balance sheet for the Company as of December 31, 2107 consisted of \$1,000 in assets, no liabilities and \$1,000 in total equity.

**Selected Historical Financial Information of CLNS Investment Entities**

The following tables set forth selected historical combined financial information of the investment entities in which CLNS OP owned interests ranging from 38% to 100%, which includes the CLNS OP Contributed Entities that were contributed to Company OP and the RED REIT Contributed Entities. The selected historical combined financial information also includes certain intercompany balances between those entities and CLNS OP or its subsidiaries. These entities and balances are collectively referred to as the "CLNS Investment Entities." The assets, liabilities and noncontrolling interests of the CLNS Investment Entities have been carved out of the books and records of Colony NorthStar at their historical carrying amounts. The remaining interests in the CLNS Investment Entities that are owned by Colony NorthStar-sponsored investment vehicles or third parties were not contributed to the Company. Colony NorthStar's interests in the respective underlying assets and liabilities of the CLNS Investment Entities are presented as "CLNS Owner" and the remaining interests are presented as "Other Owners."

The following selected combined financial information as of and for the years ended December 31, 2015, 2016 and 2017 is derived from the audited combined financial statements of the CLNS Investment Entities. The financial condition and results of operations as of and for the year ended December 31, 2017 are not necessarily indicative of the financial condition and results of operations that may be expected for any future periods. You should not assume that the results for any past periods are indicative of results for any future period. You should read this information in conjunction with the combined financial statements and related notes thereto of the CLNS Investment Entities for the years ended December 31, 2015, 2016 and 2017 included elsewhere in this Annual Report on Form 10-K.

(In thousands)	Year Ended December 31,		
	2017	2016	2015
<b>Statements of Operations Data:</b>			
Interest income	\$ 140,214	\$ 140,529	\$ 112,326
Property operating income	23,750	1,138	99
Total revenues	164,755	142,203	112,712
Interest expense	26,114	26,031	18,949
Property operating expense	7,978	905	67
Net income	127,880	109,021	81,608
Net income attributable to owners	127,191	108,285	80,554
Net income attributable to CLNS Owner	88,504	76,051	58,079

(In thousands)	Year Ended December 31,		
	2017	2016	2015
<b>Balance Sheet Data:</b>			
Total assets	\$ 1,839,402	\$ 1,802,192	\$ 2,056,974
Total debt	389,661	502,413	826,132
Total liabilities	431,832	566,628	939,160
Total equity attributable to CLNS Owner	1,079,808	884,716	817,774
Total equity attributable to Other Owners	318,142	341,167	290,088
Total equity	1,407,570	1,235,564	1,117,814

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The following selected combined interim financial information (unaudited) for each quarter during the years ended December 31, 2017 and 2016 are derived from the books and records of the CLNS Investment Entities, and should be read in conjunction with the combined financial statements and related notes thereto of the CLNS Investment Entities included in "Item 8. Financial Statements and Supplementary Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report.

For the three months ended (In thousands)	2017				2016			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
<b>Statements of Operations Data</b>								
Total revenues	\$ 38,447	\$ 42,801	\$ 43,061	\$ 40,446	\$ 35,702	\$ 35,730	\$ 36,562	\$ 34,209
Net income	32,051	31,482	32,324	32,023	26,467	29,712	29,056	23,786
Net income attributable to owners	31,878	31,361	32,123	31,829	26,332	29,490	28,815	23,648
Net income attributable to CLNS Owner	21,417	21,252	22,949	22,886	17,553	20,479	21,080	16,939

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition in conjunction with our financial statements and related notes, the CLNS Investment Entities' historical combined financial statements and related notes, "Risk Factors," "Selected Financial Data," and "Business" included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this Annual Report on Form 10-K entitled "Risk Factors" and "Forward-Looking Statements." As used in this section, when used in a historical context, "we," "us," and "our" refers to the CLNS Investment Entities, our accounting predecessor.

##### Overview

We are a newly formed CRE credit REIT focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE senior mortgage loans, mezzanine loans, preferred equity, debt securities and net leased properties predominantly in the United States. Our objective is to create a premier CRE credit REIT focused on consistently providing attractive risk-adjusted returns to our stockholders. We seek to achieve these returns primarily through cash distributions and the preservation of invested capital, and secondarily through capital appreciation.

##### Our Formation Transactions

On January 31, 2018, we completed a combination of the CLNS OP Contributed Entities, the RED REIT Contributed Entities and substantially all of the assets and liabilities of NorthStar I and all of the assets and liabilities of NorthStar II. To effect the Combination, (1) CLNS OP, together with one or more of its subsidiaries, contributed to us and to the Company OP, the CLNS OP Contributed Entities and the RED REIT Contributed Entities, with CLNS OP receiving approximately 44.4 million shares of our Class B-3 common stock and RED REIT receiving approximately 3.1 million OP Units, (2) the NorthStar I Merger occurred with NorthStar I stockholders (including Colony NorthStar and its affiliates) receiving approximately 42.1 million shares of our Class A Common Stock and (3) the NorthStar II Merger occurred with stockholders of NorthStar II (including Colony NorthStar and its affiliates) receiving approximately 40.4 million shares of our Class A common stock. Following such contributions and mergers, we contributed to the Company OP the CLNS OP Contributed Entities, the RED REIT Contributed Entities, the equity interests of NorthStar I OP and NorthStar II OP, and in connection with this transaction we received approximately 126.9 million OP Units.

##### Our Manager

Our Company is externally managed by a subsidiary of Colony NorthStar, a NYSE-listed global real estate and investment management firm with over \$24 billion of total consolidated assets and over \$43 billion of assets under management. Immediately upon completion of the Combination and related transactions, Colony NorthStar owned approximately 37% of our common equity on a fully diluted basis, evidencing a strong alignment of interests between Colony NorthStar and our stockholders.

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Colony NorthStar and its predecessors have a 26-year track record and have made over \$100 billion of investments. Colony NorthStar's senior management team, which is led by Executive Chairman Thomas J. Barrack, Jr. and Chief Executive Officer and President Richard B. Saltzman, has a long track record and extensive experience managing and investing in our target assets and other real estate-related investments through a variety of credit cycles and market conditions. Colony NorthStar's global footprint and corresponding network provides its investment and asset management teams with proprietary market knowledge, exceptional sourcing capabilities and the local presence required to identify, execute and manage complex transactions. Colony NorthStar's successful history of external management includes its previous management of Colony Financial, its current management of NorthStar Europe, a publicly traded REIT focused on European CRE with over \$2 billion in assets, and its management of various non-traded REITs (including NorthStar I and NorthStar II) with in excess of \$4 billion of equity commitments.

Colony NorthStar and its affiliates have more than 500 employees located domestically and internationally across 18 cities in ten countries, with its principal offices located in Los Angeles, California and New York, New York. Its operations are broad and diverse and include the management of real estate, both owned and on behalf of a diverse set of institutional and individual investors. Colony NorthStar has a highly experienced management team of diverse backgrounds with a demonstrated track record of success and, on average, 32 years of operational and management experience at asset managers and investment firms, private investment funds, investment banks and other financial service companies, which provides an enhanced perspective for managing our portfolio. Kevin P. Traenkle, a 24-year veteran of Colony NorthStar, serves as our Chief Executive Officer; Sujun S. Patel, an 11-year veteran of Colony NorthStar, serves as our Chief Financial Officer; Neale W. Redington, a nine-year veteran of Colony NorthStar, serves as our Chief Accounting Officer; and David A. Palamé, an 11-year veteran of Colony NorthStar, serves as our General Counsel.

We draw on Colony NorthStar's substantial real estate investment platform and relationships to source, underwrite, structure and manage a robust pipeline of investment opportunities as well as to access debt and equity capital to fund our operations. We believe we are able to originate, acquire, finance and manage investments with attractive in-place cash flows and the potential for meaningful capital appreciation over time. We also benefit from Colony NorthStar's portfolio management, finance and administration functions, which provide us with legal, compliance, investor relations, asset valuation, risk management and information technology services.

### ***Our Investment Strategy***

Our objective is to generate consistent and attractive risk-adjusted returns to our stockholders. We seek to achieve this objective primarily through cash distributions and the preservation of invested capital and secondarily through capital appreciation. We believe our diversified investment strategy across the capital stack provides flexibility through economic cycles to achieve attractive risk-adjusted returns. This approach is driven by a disciplined investment strategy, focused on:

- capitalizing on asset level underwriting experience and market analytics to identify investments with pricing dislocations and attractive risk-return profiles;
- originating and structuring CRE senior mortgage loans, mezzanine loans and preferred equity with attractive return profiles relative to the underlying value and financial operating performance of the real estate collateral, given the strength and quality of the sponsorship;
- identifying appropriate CRE debt securities investments based on the performance of the underlying real estate assets, the impact of such performance on the credit return profile of the investments and our expected return on the investments;
- identifying net leased real estate investments based on property location and purpose, tenant credit quality, market lease rates and potential appreciation of, and alternative uses for, the real estate;
- creating capital appreciation opportunities through active asset management and equity participation opportunities; and
- structuring transactions with a prudent amount of leverage, if any, given the risk of the underlying asset's cash flows, attempting to match the structure and duration of the financing with the underlying asset's cash flows, including through the use of hedges, as appropriate.

The period for which we intend to hold our investments will vary depending on the type of asset, interest rates, investment performance, micro and macro real estate environment, capital markets and credit availability, among other factors. We generally expect to hold debt investments until the stated maturity and equity investments in accordance with each investment's proposed business plan. We may sell all or a partial ownership interest in an investment before the end of the expected holding period if we believe that market conditions have maximized its value to us or the sale of the asset would otherwise be in the best interests of our stockholders.



Our investment strategy is dynamic and flexible, enabling us to adapt to shifts in economic, real estate and capital market conditions and to exploit market inefficiencies. We may expand or change our investment strategy or target assets over time in response to opportunities available in different economic and capital market conditions. This flexibility in our investment strategy allows us to employ a customized, solutions-oriented approach, which we believe is attractive to borrowers and tenants. We believe that our diverse portfolio, our ability to originate, acquire and manage our target assets and the flexibility of our investment strategy positions us to capitalize on market inefficiencies and generate attractive long-term risk-adjusted returns for our stockholders through a variety of market conditions and economic cycles.

### **Risk Management**

Risk management is a significant component of our strategy to deliver attractive risk-adjusted returns to our stockholders. In addition to maintaining our qualification as a REIT for U.S. federal income tax purposes and our and each of our subsidiaries' exclusion from registration under the Investment Company Act, our Manager closely monitors our portfolio and actively manages risks associated with, among other things, our assets and interest rates. Prior to investing in any particular asset, our Manager's underwriting team, in conjunction with third party providers, undertakes a rigorous asset-level due diligence process, involving intensive data collection and analysis, to ensure that we understand fully the state of the market and the risk-reward profile of the asset. In addition to evaluating the merits of any particular investment opportunity, our Manager evaluates the diversification of our portfolio. Prior to making a final investment decision, our Manager determines whether a target asset will cause our portfolio to be too heavily concentrated with, or cause too much risk exposure to, any one borrower, real estate sector, geographic region, source of cash flow for payment or other geopolitical issues. If our Manager determines that a proposed acquisition presents excessive concentration risk, it may determine not to acquire an otherwise attractive asset.

For each asset that we acquire, our Manager's asset management team engages in active management of the asset, the intensity of which depends on the attendant risks. Once an asset manager has been assigned to a particular asset, the manager works collaboratively with the underwriting team to formulate a strategic plan for the particular asset, which includes evaluating the underlying collateral and updating valuation assumptions to reflect changes in the real estate market and the general economy. This plan also generally outlines several strategies for the asset to extract the maximum amount of value from each asset under a variety of market conditions. Such strategies may vary depending on the type of asset, the availability of refinancing options, recourse and maturity, but may include, among others, the restructuring of non-performing or sub-performing loans, the negotiation of discounted pay-offs or other modification of the terms governing a loan, and the foreclosure and management of assets underlying non-performing loans in order to reposition them for profitable disposition. As long as an asset is in our portfolio, our Manager and its affiliates will continuously track the progress of an asset against the original business plan to ensure that the attendant risks of continuing to own the asset do not outweigh the associated rewards. Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion from registration under the Investment Company Act, we currently expect that we will typically hold debt investments until the stated maturity and equity investments in accordance with each investment's proposed business plan. However, in order to maximize returns and manage portfolio risk while remaining opportunistic, we may dispose of an asset earlier than anticipated or hold an asset longer than anticipated if we determine it to be appropriate depending upon prevailing market conditions or factors regarding a particular asset.

Our Manager's asset management team engages in a proactive and comprehensive on-going review of the credit quality of each asset it manages. In particular for debt investments, on at least an annual basis, the asset management team will evaluate the financial wherewithal of individual borrowers to meet contractual obligations as well as review the financial stability of the assets securing such debt investments. Further, there is ongoing review of borrower covenant compliance including the ability of borrowers to meet certain negotiated debt service coverage ratios and debt yield tests. For equity investments, the asset management team, with the assistance of third party property managers, monitors and reviews key metrics such as occupancy, same store sales, tenant payment rates, property budgets and capital expenditures. If through this analysis of credit quality, the asset management team encounters declines in credit not in accord with the original business plan, the team evaluates the risks and determine what changes, if any, are required to the business plan to ensure that the attendant risks of continuing to hold the investment do not outweigh the associated rewards.

Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion from registration under the Investment Company Act, we may mitigate the risk of interest rate volatility through the use of hedging instruments, such as interest rate swap agreements and interest rate cap agreements. The goal of our interest rate management strategy is to minimize or eliminate the effects of interest rate changes on the value of our assets, to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a favorable spread between the yield on our assets and the cost of financing such assets. In addition, because we are exposed to foreign currency exchange rate fluctuations, we employ foreign currency risk management strategies, including the use of, among others, currency hedges. We can provide no assurances, however, that our efforts to manage interest rate and foreign currency exchange rate volatility will successfully mitigate the risks of such volatility on our portfolio.

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In addition, the Audit Committee, in consultation with management, periodically reviews our policies with respect to risk assessment and risk management, including key risks to which we are subject, including credit risk, liquidity risk and market risk, and the steps that management has taken to monitor and control such risks.

### **Leverage Policy**

While we limit our use of leverage and believe we can achieve attractive yields on an unleveraged basis, we may use prudent amounts of leverage to increase potential returns to our stockholders and/or to finance future investments. Given current market conditions, to the extent that we use borrowings to finance our assets, we currently expect that such leverage would not exceed on a debt-to-equity basis, a 3-to-1 ratio for our Company as a whole. We consider these leverage ratios to be prudent for our target asset classes. Our decision to use leverage currently or in the future to finance our assets will be based on our Manager's assessment of a variety of factors, including, among others, the anticipated credit quality, liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the ability to raise additional equity to reduce leverage and create liquidity for future investments, the availability of credit at favorable prices or at all, the credit quality of our assets and our outlook for borrowing costs relative to the interest income earned on our assets. Our decision to use leverage in the future to finance our assets will be at the discretion of our Manager and will not be subject to the approval of our stockholders, and we are not restricted by our governing documents or otherwise in the amount of leverage that we may use. To the extent that we use leverage in the future, we may mitigate interest rate risk through utilization of hedging instruments, primarily interest rate swap and cap agreements, to serve as a hedge against future interest rate increases on our borrowings.

### **Factors Impacting Our Operating Results**

#### *Overview*

Our results of operations are affected by a number of factors and depend primarily on, among other things, the ability of the borrowers of our assets to service our debt as it is due and payable, the ability of our tenants to pay rent and other amounts due under their leases, our ability to actively and effectively service any sub-performing and non-performing loans and other assets we may have from time to time in our portfolio, the market value of our assets and the supply of, and demand for, CRE senior mortgage loans, mezzanine loans, preferred equity, debt securities, net leased properties and our other assets, and the level of our net operating income. Our net interest income, which includes the amortization of purchase premiums and the accretion of purchase discounts, varies primarily as a result of changes in market interest rates, prepayment rates on our CRE loans, prepayment speeds and the ability of our borrowers to make scheduled interest payments. Interest rates and prepayment rates vary according to the type of investment, conditions in the financial markets, credit-worthiness of our borrowers, competition and other factors, none of which can be predicted with any certainty. Our operating results also may be impacted by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers whose mortgage loans are held directly by us or that are included in our CMBS. Our net property operating income depends on our ability to maintain the historical occupancy rates of our real estate equity investments, lease currently available space and continue to attract new tenants.

#### *Changes in fair value of our assets*

It is our business strategy to hold our target assets as long-term investments. As a result, we do not expect that changes in the market value of the assets will normally impact our operating results. However, at least on a quarterly basis, we assess both our ability and intent to continue to hold such assets as long-term investments. As part of this process, we monitor our target assets for "other-than-temporary" impairment. A change in our ability and/or intent to continue to hold any of our assets could result in our recognizing an impairment charge or realizing losses upon the sale of such securities.

#### *Changes in market interest rates*

With respect to our proposed business operations, increases in interest rates, in general, may over time cause:

- the value of fixed-rate investments to decrease;
- prepayments on certain assets in our portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts;
- coupons on our floating and adjustable-rate mortgage loans and CMBS to reset, although on a delayed basis, to higher interest rates;
- to the extent we use leverage to finance our assets, the interest expense associated with our borrowings to increase; and

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- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase.

Conversely, decreases in interest rates, in general, may over time cause:

- the value of the fixed-rate assets in our portfolio to increase;
- prepayments on certain assets in our portfolio to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts;
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease;
- coupons on our floating and adjustable-rate mortgage loans and CMBS to reset, although on a delayed basis, to lower interest rates;
- to the extent we use leverage to finance our assets, the interest expense associated with our borrowings to decrease; and
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

*Credit risk*

One objective of our strategy is to minimize credit losses. However, we are subject to varying degrees of credit risk in connection with our target assets. Our Manager seeks to mitigate this risk by seeking to acquire high quality assets, at appropriate prices given anticipated and unanticipated losses and by deploying a comprehensive review and asset selection process and by careful ongoing monitoring of acquired assets. Nevertheless, unanticipated credit losses could occur, which could adversely impact our operating results.

*Size of investment portfolio*

The size of our portfolio, as measured by the aggregate principal balance of our commercial mortgage loans, other commercial real estate-related debt investments and the other assets we own, is also a key revenue driver. Generally, as the size of our portfolio grows, the amount of interest income we earn increases. However, a larger portfolio may result in increased expenses to the extent that we incur additional interest expense to finance our assets.

*Market conditions*

We believe that market conditions impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change. In addition, changes in government programs could impact our ability to acquire our target assets. Except as set forth above, we are not aware of any material trends or uncertainties, other than national economic conditions affecting mortgage loans, mortgage-backed securities and real estate, generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition of real estate-related assets, other than those referred to in this Annual Report on Form 10-K.

**Results of Operations of the Company**

As of December 31, 2017, the Company did not have any operations or material assets. Therefore, the results of operations of the Company for the period from capitalization on September 15, 2017 to December 31, 2017 are not being presented here, as there was no activity for the period from capitalization through December 31, 2017, other than the issuance of shares of Class A common stock in exchange for \$1,000 in connection with the initial capitalization of the Company.

**Results of Operations of CLNS Investment Entities**

The following presents the results of operations of our accounting predecessor, CLNS Investment Entities, which we acquired in the Combination. The CLNS Investment Entities represent only a portion of our business following the Combination. Therefore, the following does not represent the results of operations the Company would have had for any period ending on or before December 31, 2017.

**Overview**

For the periods presented, we present the results of operations of the CLNS Investment Entities, our accounting predecessor. Colony NorthStar was formed through a tri-party merger (the “CLNS Merger”) among Colony Capital, NorthStar Asset Management Group Inc. (“NSAM”) and NorthStar Realty Finance Corp. (“NRF”), which closed on January 10, 2017 (the “CLNS Merger Closing Date”). Colony Capital was determined to be the accounting acquirer in the CLNS Merger. Accordingly, the combined financial information of the CLNS Investment Entities as of any date or for any periods on or prior to the CLNS Merger Closing Date, as presented and discussed herein, represent the CLNS Investment Entities from Colony Capital. On the CLNS Merger Closing Date, the CLNS Investment Entities from Colony Capital, were reflected by Colony NorthStar at their pre-CLNS Merger carrying values, while the CLNS Investment Entities from NRF were reflected by Colony NorthStar at their CLNS Merger fair values. The results of operations of the CLNS Investment Entities from NRF are included effective from January 11, 2017.

The following table summarizes the historical results of operations of our accounting predecessor, the CLNS Investment Entities.

(In thousands)	Year Ended December 31,			Change	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
<b>Revenues</b>					
Interest income	\$ 140,214	\$ 140,529	\$ 112,326	\$ (315)	\$ 28,203
Property operating income	23,750	1,138	99	22,612	1,039
Other income	791	536	287	255	249
<b>Total revenues</b>	<b>164,755</b>	<b>142,203</b>	<b>112,712</b>	<b>22,552</b>	<b>29,491</b>
<b>Expenses</b>					
Interest expense	26,114	26,031	18,949	83	7,082
Property operating expense	7,978	905	67	7,073	838
Transaction, investment and servicing costs	2,570	1,767	1,920	803	(153)
Depreciation and amortization	9,137	146	—	8,991	146
Provision for loan loss	518	3,386	721	(2,868)	2,665
Administrative expenses	12,669	15,437	15,315	(2,768)	122
<b>Total expenses</b>	<b>58,986</b>	<b>47,672</b>	<b>36,972</b>	<b>11,314</b>	<b>10,700</b>
<b>Other income (loss)</b>					
Other loss, net	(390)	(56)	—	(334)	(56)
Earnings from investments in unconsolidated ventures	24,709	16,067	6,115	8,642	9,952
<b>Income before income taxes</b>	<b>130,088</b>	<b>110,542</b>	<b>81,855</b>	<b>19,546</b>	<b>28,687</b>
Income tax expense	(2,208)	(1,521)	(247)	(687)	(1,274)
<b>Net income</b>	<b>127,880</b>	<b>109,021</b>	<b>81,608</b>	<b>18,859</b>	<b>27,413</b>
Net income attributable to noncontrolling interests	689	736	1,054	(47)	(318)
<b>Net income attributable to owners</b>	<b>\$ 127,191</b>	<b>\$ 108,285</b>	<b>\$ 80,554</b>	<b>\$ 18,906</b>	<b>\$ 27,731</b>

Comparison of Years Ended December 31, 2017 and 2016

**Interest Income**—Interest income decreased \$0.3 million in the year ended December 31, 2017 compared to 2016. Interest income from the loan portfolio existing prior to the January 2017 CLNS Merger decreased \$15.2 million due to loan sales and repayments, which more than offset (i) the \$14.6 million of incremental interest income from \$177.2 million of loans receivable acquired from NRF through the CLNS Merger, and (ii) additional interest income from draws on development loans in 2017.

**Property Operating Income, Property Operating Expense and Depreciation and Amortization**—These amounts increased significantly in the year ended December 31, 2017 compared to 2016, as a result of Colony NorthStar’s acquisition of 13 net lease properties from NRF through the CLNS Merger totaling \$205.4 million. Prior to the CLNS Merger, the CLNS Investment Entities did not hold any real estate except for two properties, comprising (i) two medical office buildings acquired through foreclosure in October 2015 and sold in March 2017, and (ii) a hotel acquired through foreclosure in January 2017.

**Other Income**—Other income was approximately \$0.3 million higher in the year ended December 31, 2017 compared to 2016 due to higher recovery of expenses from borrowers and other recoveries from resolution of our loan investments.

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*Interest Expense*—Interest expense was \$0.1 million higher in the year ended December 31, 2017 compared to 2016. In 2017, while there was \$6.4 million of additional interest expense related to \$155.3 million of debt assumed from NRF through the CLNS Merger, remaining interest expense financing loans receivable decreased \$6.3 million year-over-year. The decrease was driven by the (i) pay-off of warehouse facilities in 2017 with proceeds from sales of loan; and (ii) pay-down of securitization bonds through resolutions of underlying loans, partially offset by (iii) interest expense incurred on a secured financing transaction in 2017.

*Transaction, Investment and Servicing Costs*—There was a \$0.8 million increase in transaction, investment and servicing costs in the year ended December 31, 2017 compared to 2016, which was attributed largely to legal costs incurred in connection with the sales of loans in 2017.

*Provision for Loan Losses*—Provision for loan loss was lower at \$0.5 million for the year ended December 31, 2017 compared to \$3.4 million for the year ended December 31, 2016. Provision for loan loss in 2017 was attributed to a mortgage loan that went into maturity default in November 2017, while the provision in 2016 reflects predominantly a decrease in collateral value of a mortgage loan affected by the decline in the oil and gas industry, for which the loan was subsequently foreclosed in January 2017.

*Administrative Expenses*—Administrative expenses are predominantly corporate-level costs that are either incurred specifically on behalf of the CLNS Investment Entities or an allocation of costs estimated to be applicable to the CLNS Investment Entities, largely based on the relative assets under management of the CLNS Investment Entities to the total assets under management of Colony NorthStar. The allocated administrative cost was \$12.1 million for the year ended December 31, 2017, compared to \$15.1 million for 2016. The decrease reflects a combination of (i) a lower percentage of costs allocated to the CLNS Investment Entities as a result of the CLNS Merger which increased Colony NorthStar's total assets under management, and (ii) synergies from the CLNS Merger which resulted in overall cost savings to Colony NorthStar.

*Other Loss, Net*—The \$0.3 million increase in other loss in the year ended December 31, 2017 compared to 2016 can be attributed primarily to a loss on an interest rate cap, which economically hedges the interest rate risk on a floating rate secured financing that was not designated as an accounting hedge.

*Earnings from Investments in Unconsolidated Ventures*—Included in the results for the year ended December 31, 2017 was \$1.4 million of net earnings, including unrealized fair value adjustments, from two private real estate funds acquired through the CLNS Merger that are accounted for under the fair value option. The remaining \$23.3 million and \$16.1 million of earnings in the year ended December 31, 2017 and 2016, respectively, were from development loan arrangements with participating equity interest that are accounted for as equity method investments, with the \$7.2 million increase in 2017 primarily resulting from additional draws and sales of land under development by one of the equity method investees.

*Income Tax Expense*—Income tax expense was higher at \$2.2 million for the year ended December 31, 2017 compared to \$1.5 million for the year ended December 31, 2016. Income tax expense in 2017 related primarily to earnings from investments in private real estate funds, with approximately \$2.0 million resulting from a remeasurement of deferred tax asset balances at the lower federal corporate income tax rate of 21% under the new Tax Cuts and Jobs Act. In 2016, income tax expense pertained largely to excess inclusion income from investments in residual interests of securitization trusts.

### Comparison of Years Ended December 31, 2016 and 2015

*Interest Income*—Interest income was \$28.2 million higher in 2016 as it reflected a full year of interest income from new loans originated in 2015, primarily mortgage loans collateralized by transitional commercial properties that were subsequently securitized, and additional draws on development loans, partially offset by loan repayments.

*Property Operating Income, Property Operating Expense and Depreciation and Amortization*—These amounts pertain to a property, comprising two medical office buildings acquired by the CLNS Investment Entities through foreclosure in October 2015; and these amounts were significantly higher in 2016 compared to 2015 as 2016 reflected a full year of operations for the property. The property was subsequently sold in March 2017.

*Other Income*—Other income was \$0.2 million higher in 2016 primarily due to loan administration fees on a development loan that was recognized for a full year in 2016 compared to a partial year in 2015.

*Interest Expense (Loans Receivable)*—Interest expense was incurred by the CLNS Investment Entities from mortgage loan securitizations that are accounted for as financing transactions and on outstanding amounts drawn from warehouse facilities. The \$7.1 million increase in interest expense in 2016 relative to 2015 resulted from a new securitization transaction in September 2015.

*Transaction, Investment and Servicing Costs*—There was a \$0.2 million decrease in transaction, investment and servicing costs in 2016 relative to 2015. The higher costs in 2015 can be attributed primarily to legal costs incurred in the restructuring and partial sale of loan receivables, including an unconsummated sale transaction in 2015.

*Provision for Loan Losses*—Provision for loan loss of \$0.7 million was recorded in 2015, with the allowance subsequently charged off upon foreclosure of the delinquent mortgage loan. In 2016, provision for loan loss of \$3.4 million reflects a decrease in collateral value of a mortgage loan affected by the decline in the oil and gas industry. The loan was subsequently foreclosed in January 2017.

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*Other Loss, Net*—The \$56,000 loss in 2016 reflects a loss on sale of loans, primarily due to selling costs.

*Earnings from Investments in Unconsolidated Ventures*—These are earnings from development loan arrangements with participating equity interest that are accounted for as equity method investments. Earnings increased approximately \$10.0 million in 2016, as a result of additional draws throughout 2015 and 2016.

*Income Tax Expense*—Income tax expense increased approximately \$1.3 million in 2016 compared to 2015, predominantly as a result of excess inclusion income from investment in residual interests of securitization trusts.

## Liquidity and Capital Resources

### Overview

Our primary liquidity needs include commitments to repay borrowings, finance our assets and operations, meet future funding obligations, make distributions to our stockholders, repurchase our shares and fund other general business needs. We use significant cash to make additional investments, repay the principal of and interest on our borrowings and pay other financing costs, make distributions to our stockholders and fund our operations, which includes making payments to our Manager in accordance with the management agreement.

Our primary sources of liquidity include cash on hand, cash generated from our operating activities and cash generated from asset sales and investment maturities. However, subject to maintaining our qualification as a REIT and our Investment Company Act exclusion, we may use a number of sources to finance our assets, including bank credit facilities (including term loans and revolving facilities), securitizations, warehouse facilities and repurchase agreements, as described below. We also expect to invest in a number of our assets through co-investments with other investment vehicles managed by affiliates of our Manager and/or other third parties, which may allow us to pool capital to access larger transactions and diversify investment exposure. For more information about the conflicts of interest that may arise in connection with these co-investments, see “Risk Factors-Risks Related to Our Manager and Conflicts of Interests.”

The following table presents our pro forma total sources of liquidity as of December 31, 2017 (dollars in millions):

### Total Sources of Liquidity

Cash and cash equivalents	\$ 360.6
Secured revolving repurchase facilities availability	723.1
Bank credit facility availability	400.0
<b>Total sources of liquidity</b>	<b><u>\$ 1,483.7</u></b>

### Potential Sources of Liquidity

#### 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.

On February 1, 2018, Company OP (together with certain subsidiaries of Company OP from time to time party thereto as borrowers, collectively, the “Borrowers”) entered into a Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and the several lenders from time to time party thereto (the “Lenders”), pursuant to which the Lenders agreed to provide a revolving credit facility in the aggregate principal amount of up to \$400.0 million.

Advances under the Credit Agreement accrue interest at a per annum rate equal to, at the applicable Borrower’s election, either a LIBOR rate plus a margin of 2.25%, or a base rate determined according to a prime rate or federal funds rate plus a margin of 1.25%. An unused commitment fee at a rate of 0.25% or 0.35%, per annum, depending on the amount of facility utilization, applies to un-utilized borrowing capacity under the Credit Agreement. Amounts owing under the Credit Agreement may be prepaid at any time without premium or penalty, subject to customary breakage costs in the case of borrowings with respect to which a LIBOR rate election is in effect.

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The maximum amount available for borrowing at any time under the Credit Agreement is limited to a borrowing base valuation of certain investment assets, with the valuation of such investment assets generally determined according to a percentage of adjusted net book value. As of the date hereof, the borrowing base valuation is sufficient to permit borrowings of up to the entire \$400.0 million commitment. The ability to borrow new amounts under the Credit Agreement terminates on February 1, 2022, at which time Company OP may, at its election and by written notice to the administrative agent, extend the termination date for two (2) additional terms of six (6) months each, subject to the terms and conditions in the Credit Agreement, resulting in a latest termination date of February 1, 2023.

The obligations of the Borrowers under the Credit Agreement are guaranteed pursuant to a Guarantee and Collateral Agreement with certain subsidiaries of Company OP in favor of JPMorgan Chase Bank, N.A. (the "Guarantee and Collateral Agreement") by substantially all material wholly owned subsidiaries of Company OP and, subject to certain exceptions, secured by a pledge of substantially all equity interests owned by the Borrowers and the guarantors, as well as by a security interest in deposit accounts of the Borrowers and the Guarantors (as such terms are defined in the Guarantee and Collateral Agreement) in which the proceeds of investment asset distributions are maintained.

The Credit Agreement contains various affirmative and negative covenants, including, among other things, the obligation of the Company to maintain REIT status and be listed on the NYSE, and limitations on debt, liens and restricted payments. In addition, the Credit Agreement includes the following financial covenants applicable to Company OP and its consolidated subsidiaries: (a) minimum consolidated tangible net worth of Company OP greater than or equal to the sum of (i) \$2.105 billion and (ii) 50% of the proceeds received by Company OP from any offering of its common equity and of the proceeds from any offering by the Company of its common equity to the extent such proceeds are contributed to Company OP, excluding any such proceeds that are contributed to Company OP within ninety (90) days of receipt and applied to acquire capital stock of Company OP; (b) Company OP's earnings before interest, income tax, depreciation, and amortization ("EBITDA") plus lease expenses to fixed charges for any period of four (4) consecutive fiscal quarters not less than 1.50 to 1.00; (c) Company OP's minimum interest coverage ratio not less than 3.00 to 1.00; and (d) Company OP's ratio of consolidated total debt to consolidated total assets must not exceed 0.70 to 1.00. The Credit Agreement also includes customary events of default, including, among other things, failure to make payments when due, breach of covenants or representations, cross default to material indebtedness or material judgment defaults, bankruptcy matters involving any Borrower or any Guarantor and certain change of control events. The occurrence of an event of default will limit the ability of Company OP and its subsidiaries to make distributions and may result in the termination of the credit facility, acceleration of repayment obligations and the exercise of remedies by the Lenders with respect to the collateral.

### *Repurchase agreements*

We use repurchase agreements to finance our assets. Repurchase agreements effectively allow us to borrow against loans and securities that we own. Under these agreements, we will 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. During the term of the repurchase agreement, we receive the principal and interest on the related loans and securities and pay interest to the counterparty. We intend to maintain formal relationships with multiple counterparties to obtain repurchase agreement financing on favorable terms.

### *Warehouse facilities*

We may use warehouse facilities as a source of short-term financing for our assets. Warehouse facilities are typically lines of credit from commercial and investment banks that can be drawn upon to fund the acquisition of assets. Warehouse facilities are typically collateralized loans made to investors who invest in loans and securities that in turn pledge the resulting loans and securities to the warehouse lender. Third party custodians, usually large banks, typically hold the loans and securities funded with the warehouse facility borrowings, including the loans, securities, notes, mortgages and other important loan documentation, for the benefit of the lender who is deemed to own the loans and securities and, if there is a default under the warehouse line, for the benefit of the warehouse lender.

The following table presents a summary of our facilities as of December 31, 2017.

(in thousands)	Maximum Facility Size	Current Borrowings	Weighted Average Final Maturity (Years)
<b>Secured Revolving Repurchase Facilities</b>			
Bank 1	\$ 500,000	\$ 289,489	2.30
Bank 2	400,000	113,690	0.50
Bank 3	300,000	72,900	2.47
<b>Total Secured Revolving Repurchase Facilities</b>	<b>1,200,000</b>	<b>476,079</b>	<b>1.90</b>
<b>CMBS Credit Facilities</b>			
Bank 1	58,445	58,445	0.25
Bank 2	39,705	39,705	0.25
Bank 3	2,667	2,667	0.25
Bank 4	—	—	—
Bank 5	—	—	—
<b>Total CMBS Credit Facilities</b>	<b>100,817</b>	<b>100,817</b>	<b>0.25</b>
Bank Credit Facility	400,000	—	5.00
<b>Total Facilities</b>	<b>\$ 1,700,817</b>	<b>\$ 576,896</b>	

*Securizations*

We may seek to utilize non-recourse long-term securitizations of our investments in mortgage loans, especially loan originations, to the extent consistent with the maintenance of our REIT qualification and exclusion from the Investment Company Act in order to generate cash for funding new investments. This would involve conveying a pool of assets to a special purpose vehicle (or the issuing entity), which would issue one or more classes of non-recourse notes pursuant to the terms of an indenture. The notes would be secured by the pool of assets. In exchange for the transfer of assets to the issuing entity, we would receive the cash proceeds on the sale of non-recourse notes and a 100% interest in the equity of the issuing entity. The securitization of our portfolio investments might magnify our exposure to losses on those portfolio investments because any equity interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses.

*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 secured and unsecured forms of borrowing and selective wind-down and dispositions of assets. We may also seek to raise equity capital or issue debt securities in order to fund our future investments.

**Contractual Obligations, Commitments and Contingencies of the Company**

The following table sets forth the known contractual obligations of the Company on an undiscounted and pro forma basis as if the Combination and related transactions had occurred as of December 31, 2017. This table excludes obligations of the Company that are not fixed and determinable, including the Management Agreement.

(In thousands)	Payments Due by Period				
	Total	2018-2019 Less than a Year	2019-2020 1-3 Years	2021-2022 3-5 Years	2023 and after More than 5 Years
Secured debt <sup>(1)</sup>	\$ 1,593,997	\$ 242,820	\$ 457,652	\$ 239,173	\$ 654,352
Securitization bonds payable <sup>(2)</sup>	189,619	—	—	—	189,619
Ground lease obligations <sup>(3)</sup>	12,797	2,000	4,021	3,640	3,136
	1,796,413	\$244,820	\$461,673	\$242,813	\$847,107
Lending commitments <sup>(4)</sup>	84,241				
<b>Total</b>	<b>\$ 1,880,654</b>				

- (1) Amounts include minimum principal or principal curtailment based upon cash flows from collateral loans after payment of certain loan servicing fees and monthly interest, as well as fixed or floating rate interest obligations through the initial maturity date of the respective secured and unsecured debt. Interest on floating rate debt was determined based on the applicable index at December 31, 2017.
- (2) The timing of future principal payments was estimated based on expected future cash flows of underlying collateral loans. Repayments are estimated to be earlier than contractual maturity only if proceeds from underlying loans are repaid by the borrowers.
- (3) The Company assumed noncancellable operating ground leases as lessee or sublessee in connection with net lease properties acquired through the CLNS Merger. The amounts represent minimum future base rent commitments through initial expiration dates of the respective leases, excluding any contingent rent payments. Rents paid under ground leases are recoverable from tenants.
- (4) Future lending commitments may be subject to certain conditions that borrowers must meet to qualify for such fundings. Commitment amount assumes future fundings meet the terms to qualify for such fundings.



### Guarantees and Off-Balance Sheet Arrangements of CLNS Investment Entities

The CLNS Investment Entities had no off-balance sheet arrangements at December 31, 2017.

### Our Critical Accounting Policies and Estimates

Preparation of financial statements in accordance with U.S. generally accepted accounting principles requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Certain accounting policies are considered to be critical accounting policies. Critical accounting policies are those that are most important to the portrayal of our financial condition and results of operations and require subjective and complex judgments, and for which the impact of changes in estimates and assumptions could have a material effect on our financial statements.

Highlighted below are certain sections of accounting policies that are expected to be critical and that require significant judgment based on the nature of our business and operations.

- Principles of consolidation—variable interest entity (“VIE”) assessment
- Fair value measurement
- Business combinations—evaluation of whether definition of a business is met; valuation of assets acquired, liabilities assumed and noncontrolling interests; purchase price allocation
- Real estate assets—valuation of real estate and related intangibles at acquisition; classification as held for sale, impairment assessment; recognition of gain on sale of real estate
- Loans receivable—nonaccrual policy; assessment of loan impairment and allowance for loan losses; accounting for Purchased Credit-impaired (“PCI”) loans, including estimate of expected cash flows; accounting for acquisition, development and construction (“ADC”) loans
- Investments in unconsolidated ventures—impairment assessment
- Securities—Other-than-temporary impairment (“OTTI”) assessment
- Transfers of financial assets—qualification for sale accounting

### Principles of consolidation

We consolidate entities in which we have a controlling financial interest by first considering if an entity meets the definition of a VIE for which we are deemed to be the primary beneficiary, or if we have the power to control an entity through a majority of voting interest or through other arrangements.

*Variable Interest Entities.* A VIE is an entity that lacks sufficient equity to finance its activities without additional subordinated financial support from other parties, or whose equity holders lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary, which is defined as the party that has a controlling financial interest in the VIE through (a) the power to direct the activities of the VIE that most significantly affect the VIE’s economic performance, and (b) the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. We also consider interests held by our related parties, including de facto agents. We assess whether we are members of a related party group that collectively meets the power and

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benefits criteria and, if so, whether we are most closely associated with the VIE. In performing this analysis, we consider both qualitative and quantitative factors, including, but not limited to: the amount and characteristics of their investment relative to the related party; our ability and the related party's ability to control or significantly influence key decisions of the VIE including consideration of involvement by de facto agents; the obligation or likelihood for us or the related party to fund operating losses of the VIE; and the similarity and significance of the VIE's business to our activities and to those of the related party. The determination of whether an entity is a VIE, and whether we are the primary beneficiary, may involve significant judgment, including the determination of which activities most significantly affect the entities' performance, and estimates about the current and future fair values and performance of assets held by the VIE.

**Voting Interest Entities.** Unlike VIEs, voting interest entities have sufficient equity to finance their activities and equity investors exhibit the characteristics of a controlling financial interest through their voting rights. The CLNS Investment Entities consolidate such entities when they have the power to control these entities through ownership of a majority of the entities' voting interests or through other arrangements.

At each reporting period, we reassess whether changes in facts and circumstances cause a change in the status of an entity as a VIE or voting interest entity, and/or a change in our consolidation assessment. Changes in consolidation status are applied prospectively. An entity may be consolidated as a result of this reassessment, in which case, the assets, liabilities and noncontrolling interest in the entity are recorded at fair value upon initial consolidation. Any existing equity interest we hold in the entity prior to us obtaining control will be remeasured at fair value, which may result in a gain or loss recognized upon initial consolidation. However, if the consolidation represents an asset acquisition of a voting interest entity, our existing interest in the acquired assets, if any, is not remeasured to fair value but continues to be carried at historical cost. We may also deconsolidate a subsidiary as a result of this reassessment, which may result in a gain or loss recognized upon deconsolidation depending on the carrying values of deconsolidated assets and liabilities compared to the fair value of any interests retained.

### **Fair value measurement**

Fair value is based on an exit price, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Where appropriate, adjustments to estimated fair values are made to appropriately reflect counterparty credit risk as well as our own credit-worthiness.

The estimated fair value of financial assets and financial liabilities are categorized into a three-tier hierarchy, prioritized based on the level of transparency in inputs used in the valuation techniques, as follows:

**Level 1**—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2**—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in non-active markets, or valuation techniques utilizing inputs that are derived principally from or corroborated by observable data directly or indirectly for substantially the full term of the financial instrument.

**Level 3**—At least one assumption or input is unobservable and it is significant to the fair value measurement, requiring significant management judgment or estimate.

Where the inputs used to measure the fair value of a financial instrument fall into different levels of the fair value hierarchy, the financial instrument is categorized within the hierarchy based on the lowest level of input that is significant to its fair value measurement.

### **Business combinations**

We evaluate each purchase transaction to determine whether the acquired assets meet the definition of a business. If substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then the set of transferred assets and activities is not a business. If not, for an acquisition to be considered a business, it would have to include an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., there is a continuation of revenue before and after the transaction). A substantive process is not ancillary or minor, cannot be replaced without significant cost, effort or delay or is otherwise considered unique or scarce. To qualify as a business without outputs, the acquired assets would require an organized workforce with the necessary skills, knowledge and experience to perform a substantive process.

Net cash paid to acquire a business or assets is classified as investing activities on the accompanying statements of cash flows.

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Business combinations are accounted for under the acquisition method. Transaction costs related to acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred. The identifiable assets acquired, liabilities assumed and noncontrolling interests in acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of identifiable assets acquired, liabilities assumed and noncontrolling interests in an acquired entity, net of fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require significant estimates and assumptions.

For acquisitions that are not deemed to be businesses, the assets acquired are recognized based on their acquisition cost, and no gain or loss is recognized unless the fair value of non-cash assets given as consideration differs from the carrying amount of the assets acquired. The cost of assets acquired in a group is allocated to individual assets within the group based on their relative fair values and does not give rise to goodwill. Transaction costs related to acquisition of assets are included in the cost basis of the assets acquired.

The acquisitions of NorthStar I and NorthStar II, which occurred after December 31, 2017, were each accounted for under the acquisition method for a business combination.

### **Loans receivable**

We originate and purchase loans receivable. The accounting framework for loans receivable depends on our strategy whether to hold or sell the loan, whether the loan was credit-impaired at the time of acquisition, or whether the lending arrangement is an ADC loan.

#### Loans Held for Investment (other than Purchased Credit-Impaired Loans)

Loans that we have the intent and ability to hold for the foreseeable future are classified as held-for-investment. Originated loans are recorded at amortized cost, or outstanding unpaid principal balance less net deferred loan fees. Net deferred loan fees include unamortized origination and other fees charged to the borrower less direct incremental loan origination costs incurred by us. Purchased loans are recorded at amortized cost, or unpaid principal balance plus purchase premium or less unamortized discount. Costs to purchase loans are expensed as incurred.

**Interest Income.** Interest income is recognized based upon contractual interest rate and unpaid principal balance of the loans. Net deferred loan fees on originated loans are deferred and amortized as adjustments to interest income over the expected life of the loans using the effective yield method. Premium or discount on purchased loans are amortized as adjustments to interest income over the expected life of the loans using the effective yield method. For revolving loans, net deferred loan fees, premium or discount are amortized to interest income using the straight-line method. When a loan is prepaid, prepayment fees and any excess of proceeds over the carrying amount of the loan are recognized as additional interest income.

**Nonaccrual.** Accrual of interest income is suspended on nonaccrual loans. Loans that are past due 90 days or more as to principal or interest, or where reasonable doubt exists as to timely collection, are generally considered nonperforming and placed on nonaccrual. Interest receivable is reversed against interest income when loans are placed on nonaccrual status. Interest collection on nonaccruing loans for which ultimate collectability of principal is uncertain is recognized using a cost recovery method by applying interest collected as a reduction to loan principal; otherwise, interest collected is recognized on a cash basis by crediting to income when received. Loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is reasonably assured.

**Impairment and allowance for loan losses.** On a periodic basis, we analyze the extent and effect of any credit migration from underwriting and the initial investment review associated with the performance of a loan and/or value of its underlying collateral, financial and operating capability of the borrower or sponsor, as well as amount and status of any senior loan, where applicable. Specifically, operating results of collateral properties and any cash reserves are analyzed and used to assess whether cash from operations are sufficient to cover debt service requirements currently and into the future, ability of the borrower to refinance the loan, liquidation value of collateral properties, financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the collateral properties. Such analysis is performed at least quarterly, or more often as needed when impairment indicators are present. We do not utilize a statistical credit rating system to monitor and assess the credit risk and investment quality of our acquired or originated loans. Given the diversity of our portfolio, we believe there is no consistent method of assigning a numerical rating to a particular loan that captures all of the various credit metrics and their relative importance. Therefore, we evaluate impairment and allowance for loan losses on an individual loan basis.

Loans are considered to be impaired when it is probable that we will not be able to collect all amounts due in accordance with contractual terms of the loans, including consideration of underlying collateral value. Allowance for loan losses represents the estimated probable credit losses inherent in loans held for investment at balance sheet date. Changes in allowance for loan losses are recorded in the provision for loan losses on the statement of operations. Allowance for loan losses generally excludes interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status. Allowance for loan losses is generally measured as the difference between the carrying value of the loan and either the present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan or an observable market price for the loan. Subsequent changes in

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impairment are recorded as adjustments to the provision for loan losses. Loans are charged off against allowance for loan losses when all or a portion of the principal amount is determined to be uncollectible. A loan is considered to be collateral-dependent when repayment of the loan is expected to be provided solely by the underlying collateral. Impaired collateral-dependent loans are written down to the fair value of the collateral less disposal cost, first through a charge-off against allowance for loan losses, if any, then recorded as impairment loss.

*Troubled debt restructuring ("TDR").* A loan with contractual terms modified in a manner that grants concession to the borrower who is experiencing financial difficulty is classified as a TDR. Concessions could include term extensions, payment deferrals, interest rate reductions, principal forgiveness, forbearance, or other actions designed to maximize our collection on the loan. As a TDR is generally considered to be an impaired loan, it is measured for impairment based on our allowance for loan losses methodology.

### Loans held for sale

Loans that we intend to sell or liquidate in the foreseeable future are classified as held-for-sale. Loans held for sale are carried at the lower of amortized cost or fair value less disposal cost, with valuation changes recognized as impairment loss. Loans held for sale are not subject to allowance for loan losses. Net deferred loan origination fees and loan purchase premiums or discounts are deferred and capitalized as part of the carrying value of the held-for-sale loan until the loan is sold and are therefore included in the periodic valuation adjustments based on lower of cost or fair value less disposal cost.

### Purchased Credit-Impaired ("PCI") Loans

PCI loans are acquired loans with evidence of credit quality deterioration for which it is probable at acquisition that we will collect less than the contractually required payments. PCI loans are recorded at the initial investment in the loans and accreted to the estimated cash flows expected to be collected as measured at acquisition date. The excess of cash flows expected to be collected, measured as of acquisition date, over the estimated fair value represents the accretable yield and is recognized in interest income over the remaining life of the loan using the effective interest method. The difference between contractually required payments as of the acquisition date and the cash flows expected to be collected ("nonaccretable difference") is not recognized as an adjustment of yield, loss accrual or valuation allowance.

We evaluate estimated future cash flows expected to be collected on a quarterly basis, starting with the first full quarter after acquisition, or earlier if conditions indicating impairment are present. If the cash flows expected to be collected cannot be reasonably estimated, either at acquisition or in subsequent evaluation, we may consider placing such PCI loans on nonaccrual, with interest income recognized using the cost recovery method or on a cash basis. Subsequent decreases in cash flows expected to be collected are evaluated to determine whether a provision for loan loss should be established. If decreases in expected cash flows result in a decrease in the estimated fair value of the loan below its amortized cost, we record a provision for loan losses calculated as the difference between the loan's amortized cost and the revised cash flows, discounted at the loan's effective yield. Subsequent increases in cash flows expected to be collected are first applied to reverse any previously recorded allowance for loan losses, with any remaining increases recognized prospectively through an adjustment to yield over its remaining life.

Factors that most significantly affect estimates of cash flows expected to be collected, and accordingly the accretable yield, include: (i) estimates of the remaining life of acquired loans which may change the amount of future interest income; (ii) changes to prepayment assumptions; (iii) changes to collateral value assumptions for loans expected to foreclose; and (iv) changes in interest rates on variable rate loans.

PCI loans may be aggregated into pools based upon common risk characteristics, such as loan performance, collateral type and/or geographic location of the collateral. A pool is accounted for as a single asset with a single composite yield and an aggregate expectation of estimated future cash flows. A PCI loan modified within a pool remains in the pool, with the effect of the modification incorporated into the expected future cash flows. A loan resolution within a loan pool, which may involve the sale of the loan or foreclosure on the underlying collateral, results in the removal of an allocated carrying amount, including an allocable portion of any existing allowance.

### Acquisition, Development and Construction ("ADC") Loan Arrangements

We provide loans to third party developers for the acquisition, development and construction of real estate. Under an ADC arrangement, we participate in the expected residual profits of the project through the sale, refinancing or other use of the property. We evaluate the characteristics of each ADC arrangement, including its risks and rewards, to determine whether they are more similar to those associated with a loan or an investment in real estate. ADC arrangements with characteristics implying loan classification are presented as loans receivable and result in the recognition of interest income. ADC arrangements with characteristics implying real estate joint ventures are presented as investments in unconsolidated joint ventures and are accounted for using the equity method. The classification of each ADC arrangement as either loan receivable or real estate joint venture involves significant judgment and relies

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on various factors, including market conditions, amount and timing of expected residual profits, credit enhancements in the form of guaranties, estimated fair value of the collateral, and significance of borrower equity in the project, among others. The classification of ADC arrangements is performed at inception, and periodically reassessed when significant changes occur in the circumstances or conditions described above.

### **Real estate assets**

**Real estate acquisitions.** Real estate acquisitions are recorded at the fair values of the acquired components at the time of acquisition, allocated among land, building, improvements, equipment, lease-related tangible and identifiable intangible assets and liabilities, such as tenant improvements, deferred leasing costs, in-place lease values, above- and below-market lease values. The estimated fair value of acquired land is derived from recent comparable sales of land and listings within the same local region based on available market data. The estimated fair value of acquired buildings and building improvements is derived from comparable sales, discounted cash flow analysis using market-based assumptions, or replacement cost, as appropriate. The fair value of site and tenant improvements is estimated based upon current market replacement costs and other relevant market rate information.

### Real estate held for investment

**Impairment.** We evaluate our real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We evaluate cash flows and determine impairments on an individual property basis. In making this determination, we review, among other things, current and estimated future cash flows associated with each property, market information for each sub-market, including, where applicable, competition levels, foreclosure levels, leasing trends, occupancy trends, lease or room rates, and the market prices of similar properties recently sold or currently being offered for sale, and other quantitative and qualitative factors. If an impairment indicator exists, we evaluate whether the expected future undiscounted cash flows is less than the carrying amount of the asset, and if we determine that the carrying value is not recoverable, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset.

### Real estate held for sale

**Classification as held for sale.** Real estate is classified as held for sale in the period when (i) management approves a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, subject only to usual and customary terms, (iii) a program is initiated to locate a buyer and actively market the asset for sale at a reasonable price, and (iv) completion of the sale is probable within one year. Real estate held for sale is stated at the lower of its carrying amount or estimated fair value less disposal cost, with any write-down to fair value less disposal cost recorded as an impairment loss. For any increase in fair value less disposal cost subsequent to classification as held for sale, the impairment loss may be reversed, but only up to the amount of cumulative loss previously recognized. Depreciation is not recorded on assets classified as held for sale.

If circumstances arise that were previously considered unlikely and, as a result, we decide not to sell the real estate asset previously classified as held for sale, the real estate asset is reclassified as held for investment. Upon reclassification, the real estate asset is measured at the lower of (i) its carrying amount prior to classification as held for sale, adjusted for depreciation expense that would have been recognized had the real estate been continuously classified as held for investment, and (ii) its estimated fair value at the time we decide not to sell.

**Real estate sales.** We evaluate if real estate sale transactions qualify for recognition under the full accrual method, considering whether, among other criteria, the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay, any receivable due to us is not subject to future subordination, we have transferred to the buyer the usual risks and rewards of ownership and we do not have a substantial continuing involvement with the sold real estate. At the time the sale is consummated, a gain or loss is recognized as the difference between the sale price less disposal cost and the carrying value of the real estate.

### Foreclosed properties

We receive foreclosed properties in full or partial settlement of loans receivable by taking legal title or physical possession of the properties. Foreclosed properties are recognized, generally, at the time the real estate is received at foreclosure sale or upon execution of a deed in lieu of foreclosure. Foreclosed properties are initially measured at fair value. Deficiencies compared to the carrying value of the loan, after reversing any previously recognized loss provision on the loan, are recorded as impairment loss. We periodically evaluate foreclosed properties for subsequent decrease in fair value, which is recorded as additional impairment loss. Fair value of foreclosed properties is generally based on third party appraisals, broker price opinions, comparable sales or a combination thereof.

### **Investments in unconsolidated ventures**

A noncontrolling, unconsolidated ownership interest in an entity may be accounted for using the equity method, cost method or under the fair value option, if elected.

We account for investments under the equity method of accounting if we have the ability to exercise significant influence over the operating and financial policies of an entity, but do not have a controlling financial interest. The equity method investment is initially recorded at cost and adjusted each period for capital contributions, distributions and our share of the entity's net income or loss as well as other comprehensive income or loss. Our share of net income or loss may differ from the stated ownership percentage interest in an entity if the governing documents prescribe a substantive non-pro rata earnings allocation formula or a preferred return to certain investors. For certain equity method investments, we record our proportionate share of income on a one to three month lag. Distributions of operating profits from equity method investments are reported as operating activities, while distributions in excess of operating profits or those related to capital transactions, such as a financing transactions or sales, are reported as investing activities in the statement of cash flows.

Investments that do not qualify for equity method accounting are accounted for under the cost method. For investments in which the fair value option is elected, we record the change in fair value for our share of the projected future cash flows of such investments in equity in earnings (losses) of unconsolidated ventures. Any change in fair value attributed to market related assumptions is recorded in other gain (loss), net, on the combined statement of operations.

*Impairment.* If indicators of impairment exist, we perform an evaluation of our equity method investments to assess whether the fair value of our investment is less than our carrying value. To the extent the decrease in value is considered to be other-than-temporary and an impairment has occurred, the investment is written down to its estimated fair value, recorded as an impairment loss.

### **Securities**

Debt securities are recorded as of the trade date. Securities designated as available-for-sale ("AFS") are carried at fair value with unrealized gains or losses included as a component of other comprehensive income. Upon disposition of AFS securities, the cumulative gains or losses in other comprehensive income (loss) that are realized are recognized in other gain (loss), net, on the statement of operations based on specific identification.

*Interest Income.* Interest income from debt securities, including stated coupon interest payments and amortization of purchase premiums or discounts, is recognized using the effective interest method over the expected lives of the debt securities.

For beneficial interests in debt securities that are not of high credit quality (generally credit rating below AA) or that can be contractually settled such that we would not recover substantially all of our recorded investment, interest income is recognized as the accretable yield over the life of the securities using the effective yield method. The accretable yield is the excess of current expected cash flows to be collected over the net investment in the security, including the yield accreted to date. We evaluate estimated future cash flows expected to be collected on a quarterly basis, starting with the first full quarter after acquisition, or earlier if conditions indicating impairment are present. If the cash flows expected to be collected cannot be reasonably estimated, either at acquisition or in subsequent evaluation, we may consider placing the securities on nonaccrual, with interest income recognized using the cost recovery method.

*Impairment.* We perform an assessment, at least quarterly, to determine whether a decline in fair value below amortized cost of AFS debt securities is other than temporary. OTTI exists when either (i) the holder has the intent to sell the impaired security, (ii) it is more likely than not the holder will be required to sell the security, or (iii) the holder does not expect to recover the entire amortized cost of the security. For beneficial interests in debt securities that are not of high credit quality or that can be contractually settled such that we would not recover substantially all of our recorded investment, OTTI also exists when there has been an adverse change in cash flows expected to be collected from the last measurement date.

If we intend to sell the impaired security or more likely than not will be required to sell the impaired security before recovery of our amortized cost, the entire impairment amount is recognized in earnings. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost, we further evaluate the security for impairment due to credit losses. In determining whether a credit loss exists, an assessment is made of the cash flows expected to be collected from the security. The credit component of loss is recognized in earnings, while the remaining non-credit component is recognized in other comprehensive income. The amortized cost basis of the security is written down by the amount of impairment recognized in earnings and will not be adjusted for subsequent recoveries in fair value. The difference between the new amortized cost basis and the cash flows expected to be collected will be accreted as interest income.

In assessing OTTI and estimating future expected cash flows, factors considered include, but are not limited to, credit rating of the security, financial condition of the issuer, defaults for similar securities, performance and value of assets underlying an asset-backed security.

### **Transfers of Financial Assets**

Sale accounting for transfers of financial assets is limited to the transfer of an entire financial asset, a group of financial assets in their entirety, or a component of a financial asset that meets the definition of a participating interest by having characteristics that are similar to the original financial asset.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If we have any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following conditions: (1) the transferred asset has been legally isolated; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (3) we do not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by us to repurchase or redeem the asset before its maturity, (b) our unilateral ability to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring us to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If the criteria for sale accounting are met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions.

### **Recent Accounting Updates**

Recent accounting updates are included in Note 2 to the combined financial statements of the CLNS Investment Entities included elsewhere in this Annual Report Form 10-K.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of December 31, 2017, the Company did not have any assets other than \$1,000 in cash, which had been provided to capitalize the Company. Given the proportional size of the assets of the Company before and after the Combination, we believe that there were no material market risks to the assets owned by the Company as of December 31, 2017. The information contained below reflects market risk of our business on a pro forma basis, as if the Combination occurred on December 31, 2017.

Our primary market risks are interest rate risk, prepayment risk, extension risk, credit risk, real estate market risk and capital market risk, either directly through the assets held or indirectly through investments in unconsolidated ventures.

#### **Interest rate risk**

Interest rate risk relates to the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Credit curve spread risk is highly sensitive to the dynamics of the markets for loans and securities we hold. Excessive supply of these assets combined with reduced demand will cause the market to require a higher yield. This demand for higher yield will cause the market to use a higher spread over the U.S. Treasury securities yield curve, or other benchmark interest rates, to value these assets.

As U.S. Treasury securities are priced to a higher yield and/or the spread to U.S. Treasuries used to price the assets increases, the price at which we could sell some of our fixed rate financial assets may decline. Conversely, as U.S. Treasury securities are priced to a lower yield and/or the spread to U.S. Treasuries used to price the assets decreases, the value of our fixed rate financial assets may increase. Fluctuations in LIBOR may affect the amount of interest income we earn on our floating rate borrowings and interest expense we incur on borrowings indexed to LIBOR, including under credit facilities and investment-level financing.

We utilize a variety of financial instruments on some of our investments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of fluctuations in interest rates on their operations. The use of these types of derivatives to hedge interest-earning assets and/or interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for distribution and that such losses may exceed the amount invested in such instruments. A hedge may not perform its intended purpose of offsetting losses of rising interest rates. Moreover, with respect to certain of the instruments used as hedges, there is exposure to the risk that the counterparties may cease making markets and quoting prices in such instruments, which may inhibit the ability to enter into an offsetting transaction with respect to an open position. Our profitability may be adversely affected during any period as a result of changing interest rates.

**Prepayment risk**

Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, resulting in a less than expected return on an investment. As prepayments of principal are received, any premiums paid on such assets are amortized against interest income, while any discounts on such assets are accreted into interest income. Therefore, an increase in prepayment rates has the following impact: (i) accelerates amortization of purchase premiums, which reduces interest income earned on the assets; and conversely, (ii) accelerates accretion of purchase discounts, which increases interest income earned on the assets.

**Extension risk**

The weighted average life of assets is projected based on assumptions regarding the rate at which borrowers will prepay or extend their mortgages. If prepayment rates decrease or extension options are exercised by borrowers at a rate that deviates significantly from projections, the life of fixed rate assets could extend beyond the term of the secured debt agreements. This in turn could negatively impact liquidity to the extent that assets may have to be sold and losses may be incurred as a result.

**Credit risk**

Investment in loans receivable is subject to a high degree of credit risk through exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, borrower financial condition, property performance, property management, supply/demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the U.S. economy and other factors beyond our control. All loans are subject to a certain probability of default. We manage credit risk through the underwriting process, acquiring investments at the appropriate discount to face value, if any, and establishing loss assumptions. Performance of the loans is carefully monitored, including those held through joint venture investments, as well as external factors that may affect their value.

We are also subject to the credit risk of the tenants in our properties. We seek to undertake a rigorous credit evaluation of the tenants prior to acquiring properties. This analysis includes an extensive due diligence investigation of the tenants' businesses, as well as an assessment of the strategic importance of the underlying real estate to the respective tenants' core business operations. Where appropriate, we may seek to augment the tenants' commitment to the properties by structuring various credit enhancement mechanisms into the underlying leases. These mechanisms could include security deposit requirements or guarantees from entities that are deemed credit worthy.

**Real estate market risk**

We are exposed to the risks generally associated with the commercial real estate market. The market values of commercial real estate 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, as well as changes or weakness in specific industry segments, and other macroeconomic factors beyond our control, which could affect occupancy rates, capitalization rates and absorption rates. This in turn could impact the performance of tenants and borrowers. We seek to manage these risks through their underwriting due diligence and asset management processes.

**Capital markets risk**

We are exposed to risks related to the debt capital markets, specifically the ability to finance our business through borrowings under secured revolving repurchase facilities, secured and unsecured warehouse facilities or other debt instruments. We seek to mitigate these risks by monitoring the debt capital markets to inform their decisions on the amount, timing and terms of their borrowings.



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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements of the Company and the CLNS Investment Entities and the notes related to the foregoing consolidated financial statements, together with the independent registered public accounting firm's report thereon are included in this Item 8. Selected quarterly financial data of the CLNS Investment Entities required by this item appear in Item 6 of this Annual Report.

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Colony NorthStar Credit Real Estate, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Colony NorthStar Credit Real Estate, Inc. (the Company) as of December 31, 2017 and the related notes (collectively referred to as the “consolidated financial statement”). In our opinion, the consolidated financial statement presents fairly, in all material respects, the financial position of the Company at December 31, 2017 in conformity with U.S. generally accepted accounting principles.

**Basis for Opinion**

This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2017.

Los Angeles, California  
March 23, 2018

**Colony NorthStar Credit Real Estate, Inc.**  
**Consolidated Balance Sheet**

	December 31, 2017
<b>Assets</b>	
Cash	\$ 1,000
<b>Total Assets</b>	<u>\$ 1,000</u>
Commitments and contingencies (Note 4)	
<b>Stockholder's equity</b>	
Preferred stock, \$0.01 par value, 200 shares authorized, none outstanding	\$ —
Common stock, \$0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding	1
Additional paid-in capital	999
<b>Total stockholder's equity</b>	<u>\$ 1,000</u>

*See accompanying notes to the consolidated balance sheet.*

**Colony NorthStar Credit Real Estate, Inc.**  
**Notes to Consolidated Balance Sheet**

**1. Organization**

Colony NorthStar Credit Real Estate, Inc. (the “Company”) was organized in the state of Maryland on August 23, 2017. Under the Company’s charter as of December 31, 2017, the Company was authorized to issue up to 1,000 shares of common stock, \$0.01 par value per share, and 200 shares of preferred stock, \$0.01 par value per share. As of December 31, 2017, the Company had not commenced operations.

As of December 31, 2017, the sole stockholder of the Company was Colony NorthStar, Inc. (“Colony NorthStar”), a publicly traded real estate investment trust (“REIT”) listed on the New York Stock Exchange (“NYSE”) under the ticker symbol “CLNS.” On September 15, 2017, Colony NorthStar made an initial capital contribution of \$1,000 to the Company.

The Company intends to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The Company intends to conduct all of its activities and hold substantially all of its assets and liabilities through its operating subsidiary, Credit RE Operating Company, LLC (the “Company OP”). The Company is the sole member of the Company OP.

The Company will be externally managed by CLNC Manager, LLC, a Delaware limited liability company and a wholly-owned and indirect subsidiary of Colony Capital Operating Company, LLC (“CLNS OP”), a Delaware limited liability company and the operating company of Colony NorthStar.

**2. Formation of the Company**

The Company and the Company OP were formed for the purpose of (i) receiving the contribution of a select portfolio of assets and liabilities from Colony NorthStar and its subsidiaries (the “CLNS Contributed Portfolio” as described further below), and (ii) combining the CLNS Contributed Portfolio with substantially all of the assets and liabilities of NorthStar Real Estate Income Trust, Inc. (“NorthStar I”) and all of the assets and liabilities of NorthStar Real Estate Income II, Inc. (“NorthStar II”), each of which were publicly registered non-traded REITs sponsored and managed by a subsidiary of Colony NorthStar, through the mergers of NorthStar I and NorthStar II with and into the Company, with the Company surviving (collectively, “Combination”). The CLNS Contributed Portfolio consists of investment entities in which CLNS OP owned interests, as of December 31, 2017, ranging from 38% to 100%.

On January 18, 2018, the Combination was approved by the stockholders of NorthStar I and NorthStar II. The Combination closed on January 31, 2018 and the Company’s Class A common stock began trading on the NYSE on February 1, 2018 under the symbol “CLNC.”

In consideration for the contribution of the CLNS Contributed Portfolio, CLNS OP received approximately 44.4 million shares of the Company’s Class B-3 common stock (the “CLNC B-3 Common Stock”) and a subsidiary of CLNS OP received approximately 3.1 million common membership units in the Company’s operating company (“CLNC OP Units”). The CLNC B-3 Common Stock will automatically convert to Class A common stock of the Company on a one-for-one basis upon the close of trading on February 1, 2019. The CLNC OP Units are redeemable for cash, or at the Company’s election, the Company’s Class A common stock on a one-for-one basis. Subject to certain limited exceptions, CLNS OP has agreed that it and its affiliates will not make any transfers of the CLNC OP Units to non-affiliates of CLNS OP until the one year anniversary of the closing of the Combination, unless such transfer is approved by a majority of the Company’s board of directors, including a majority of the independent directors. In connection with the merger of NorthStar I and NorthStar II into the Company, their respective stockholders received shares of the Company’s Class A common stock based on pre-determined exchange ratios. Following the foregoing transaction, the Company contributed the CLNS Contributed Portfolio and the operating partnerships of NorthStar I and NorthStar II to the Company OP in exchange for ownership interests in the Company OP. Upon the closing of the Combination, CLNS OP and its affiliates, NorthStar I stockholders and NorthStar II stockholders each owned approximately 37%, 32% and 31%, respectively, of the Company on a fully diluted basis.

**3. Significant Accounting Policies**

***Basis of presentation***

The accompanying consolidated balance sheet has been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Company’s sole subsidiary, the Company OP, is consolidated by the Company. All intercompany transactions have been eliminated.

***Use of estimates***

The preparation of the consolidated balance sheet in conformity with GAAP requires management 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 consolidated balance sheet. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Short-term, highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company did not have any cash equivalents at December 31, 2017. The Company's cash is held with major financial institutions and may at times exceed federally insured limits.

***Underwriting commissions and costs***

Underwriting commissions and costs to be incurred in connection with the Company's common share offerings will be reflected as a reduction of additional paid-in capital.

***Organization and offering costs***

Costs incurred to organize the Company will be expensed as incurred.

**4. Commitments and Contingencies**

As of December 31, 2017, Colony NorthStar had incurred approximately \$2.3 million of costs related to the organization of the Company and the Combination. Contingent upon successful completion of the Combination, the Company will reimburse Colony NorthStar for these and other costs.

**5. Subsequent Events**

***Combination Agreement***

On January 18, 2018, the Combination was approved by the stockholders of NorthStar I and NorthStar II. The Combination closed on January 31, 2018 and the Company's Class A common stock began trading on the NYSE on February 1, 2018 under the symbol "CLNC." Upon closing of the Combination, CLNS OP and its affiliates, NorthStar I stockholders and NorthStar II stockholders each own approximately 37%, 32% and 31%, respectively, of the Company on a fully diluted basis. Refer to Note 2, "Formation of the Company."

***Common Stock Repurchases***

The Company's board of directors has authorized a stock repurchase program, under which the Company may repurchase up to \$300 million of its outstanding Class A common stock until March 19, 2019.

***Dividends***

On February 23, 2018, the Company's board of directors declared its monthly cash dividend of \$0.145 per share of Class A and Class B-3 common stock for the month ended February 28, 2018. The common stock dividend was paid on March 16, 2018 to stockholders of record on March 8, 2018. On March 15, 2018, the Company's board of directors declared a monthly cash dividend of \$0.145 per share of Class A common stock and Class B-3 common stock for the monthly period ending March 31, 2018. The common stock dividend will be paid on April 10, 2018 to stockholders of record on March 29, 2018. These dividends represent an annualized dividend of \$1.74 per share of Class A and Class B-3 common stock.

***Revolving Credit Facility***

On February 1, 2018, the Company entered into a Credit Agreement ("Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, and several lenders which agreed to provide a revolving credit facility in the aggregate principal amount of up to \$400.0 million. Advances under the Credit Agreement accrue interest at a per annum rate equal to, at the Company's election, either a LIBOR rate plus a margin of 2.25%, or a base rate determined according to a prime rate or federal funds rate plus a margin of 1.25%. The ability to borrow new amounts under the Credit Agreement terminates on February 1, 2022, with two additional six month extensions available subject to terms and conditions in the Credit Agreement.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Members of CLNS Investment Entities

**Opinion on the Financial Statements**

We have audited the accompanying combined balance sheets of the CLNS Investment Entities (as described in Note 1 to the combined financial statements and collectively, the “Companies”) as of December 31, 2017 and 2016, the related combined statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “combined financial statements”). In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Companies at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

**Basis for Opinion**

These financial statements are the responsibility of the Companies’ management. Our responsibility is to express an opinion on the Companies’ financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Companies’ auditor since 2017.

Los Angeles, California  
March 23, 2018

**CLNS INVESTMENT ENTITIES  
COMBINED BALANCE SHEETS  
(In thousands)**

	December 31,	
	2017	2016
<b>Assets</b>		
Cash	\$ 25,204	\$ 13,982
Restricted cash	41,901	58,530
Loans receivable, net		
Held for investment	1,300,784	1,523,426
Held for sale	—	29,354
Real estate, net		
Held for investment	219,740	—
Held for sale	—	8,938
Investments in unconsolidated ventures (\$24,417 and \$0 at fair value)	203,720	155,537
Deferred leasing costs and intangible assets, net	11,014	20
Other assets (\$117 and \$0 at fair value)	37,039	12,405
<b>Total assets</b>	<b>\$ 1,839,402</b>	<b>\$ 1,802,192</b>
<b>Liabilities</b>		
Debt, net	\$ 389,661	\$ 502,413
Accrued and other liabilities	42,171	64,215
<b>Total liabilities</b>	<b>431,832</b>	<b>566,628</b>
Commitments and contingencies (Note 10)		
<b>Equity</b>		
CLNS Owner	1,079,808	884,716
Other Owners	318,142	341,167
Total owners' equity	1,397,950	1,225,883
Noncontrolling interests	9,620	9,681
Total equity	1,407,570	1,235,564
<b>Total liabilities and equity</b>	<b>\$ 1,839,402</b>	<b>\$ 1,802,192</b>

The accompanying notes are an integral part of these combined financial statements.

**CLNS INVESTMENT ENTITIES  
COMBINED BALANCE SHEETS  
(In thousands)**

The following table presents the assets and liabilities recorded in the combined balance sheets attributable to securitization vehicles consolidated as variable interest entities:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash	\$ 1,320	\$ 3,234
Loans receivable, net	379,305	694,077
Real estate, net	8,073	8,873
Other assets	36,960	65,426
<b>Total assets</b>	<u>\$ 425,658</u>	<u>\$ 771,610</u>
<b>Liabilities</b>		
Debt, net	\$ 108,679	\$ 400,600
Other liabilities	28,692	63,175
<b>Total liabilities</b>	<u>\$ 137,371</u>	<u>\$ 463,775</u>

The accompanying notes are an integral part of these combined financial statements.



CLNS INVESTMENT ENTITIES  
 COMBINED STATEMENTS OF OPERATIONS  
 (In thousands)

	Year Ended December 31,		
	2017	2016	2015
<b>Revenues</b>			
Interest income	\$ 140,214	\$ 140,529	\$ 112,326
Property operating income	23,750	1,138	99
Other income	791	536	287
<b>Total revenues</b>	<u>164,755</u>	<u>142,203</u>	<u>112,712</u>
<b>Expenses</b>			
Interest expense	26,114	26,031	18,949
Property operating expense	7,978	905	67
Transaction, investment and servicing expense (including \$482, \$417 and \$441 reimbursed to affiliates, respectively)	2,570	1,767	1,920
Depreciation and amortization	9,137	146	—
Provision for loan loss	518	3,386	721
Administrative expenses (Note 9)	12,669	15,437	15,315
<b>Total expenses</b>	<u>58,986</u>	<u>47,672</u>	<u>36,972</u>
<b>Other income (loss)</b>			
Other loss, net	(390)	(56)	—
Earnings from investments in unconsolidated ventures	24,709	16,067	6,115
<b>Net income before income taxes</b>	<u>130,088</u>	<u>110,542</u>	<u>81,855</u>
Income tax expense	(2,208)	(1,521)	(247)
<b>Net income</b>	<u>127,880</u>	<u>109,021</u>	<u>81,608</u>
Net income attributable to noncontrolling interests	689	736	1,054
<b>Net income attributable to owners</b>	<u>\$ 127,191</u>	<u>\$ 108,285</u>	<u>\$ 80,554</u>

The accompanying notes are an integral part of these combined financial statements.

**CLNS INVESTMENT ENTITIES  
COMBINED STATEMENTS OF EQUITY  
(In thousands)**

	<u>CLNS Owner</u>	<u>Other Owners</u>	<u>Total Owners' Equity</u>	<u>Noncontrolling Interests</u>	<u>Total Equity</u>
<b>Balance at January 1, 2015</b>	<b>\$502,810</b>	<b>\$175,226</b>	<b>\$678,036</b>	<b>\$10,136</b>	<b>\$688,172</b>
Net income	58,079	22,475	80,554	1,054	81,608
Pushdown accounting adjustments (Note 2)	12,222	14,366	26,588	—	26,588
Contributions	463,885	141,114	604,999	97	605,096
Distributions	(219,222)	(63,093)	(282,315)	(1,335)	(283,650)
<b>Balance at December 31, 2015</b>	<b>817,774</b>	<b>290,088</b>	<b>1,107,862</b>	<b>9,952</b>	<b>1,117,814</b>
Net income	76,051	32,234	108,285	736	109,021
Contributions	113,024	95,520	208,544	98	208,642
Distributions	(122,133)	(76,675)	(198,808)	(1,105)	(199,913)
<b>Balance at December 31, 2016</b>	<b>884,716</b>	<b>341,167</b>	<b>1,225,883</b>	<b>9,681</b>	<b>1,235,564</b>
Net income	88,504	38,687	127,191	689	127,880
Equity contribution from CLNS Merger (Note 2)	324,358	—	324,358	—	324,358
Contributions	81,549	50,252	131,801	251	132,052
Distributions	(299,319)	(111,964)	(411,283)	(1,001)	(412,284)
<b>Balance at December 31, 2017</b>	<b>\$ 1,079,808</b>	<b>\$ 318,142</b>	<b>\$ 1,397,950</b>	<b>\$ 9,620</b>	<b>\$1,407,570</b>

The accompanying notes are an integral part of these combined financial statements.

**CLNS INVESTMENT ENTITIES**  
**COMBINED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 127,880	\$ 109,021	\$ 81,608
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of discount and net origination fees on purchased and originated loans	(8,551)	(8,112)	(3,781)
Paid-in-kind interest added to loan principal, net of interest received	(1,802)	(7,884)	(8,040)
Amortization of deferred financing costs and debt discount and premium	3,637	5,975	4,944
Earnings from investments in unconsolidated ventures	(24,709)	(16,067)	(6,115)
Distributions of income from equity method investments	7,563	1,058	59
Provision for loan losses	518	3,386	721
Depreciation and amortization	9,137	146	—
Deferred tax provision	1,744	—	—
Changes in operating assets and liabilities:			
Decrease in restricted cash	940	—	544
(Increase) decrease in other assets	(7,743)	671	(6,264)
(Decrease) increase in accrued and other liabilities	(892)	369	998
Other adjustments, net	200	(55)	—
Net cash provided by operating activities	<u>107,922</u>	<u>88,508</u>	<u>64,674</u>
<b>Cash Flows from Investing Activities</b>			
Contributions to investments in unconsolidated ventures	(16,333)	(21,433)	(104,134)
Distributions from investments in unconsolidated ventures	55,107	1,331	3,317
Cash acquired in the CLNS Merger (Note 2)	915	—	—
Net disbursements on originated loans	(200,203)	(257,641)	(860,175)
Repayments of loans receivable	537,532	357,043	43,370
Proceeds from sales of loans receivable	17,509	141,500	95,000
Cash receipts in excess of accretion on purchased credit-impaired loans	52,435	18,121	9,894
Improvements of real estate	(312)	(67)	—
Proceeds from sales of real estate	8,872	—	—
Changes in restricted cash	(564)	—	—
Net cash provided by (used in) investing activities	<u>454,958</u>	<u>238,854</u>	<u>(812,728)</u>

**CLNS INVESTMENT ENTITIES**  
**COMBINED STATEMENTS OF CASH FLOWS (Continued)**  
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
<b>Cash Flows from Financing Activities</b>			
Funds from borrowings	72,189	81,077	676,486
Repayment of borrowings	(342,898)	(407,282)	(252,902)
Payment of financing costs	(717)	(2,242)	(7,038)
Contributions from members	131,801	208,544	604,999
Distributions to members	(411,283)	(198,808)	(282,315)
Contributions from noncontrolling interests	251	98	97
Distributions to noncontrolling interests	(1,001)	(1,105)	(1,335)
Net cash (used in) provided by financing activities	<u>(551,658)</u>	<u>(319,718)</u>	<u>737,992</u>
Net increase (decrease) in cash	11,222	7,644	(10,062)
Cash, beginning of period	13,982	6,338	16,400
Cash, end of period	<u>\$ 25,204</u>	<u>\$ 13,982</u>	<u>\$ 6,338</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for interest	<u>\$ 22,885</u>	<u>\$ 20,134</u>	<u>\$ 13,160</u>
Cash paid for income taxes	<u>\$ 10,497</u>	<u>\$ 1,292</u>	<u>\$ 770</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Loan payoffs held in escrow	<u>\$ 9,720</u>	<u>\$ —</u>	<u>\$ 11,300</u>
Foreclosures on collateral assets of originated or acquired loans receivable	<u>\$ 20,204</u>	<u>\$ —</u>	<u>\$ 10,837</u>
Assets acquired through the CLNS Merger (Note 2)	<u>\$ 485,891</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities assumed through the CLNS Merger (Note 2)	<u>\$ 161,533</u>	<u>\$ —</u>	<u>\$ —</u>

The accompanying notes are an integral part of these combined financial statements.

**CLNS INVESTMENT ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS**

**1. Business and Organization**

Colony NorthStar Credit Real Estate, Inc. ("Colony NorthStar Credit") was organized in the state of Maryland on August 23, 2017. As of December 31, 2017, the sole stockholder of Colony NorthStar Credit was Colony NorthStar, Inc. ("Colony NorthStar"), a publicly traded real estate investment trust ("REIT") listed on the New York Stock Exchange ("NYSE") under the ticker symbol "CLNS." Colony NorthStar Credit intends to qualify as a REIT under the Internal Revenue Code of 1986, as amended. Colony NorthStar Credit intends to conduct all of its activities and hold substantially all of its assets and liabilities through its operating subsidiary, Credit RE Operating Company, LLC ("Credit RE OP"). Colony NorthStar Credit is the sole member of Credit RE OP.

Colony NorthStar Credit and Credit RE OP were formed for the purpose of (i) receiving the contribution of a select portfolio of assets and liabilities from Colony NorthStar and its subsidiaries (the "CLNS Contributed Portfolio" as described further below), and (ii) combining the CLNS Contributed Portfolio with substantially all of the assets and liabilities of NorthStar Real Estate Income Trust, Inc. ("NorthStar I") and all of the assets and liabilities of NorthStar Real Estate Income II, Inc. ("NorthStar II"), each of which were publicly registered non-traded REITs sponsored and managed by a subsidiary of Colony NorthStar, through the mergers of NorthStar I and NorthStar II with and into Colony NorthStar Credit, with Colony NorthStar Credit surviving (collectively, the "Combination").

On January 18, 2018, the Combination was approved by the stockholders of NorthStar I and NorthStar II. The Combination closed on January 31, 2018 and Colony NorthStar Credit's Class A common stock began trading on the NYSE on February 1, 2018 under the symbol "CLNC."

In consideration for the contribution of the CLNS Contributed Portfolio, Colony Capital Operating Company, LLC ("CLNS OP"), a Delaware limited liability company and the operating company of Colony NorthStar, received approximately 44.4 million shares of Colony NorthStar Credit's Class B-3 common stock (the "CLNC B-3 Common Stock") and a subsidiary of CLNS OP received approximately 3.1 million common membership units in Credit RE OP ("CLNC OP Units"). The CLNC B-3 Common Stock will automatically convert to Class A common stock of Colony NorthStar Credit on a one-for-one basis upon the close of trading on February 1, 2019. The CLNC OP Units are redeemable for cash, or at Colony NorthStar Credit's election, Colony NorthStar Credit's Class A common stock on a one-for-one basis, in the sole discretion of Colony NorthStar Credit. Subject to certain limited exceptions, CLNS OP has agreed that it and its affiliates will not make any transfers of the CLNC OP Units to non-affiliates of CLNS OP until the one year anniversary of the closing of the Combination, unless such transfer is approved by a majority of Colony NorthStar Credit's board of directors, including a majority of the independent directors. In connection with the merger of NorthStar I and NorthStar II into Colony NorthStar Credit, their respective stockholders received shares of Colony NorthStar Credit's Class A common stock based on pre-determined exchange ratios. Following the foregoing transaction, Colony NorthStar Credit contributed the CLNS Contributed Portfolio and the operating partnerships of NorthStar I and NorthStar II to Credit RE OP in exchange for ownership interests in Credit RE OP. Upon the closing of the Combination, CLNS OP and its affiliates, NorthStar I stockholders and NorthStar II stockholders each owned approximately 37%, 32% and 31%, respectively, of Colony NorthStar Credit on a fully diluted basis.

The accompanying combined financial statements present in their entirety the historical combined financial position, results of operations, and cash flows of the investment entities in which CLNS OP owned interests, as of December 31, 2017, ranging from 38% to 100%, which interests represent the "CLNS Contributed Portfolio," that was contributed through Colony NorthStar Credit to Credit RE OP. The financial statements also include certain intercompany balances between those entities and CLNS OP or its subsidiaries. These entities and balances are, for purposes of the notes to the combined financial statements of the CLNS Investment Entities, collectively referred to as the "CLNS Investment Entities" or the "Companies." As of December 31, 2017, the Companies were under common control of Colony NorthStar. The remaining interests in the Companies that were owned by Colony NorthStar-sponsored investment vehicles or third parties were not contributed to Colony NorthStar Credit. Throughout these combined financial statements, Colony NorthStar's interests in their respective underlying assets and liabilities are presented as CLNS Owner; the remaining interests are presented as Other Owners.

Prior to the closing of the Combination, Colony NorthStar Credit had no material assets and liabilities and did not operate its business as a separate company. Since Colony NorthStar Credit did not have significant operations prior to the contribution from Colony NorthStar, and succeeded to substantially all of the operations of the CLNS Investment Entities, the CLNS Investment Entities represent Colony NorthStar Credit's predecessor for accounting purposes.

**2. Summary of Significant Accounting Policies*****Basis of Presentation***

The assets, liabilities and noncontrolling interests in these combined financial statements have been carved out of the books and records of Colony NorthStar at their historical carrying amounts. The combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), giving consideration to the rules and regulations of the Securities and Exchange Commission (“SEC”) and related guidance provided by the SEC Staff with respect to carve-out financial statements. All intercompany transactions have been eliminated.

The historical financial results for the Companies reflect charges for certain corporate costs which we believe are reasonable. These charges were based on either specifically identifiable costs incurred on behalf of the Companies or an allocation of costs estimated to be applicable to the Companies, primarily based on the relative assets under management of the Companies to Colony NorthStar’s total assets under management. Such costs do not necessarily reflect what the actual costs would have been if the Companies had been operating as a separate stand-alone public entity. See Note 9, *Transactions with Affiliates*, for additional information.

*Formation of Colony NorthStar*—Colony NorthStar was formed through a tri-party merger (the “CLNS Merger”) among Colony Capital, Inc. (“Colony Capital”), NorthStar Asset Management Group Inc. and NorthStar Realty Finance Corp. (“NRF”), which closed on January 10, 2017 (the “CLNS Merger Closing Date”). Colony Capital was determined to be the accounting acquirer in the CLNS Merger. Accordingly, the combined financial information of the Companies included herein as of any date or for any periods on or prior to the CLNS Merger Closing Date represent the CLNS Investment Entities from Colony Capital. On the CLNS Merger Closing Date, the CLNS Investment Entities were reflected by Colony NorthStar at their pre-CLNS Merger carrying values, while the CLNS Investment Entities from NRF were reflected by Colony NorthStar at their CLNS Merger fair values. The results of operations of the CLNS Investment Entities from NRF are included in these combined financial statements effective from January 11, 2017.

The following table presents the assets acquired and liabilities of certain Companies assumed by Colony NorthStar from NRF through the CLNS Merger based upon their estimated fair values as of the CLNS Merger Closing Date, including the effects of adjustments during the measurement period, not to exceed one year, based upon new information obtained about facts and circumstances that existed as of the CLNS Merger Closing Date.

<u>(In thousands)</u>	<u>As Reported at December 31, 2017</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 915
Restricted cash	5,288
Real estate	205,376
Loans receivable	175,366
Investments in unconsolidated ventures	70,609
Intangible assets	14,600
Other assets	13,737
	<u>485,891</u>
<b>Liabilities</b>	
Debt	155,297
Accrued and other liabilities	6,236
	<u>161,533</u>
<b>Fair value of net assets acquired</b>	<u>\$ 324,358</u>

Results of operations of the CLNS Investment Entities from NRF were as follows:

<u>(In thousands)</u>	<u>Year Ended December 31, 2017</u>
Total revenues	\$ 37,430
Net income	15,692

*Change in Control of Certain CLNS Investment Entities and Pushdown Accounting*—On April 2, 2015, in connection with the internalization of its manager, Colony Capital, the accounting predecessor to Colony NorthStar, obtained a controlling financial interest in certain of the CLNS Investment Entities, which Colony Capital had previously accounted for under the equity method. As a result, Colony Capital consolidated those CLNS Investment Entities and remeasured their assets, liabilities and noncontrolling interests at fair value as of April 2, 2015. Five of the Companies stepped up their loans receivable to fair value by approximately \$26.6 million through the application of pushdown accounting.

The accompanying financial statements include the results of the five Companies for the period after the completion of management internalization (“Successor Period”) and the period before management internalization (“Predecessor Period”). The pushdown accounting only affects interest income through periodic amortization of the step-up of loans receivable carrying value. The following table summarizes interest income from the five Companies for the Successor Period and Predecessor Period included in the combined statements of operations.

<u>(In thousands)</u>	<u>Successor Period</u>			<u>Predecessor Period</u>
	<u>Year Ended December 31,</u>		<u>April 2, 2015 to December 31,</u>	<u>January 1, 2015 to April 1, 2015</u>
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>
Interest income	\$ 20,129	\$ 24,544	\$ 17,883	\$ 8,538

**Principles of Consolidation**

The accompanying combined financial statements include the accounts of the Companies and their controlled subsidiaries and consolidated variable interest entities (“VIEs”). The portions of the equity, net income and other comprehensive income of consolidated subsidiaries that are not attributable to the parent are presented separately as amounts attributable to noncontrolling interests in the consolidated financial statements.

The Companies consolidate entities in which they have a controlling financial interest by first considering if an entity meets the definition of a VIE for which the Companies are deemed to be the primary beneficiary, or if the Companies have the power to control an entity through a majority of voting interest or through other arrangements.

*Variable Interest Entities*—A VIE is an entity that lacks sufficient equity to finance its activities without additional subordinated financial support from other parties, or whose equity holders lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary, which is defined as the party who has a controlling financial interest in the VIE through (a) power to direct the activities of the VIE that most significantly affect the VIE’s economic performance, and (b) obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. The Companies also consider interests held by their related parties, including de facto agents. The Companies assess whether they are members of a related party group that collectively meets the power and benefits criteria and, if so, whether the Companies are most closely associated with the VIE. In performing this analysis, the Companies consider both qualitative and quantitative factors, including, but not limited to: the amount and characteristics of their investment relative to the related party; the Companies’ and the related party’s ability to control or significantly influence key decisions of the VIE including consideration of involvement by de facto agents; the obligation or likelihood for the Companies or the related party to fund operating losses of the VIE; and the similarity and significance of the VIE’s business activities to those of the Companies and the related party. The determination of whether an entity is a VIE, and whether the Companies are the primary beneficiary, may involve significant judgment, including the determination of which activities most significantly affect the entities’ performance, and estimates about the current and future fair values and performance of assets held by the VIE.

At December 31, 2017, 2016 and 2015, the Companies consolidated certain securitization vehicles as the primary beneficiary. The securitization vehicles were structured as pass-through entities that receive principal and interest on the underlying mortgage loans and distribute those payments to the holders of the notes, certificates or bonds issued by the securitization vehicles. The loans were transferred into securitization vehicles such that these assets are restricted and legally isolated from the creditors of the Companies, and therefore are not available to satisfy the Companies’ obligations but only the obligations of the securitization vehicles. The obligations of the securitization vehicles do not have any recourse to the general credit of the Companies.

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The Companies retain beneficial interests in the securitization vehicles, usually equity tranches or subordinate securities. Affiliates of the Companies or appointed third parties act as special servicer of the underlying collateral mortgage loans. The special servicer has the power to direct activities during the loan workout process on defaulted and delinquent loans as permitted by the underlying contractual agreements, which is subject to the consent of the Companies, as the controlling class representative or directing holder who, under certain circumstances, has the right to unilaterally remove the special servicer. As the Companies' rights as the directing holder and controlling class representative provide the Companies the ability to direct activities that most significantly impact the economic performance of the securitization vehicles, the Companies maintain effective control over the loans transferred into the securitization vehicles. Considering the interests retained by the Companies in the securitization vehicles together with its role as controlling class representative or directing holder, the Companies are deemed to be the primary beneficiary and consolidated these securitization vehicles. Accordingly, these securitizations did not qualify as sale transactions and are accounted for as secured financing with the underlying mortgage loans pledged as collateral.

All of the underlying assets, liabilities, equity, revenues and expenses of the securitization vehicles are included in the Companies' combined financial statements. The Companies' exposure to the obligations of the securitization vehicles is generally limited to their investment in these entities, which was \$288.3 million and \$307.8 million at December 31, 2017 and 2016, respectively. The Companies are not obligated to provide any financial support to these securitization vehicles, although they may, in their sole discretion, provide support such as protective and other advances as they deem appropriate. The Companies did not provide any such financial support in the years ended December 31, 2017 or 2016.

**Voting Interest Entities**—Unlike VIEs, voting interest entities have sufficient equity to finance their activities and equity investors exhibit the characteristics of a controlling financial interest through their voting rights. The Companies consolidate such entities when they have the power to control these entities through ownership of a majority of the entities' voting interests or through other arrangements.

Upon the occurrence of a reconsideration event, the Companies reassess whether changes in facts and circumstances cause a change in the status of an entity as a VIE or voting interest entity, and/or a change in the Companies' consolidation assessment. Changes in consolidation status are applied prospectively. An entity may be consolidated as a result of this reassessment, in which case, the assets, liabilities and noncontrolling interest in the entity are recorded at fair value upon initial consolidation. Any existing equity interest held by the Companies in the entity prior to the Companies obtaining control will be remeasured at fair value, which may result in a gain or loss recognized upon initial consolidation. However, if the consolidation represents an asset acquisition of a voting interest entity, the Companies' existing interest in the acquired assets, if any, is not remeasured to fair value but continues to be carried at historical cost. The Companies may also deconsolidate a subsidiary as a result of this reassessment, which may result in a gain or loss recognized upon deconsolidation depending on the carrying values of deconsolidated assets and liabilities compared to the fair value of any interests retained.

### **Noncontrolling Interests**

Noncontrolling interests represent interests in the Companies held by third party joint venture partners. Allocation of net income or loss is generally based upon relative ownership interests held by equity owners in each investment entity.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

### **Fair Value Measurement**

Fair value is based on an exit price, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Where appropriate, the Companies make adjustments to estimated fair values to appropriately reflect counterparty credit risk as well as the Companies' own credit-worthiness.



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The estimated fair value of financial assets and financial liabilities are categorized into a three-tier hierarchy, prioritized based on the level of transparency in inputs used in the valuation techniques, as follows:

*Level 1*—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2*—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in non-active markets, or valuation techniques utilizing inputs that are derived principally from or corroborated by observable data directly or indirectly for substantially the full term of the financial instrument.

*Level 3*—At least one assumption or input is unobservable and it is significant to the fair value measurement, requiring significant management judgment or estimate.

Where the inputs used to measure the fair value of a financial instrument fall into different levels of the fair value hierarchy, the financial instrument is categorized within the hierarchy based on the lowest level of input that is significant to its fair value measurement.

### ***Fair Value Option***

The fair value option provides an option to elect fair value as an alternative measurement for selected financial instruments. The fair value option may be elected only upon the occurrence of certain specified events, including when the Companies enter into an eligible firm commitment, at initial recognition of the financial instrument, as well as upon a business combination or consolidation of a subsidiary. The election is irrevocable unless a new election event occurs. The Companies have elected to account for certain cost method investments, specifically limited partnership interests in third party private real estate funds, at fair value.

### ***Cash and Cash Equivalents***

Short-term, highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Companies did not have any cash equivalents at December 31, 2017 or 2016. The Companies' cash is held with major financial institutions and may at times exceed federally insured limits.

### ***Restricted Cash***

Restricted cash consists primarily of borrower escrow deposits, tenant escrow deposits and real estate capital expenditure reserves.

### ***Loans Receivable***

The Companies originate and purchase loans receivable. The accounting framework for loans receivable depends on the Companies' strategy whether to hold or sell the loan, whether the loan was credit-impaired at time of acquisition, or if the lending arrangement is an acquisition, development and construction loan.

### ***Loans Held for Investment (other than Purchased Credit-Impaired Loans)***

Loans that the Companies have the intent and ability to hold for the foreseeable future are classified as held-for-investment. Originated loans are recorded at amortized cost, or outstanding unpaid principal balance less net deferred loan fees. Net deferred loan fees include unamortized origination and other fees charged to the borrower less direct incremental loan origination costs incurred by the Companies. Purchased loans are recorded at amortized cost, or unpaid principal balance plus purchase premium or less unamortized discount. Costs to purchase loans are expensed as incurred.

*Interest Income*—Interest income is recognized based upon contractual interest rate and unpaid principal balance of the loans. Net deferred loan fees on originated loans are deferred and amortized as adjustments to interest income over the expected life of the loans using the effective yield method. Premium or discount on purchased loans are amortized as adjustments to interest income over the expected life of the loans using the effective yield method. For revolving loans, net deferred loan fees, premium or discount are amortized to interest income using the straight-line method. When a loan is prepaid, prepayment fees and any excess of proceeds over the carrying amount of the loan are recognized as additional interest income.

*Nonaccrual*—Accrual of interest income is suspended on nonaccrual loans. Loans that are past due 90 days or more as to principal or interest, or where reasonable doubt exists as to timely collection, are generally considered nonperforming and placed on nonaccrual. Interest receivable is reversed against interest income when loans are placed on nonaccrual status. Interest collection on nonaccruing loans for which ultimate collectability of principal is uncertain is recognized using a cost recovery method by applying interest collected as a reduction to loan principal; otherwise, interest collected is recognized on a cash basis by crediting to income when received. Loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is reasonably assured.

*Impairment and Allowance for Loan Losses*—On a periodic basis, the Companies analyze the extent and effect of any credit migration from underwriting and the initial investment review associated with the performance of a loan and/or value of its underlying collateral, financial and operating capability of the borrower or sponsor, as well as amount and status of any senior loan, where applicable. Specifically, operating results of collateral properties and any cash reserves are analyzed and used to assess whether cash from operations are sufficient to cover debt service requirements currently and into the future, ability of the borrower to refinance the loan, liquidation value of collateral properties, financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the collateral properties. Such analysis is performed at least quarterly, or more often as needed when impairment indicators are present. The Companies do not utilize a statistical credit rating system to monitor and assess the credit risk and investment quality of their acquired or originated loans. Given the diversity of the Companies' portfolio, management believes there is no consistent method of assigning a numerical rating to a particular loan that captures all of the various credit metrics and their relative importance. Therefore, the Companies evaluate impairment and allowance for loan losses on an individual loan basis.

Loans are considered to be impaired when it is probable that the Companies will not be able to collect all amounts due in accordance with contractual terms of the loans, including consideration of underlying collateral value. Allowance for loan losses represents the estimated probable credit losses inherent in loans held for investment at balance sheet date. Changes in allowance for loan losses are recorded in the provision for loan losses on the statement of operations. Allowance for loan losses generally exclude interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status. Allowance for loan losses is generally measured as the difference between the carrying value of the loan and either the present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan or an observable market price for the loan. Subsequent changes in impairment are recorded as adjustments to the provision for loan losses. Loans are charged off against allowance for loan losses when all or a portion of the principal amount is determined to be uncollectible. A loan is considered to be collateral-dependent when repayment of the loan is expected to be provided solely by the underlying collateral. Impaired collateral-dependent loans are written down to the fair value of the collateral less disposal cost, first through a charge-off against allowance for loan losses, if any, then recorded as impairment loss.

*Troubled Debt Restructuring ("TDR")*—A loan with contractual terms modified in a manner that grants concession to the borrower who is experiencing financial difficulty is classified as a TDR. Concessions could include term extensions, payment deferrals, interest rate reductions, principal forgiveness, forbearance, or other actions designed to maximize the Companies' collection on the loan. As a TDR is generally considered to be an impaired loan, it is measured for impairment based on the Companies' allowance for loan losses methodology.

#### *Loans Held for Sale*

Loans that the Companies intend to sell or liquidate in the foreseeable future are classified as held-for-sale. Loans held for sale are carried at the lower of amortized cost or fair value less disposal cost, with valuation changes recognized as impairment loss. Loans held for sale are not subject to allowance for loan losses. Net deferred loan origination fees and loan purchase premiums or discounts are deferred and capitalized as part of the carrying value of the held-for-sale loan until the loan is sold, therefore included in the periodic valuation adjustments based on lower of cost or fair value less disposal cost.

#### *Purchased Credit-Impaired ("PCI") Loans*

PCI loans are acquired loans with evidence of credit quality deterioration for which it is probable at acquisition that the Companies will collect less than the contractually required payments. PCI loans are recorded at the initial investment in the loans and accreted to the estimated cash flows expected to be collected as measured at acquisition date. The excess of cash flows expected to be collected, measured as of acquisition date, over the estimated fair value represents the accretable yield and is recognized in interest income over the remaining life of the loan using the effective interest method. The difference between contractually required payments as of the acquisition date and the cash flows expected to be collected ("nonaccretable difference") is not recognized as an adjustment of yield, loss accrual or valuation allowance.

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The Companies evaluate estimated future cash flows expected to be collected on a quarterly basis, starting with the first full quarter after acquisition, or earlier if conditions indicating impairment are present. If the cash flows expected to be collected cannot be reasonably estimated, either at acquisition or in subsequent evaluation, the Companies may consider placing such PCI loans on nonaccrual, with interest income recognized using the cost recovery method or on a cash basis. Subsequent decreases in cash flows expected to be collected are evaluated to determine whether a provision for loan loss should be established. If decreases in expected cash flows result in a decrease in the estimated fair value of the loan below its amortized cost, the Companies record a provision for loan losses calculated as the difference between the loan's amortized cost and the revised cash flows, discounted at the loan's effective yield. Subsequent increases in cash flows expected to be collected are first applied to reverse any previously recorded allowance for loan losses, with any remaining increases recognized prospectively through an adjustment to yield over its remaining life.

Factors that most significantly affect estimates of cash flows expected to be collected, and accordingly the accretible yield, include: (i) estimate of the remaining life of acquired loans which may change the amount of future interest income; (ii) changes to prepayment assumptions; (iii) changes to collateral value assumptions for loans expected to foreclose; and (iv) changes in interest rates on variable rate loans.

PCI loans may be aggregated into pools based upon common risk characteristics, such as loan performance, collateral type and/or geographic location of the collateral. A pool is accounted for as a single asset with a single composite yield and an aggregate expectation of estimated future cash flows. A PCI loan modified within a pool remains in the pool, with the effect of the modification incorporated into the expected future cash flows. A loan resolution within a loan pool, which may involve the sale of the loan or foreclosure on the underlying collateral, results in the removal of an allocated carrying amount, including an allocable portion of any existing allowance.

### Acquisition, Development and Construction ("ADC") Loan Arrangements

The Companies provide loans to third party developers for the acquisition, development and construction of real estate. Under an ADC arrangement, the Companies participate in the expected residual profits of the project through the sale, refinancing or other use of the property. The Companies evaluate the characteristics of each ADC arrangement, including its risks and rewards, to determine whether they are more similar to those associated with a loan or an investment in real estate. ADC arrangements with characteristics implying loan classification are presented as loans receivable and result in the recognition of interest income. ADC arrangements with characteristics implying real estate joint ventures are presented as investments in unconsolidated joint ventures and are accounted for using the equity method. The classification of each ADC arrangement as either loan receivable or real estate joint venture involves significant judgment and relies on various factors, including market conditions, amount and timing of expected residual profits, credit enhancements in the form of guaranties, estimated fair value of the collateral, and significance of borrower equity in the project, among others. The classification of ADC arrangements is performed at inception, and periodically reassessed when significant changes occur in the circumstances or conditions described above.

### **Real Estate Assets**

**Real Estate Acquisitions**—Real estate acquisitions are recorded at the fair values of the acquired components at the time of acquisition, allocated among land, building, improvements, equipment, lease-related tangible and identifiable intangible assets and liabilities, such as tenant improvements, deferred leasing costs, in-place lease values, above- and below-market lease values. The estimated fair value of acquired land is derived from recent comparable sales of land and listings within the same local region based on available market data. The estimated fair value of acquired buildings and building improvements is derived from comparable sales, discounted cash flow analysis using market-based assumptions, or replacement cost, as appropriate. The fair value of site and tenant improvements is estimated based upon current market replacement costs and other relevant market rate information.

### Real Estate Held for Investment

Real estate held for investment are carried at cost less accumulated depreciation.

**Costs Capitalized or Expensed**—Expenditures for ordinary repairs and maintenance are expensed as incurred, while expenditures for significant renovations that improve or extend the useful life of the asset are capitalized and depreciated over their estimated useful lives.

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*Depreciation*—Real estate held for investment, other than land, are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

<u>Real Estate Assets</u>	<u>Term</u>
Building (fee interest)	40 years
Building leasehold interests	Lesser of remaining term of the lease or remaining life of the building
Building improvements	Lesser of useful life or remaining life of the building
Land improvements	9 years
Tenant improvements	Lesser of useful life or remaining term of the lease

*Impairment*—The Companies evaluate their real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Companies evaluate cash flows and determine impairments on an individual property basis. In making this determination, the Companies review, among other things, current and estimated future cash flows associated with each property, market information for each sub-market, including, where applicable, competition levels, foreclosure levels, leasing trends, occupancy trends, lease or room rates, and the market prices of similar properties recently sold or currently being offered for sale, and other quantitative and qualitative factors. If an impairment indicator exists, the Companies evaluate whether the expected future undiscounted cash flows is less than the carrying amount of the asset, and if the Companies determine that the carrying value is not recoverable, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset.

Real Estate Held for Sale

*Classification as Held for Sale*—Real estate is classified as held for sale in the period when (i) management approves a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, subject only to usual and customary terms, (iii) a program is initiated to locate a buyer and actively market the asset for sale at a reasonable price, and (iv) completion of the sale is probable within one year. Real estate held for sale is stated at the lower of its carrying amount or estimated fair value less disposal cost, with any write-down to fair value less disposal cost recorded as an impairment loss. For any increase in fair value less disposal cost subsequent to classification as held for sale, the impairment loss may be reversed, but only up to the amount of cumulative loss previously recognized. Depreciation is not recorded on assets classified as held for sale.

If circumstances arise that were previously considered unlikely and, as a result, the Companies decide not to sell the real estate asset previously classified as held for sale, the real estate asset is reclassified as held for investment. Upon reclassification, the real estate asset is measured at the lower of (i) its carrying amount prior to classification as held for sale, adjusted for depreciation expense that would have been recognized had the real estate been continuously classified as held for investment, and (ii) its estimated fair value at the time the Companies decide not to sell.

*Real Estate Sales*—The Companies evaluate if real estate sale transactions qualify for recognition under the full accrual method, considering whether, among other criteria, the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay, any receivable due to the Companies is not subject to future subordination, the Companies have transferred to the buyer the usual risks and rewards of ownership and the Companies do not have a substantial continuing involvement with the sold real estate. At the time the sale is consummated, a gain or loss is recognized as the difference between the sale price less disposal cost and the carrying value of the real estate.

Foreclosed Properties

The Companies receive foreclosed properties in full or partial settlement of loans receivable by taking legal title or physical possession of the properties. Foreclosed properties are recognized, generally, at the time the real estate is received at foreclosure sale or upon execution of a deed in lieu of foreclosure. Foreclosed properties are initially measured at fair value. Deficiencies compared to the carrying value of the loan, after reversing any previously recognized loss provision on the loan, are recorded as impairment loss. The Companies periodically evaluate foreclosed properties for subsequent decrease in fair value, which is recorded as additional impairment loss. Fair value of foreclosed properties is generally based on third party appraisals, broker price opinions, comparable sales or a combination thereof.

**Investments in Unconsolidated Ventures**

A noncontrolling, unconsolidated ownership interest in an entity may be accounted for using the equity method, cost method or under the fair value option, if elected.

The Companies account for investments under the equity method of accounting if they have the ability to exercise significant influence over the operating and financial policies of an entity, but do not have a controlling financial interest. The equity method investment is initially recorded at cost and adjusted each period for capital contributions, distributions and the Companies' share of the entity's net income or loss as well as other comprehensive income or loss. The Companies' share of net income or loss may differ from the stated ownership percentage interest in an entity if the governing documents prescribe a substantive non-pro rata earnings allocation formula or a preferred return to certain investors. For certain equity method investments, the Companies record their proportionate share of income on a one to three month lag. Distributions of operating profits from equity method investments are reported as operating activities, while distributions in excess of operating profits or those related to capital transactions, such as a financing transactions or sales, are reported as investing activities in the statement of cash flows.

Investments that do not qualify for equity method accounting are accounted for under the cost method. The Companies elected the fair value option for certain cost method investments, specifically limited partnership interests in third party sponsored private real estate funds. The Companies record the change in fair value for their share of the projected future cash flows of such investments in equity in earnings (losses) of unconsolidated ventures. Any change in fair value attributed to market related assumptions is recorded in other gain (loss), net, on the statement of operations.

Other than investments in private real estate funds acquired by Colony NorthStar from NRF in January 2017, all of the Companies' investments in unconsolidated ventures at December 31, 2017 and 2016 were made up of ADC arrangements accounted for as equity method investments. One ADC investment was deemed to be significant to the Companies for the years ended December 31, 2017, 2016 and 2015. Summarized financial information of the one significant equity method investment is presented below. The investee is engaged in real estate development and did not hold any operating real estate or generate any sales during the years ended December 31, 2016 and 2015, and all interest was capitalized. Therefore, results of operations for those periods were negligible. The investee commenced sales of its land under development in the fourth quarter of 2017, the results of which are summarized below.

*Summarized Balance Sheets*

(In thousands)	December 31,	
	2017	2016
<b>Assets</b>		
Real estate under development	\$ 165,908	\$ 160,213
Other assets	20,567	576
<b>Total assets</b>	<b>\$ 186,475</b>	<b>\$ 160,789</b>
<b>Liabilities</b>		
Debt	\$ 162,567	\$ 138,654
Other liabilities	4,868	5,360
<b>Total liabilities</b>	<b>\$ 167,435</b>	<b>\$ 144,014</b>

*Summarized Statement of Operations*

(In thousands)	Year Ended
	December 31, 2017
Property sales	\$ 37,800
Cost of sales	(35,351)
Gross profit	2,449
Other expenses	184
<b>Net income</b>	<b>\$ 2,265</b>

**Impairment**—If indicators of impairment exist, the Companies perform an evaluation of their equity method investments to assess whether the fair value of their investment is less than its carrying value. To the extent the decrease in value is considered to be other-than-temporary and an impairment has occurred, the investment is written down to its estimated fair value, recorded in earnings from investment in unconsolidated ventures.

### ***Identifiable Intangibles***

In a business combination or asset acquisition, the Companies may recognize identifiable intangibles that meet either or both the contractual-legal criterion or the separability criterion. Indefinite-lived intangibles are not subject to amortization until such time that its useful life is determined to no longer be indefinite, at which point, it will be assessed for impairment and its adjusted carrying amount amortized over its remaining useful life. Finite-lived intangibles are amortized over their useful life in a manner that reflects the pattern in which the intangible is being consumed if readily determinable, such as based upon expected cash flows; otherwise they are amortized on a straight line basis. The useful life of all identified intangibles will be periodically reassessed and if useful life changes, the carrying amount of the intangible will be amortized prospectively over the revised useful life. Finite-lived intangibles are periodically reviewed for impairment and an impairment loss is recognized if the carrying amount of the intangible is not recoverable and exceeds its fair value. An impairment establishes a new basis for the identifiable intangibles and any impairment loss recognized is not subject to subsequent reversal.

Identifiable intangibles recognized in acquisitions of operating real estate properties generally include in-place leases, above- or below-market leases and deferred leasing costs. In-place leases generate value over and above the tangible real estate because a property that is occupied with leased space is typically worth more than a vacant building without an operating lease contract in place. The estimated fair value of acquired in-place leases is derived based on management's assessment of costs avoided from having tenants in place, including lost rental income, rent concessions and tenant allowances or reimbursements, that hypothetically would be incurred to lease a vacant building to its actual existing occupancy level on the valuation date. The net amount recorded for acquired in-place leases is included in intangible assets and amortized on a straight-line basis as an increase to depreciation and amortization expense over the remaining term of the applicable leases. If an in-place lease is terminated, the unamortized portion is charged to depreciation and amortization expense.

The estimated fair value of the above- or below-market component of acquired leases represents the present value of the difference between contractual rents of acquired leases and market rents at the time of the acquisition for the remaining lease term, discounted for tenant credit risks. Above- or below-market operating lease values are amortized on a straight-line basis as a decrease or increase to rental income, respectively, over the applicable lease terms. This includes fixed rate renewal options in acquired leases that are below-market, which is amortized to decrease rental income over the renewal period. Above- or below-market ground lease obligations are amortized on a straight-line basis as a decrease or increase to rent expense, respectively, over the applicable lease terms. If the above- or below-market operating lease values or above- or below-market ground lease obligations are terminated, the unamortized portion of the lease intangibles are recorded in rental income or rent expense, respectively.

Deferred leasing costs represent management's estimation of the avoided leasing commissions and legal fees associated with an existing in-place lease. The net amount is included in intangible assets and amortized on a straight-line basis as an increase to depreciation and amortization expense over the remaining term of the applicable lease.

### ***Transfers of Financial Assets***

Sale accounting for transfers of financial assets is limited to the transfer of an entire financial asset, a group of financial assets in their entirety, or a component of a financial asset that meets the definition of a participating interest by having characteristics that are similar to the original financial asset.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Companies have any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following conditions: (1) the transferred asset has been legally isolated; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (3) the Companies do not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Companies to repurchase or redeem the asset before its maturity, (b) the unilateral ability by the Companies to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Companies to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If the criteria for sale accounting are met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions.

#### **Financing Costs**

Debt discounts and premiums as well as debt issuance costs (except for revolving credit arrangements) are presented net against the associated debt on the balance sheet and amortized into interest expense using the effective interest method over the contractual term of the debt or expected life of the debt instrument. Costs incurred in connection with revolving credit arrangements are recorded as deferred financing costs in other assets, and amortized on a straight-line basis over the expected term of the credit facility.

#### **Property Operating Income**

Property operating income includes the following.

**Rental Income**—Rental income is recognized on a straight-line basis over the noncancelable term of the related lease which includes the effects of minimum rent increases and rent abatements under the lease. Rents received in advance are deferred.

When it is determined that the Companies are the owner of tenant improvements, the cost to construct the tenant improvements, including costs paid for or reimbursed by the tenants, is capitalized. For tenant improvements owned by the Companies, the amount funded by or reimbursed by the tenants are recorded as deferred revenue, which is amortized on a straight-line basis as additional rental income over the term of the related lease. Rental income recognition commences when the leased space is substantially ready for its intended use and the tenant takes possession of the leased space.

When it is determined that the tenant is the owner of tenant improvements, the Companies' contribution towards those improvements is recorded as a lease incentive, included in deferred leasing costs and intangible assets on the balance sheet, and amortized as a reduction to rental income on a straight-line basis over the term of the lease. Rental income recognition commences when the tenant takes possession of the lease space.

**Tenant Reimbursements**—In net lease arrangements, the tenant is generally responsible for operating expenses relating to the property, including real estate taxes, property insurance, maintenance, repairs and improvements. Costs reimbursable from tenants and other recoverable costs are recognized as revenue in the period the recoverable costs are incurred. When the Companies are the primary obligor with respect to purchasing goods and services for property operations and has discretion in selecting the supplier and retains credit risk, tenant reimbursement revenue and property operating expenses are presented on a gross basis in the statements of operations. For certain triple net leases where the lessee self-manages the property, hires its own service providers and retains credit risk for routine maintenance contracts, no reimbursement revenue and expense are recognized.

**Hotel Operating Income**—Hotel operating income includes room revenue, food and beverage sales and other ancillary services. Revenue is recognized upon occupancy of rooms, consummation of sales and provision of services.

#### **Other Income**

Other income consists primarily of expense recoveries from borrowers as well as income from servicing and administration of a development loan. Expense recoveries from borrowers consist primarily of legal costs incurred in administering non-performing loans and foreclosed properties held by investment entities, which may be subsequently recovered through payments received when these investments are resolved, and income is recognized when the cost recoveries are determinable and repayment is assured.

#### **Income Taxes**

Under federal and state income tax rules, most of the Companies, as limited liability companies, are generally not subject to income taxes. Income or loss is includable in the income tax returns of the members. Certain of the Companies incur income taxes as taxable REIT subsidiaries. Certain entities within securitization structures are subject to taxation for portions of net income allocated to the residual interest holders. The Companies periodically evaluate their tax positions, including their status as pass-through entities, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of December 31, 2017, 2016 and 2015, the Companies have not established a liability for uncertain tax positions.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted, which provides for a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. At December 31, 2017, the Companies recognized a provisional amount of approximately \$2.0 million of income tax expense relating to the remeasurement of their deferred tax asset balances based on the rate at which they are expected to reverse in the future, which is generally 21%. The Companies are still analyzing certain aspects of the Tax Cuts and Jobs Act and refining their calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

#### **Future Application of Accounting Standards**

**Revenue Recognition**—In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, which amends existing revenue recognition standards by establishing principles for a single comprehensive model for revenue measurement and recognition, along with enhanced disclosure requirements. Key provisions include, but are not limited to, determining which goods or services are capable of being distinct in a contract to be accounted for separately as a performance obligation and recognizing variable consideration only to the extent that it is probable a significant revenue reversal would not occur. The new revenue standard may be applied retrospectively to each prior period presented (full retrospective) or retrospectively to contracts not completed as of date of initial application with the cumulative effect recognized in retained earnings (modified retrospective). ASU No. 2014-09 was originally effective for fiscal years and interim periods beginning after December 15, 2016 for public companies that are not emerging growth companies (“EGCs”) and December 15, 2017 for private companies and public companies that are EGCs. In July 2015, the FASB deferred the effective date of the new standard by one year. Early adoption is permitted but not before the original effective date. The FASB has subsequently issued several amendments to the standard, including clarifying the guidance on assessing principal versus agent based on the notion of control, which affects recognition of revenue on a gross or net basis. These amendments have the same effective date and transition requirements as the new standard.

Colony NorthStar Credit will adopt the standard using the modified retrospective approach on January 1, 2019. The standard excludes from its scope the areas of accounting that most significantly affect revenue recognition for the core activities of Colony NorthStar Credit, including accounting for financial instruments and leases. Evaluation of the impact of this new guidance is ongoing.

**Financial Instruments**—In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects accounting for investments in equity securities, financial liabilities under the fair value option, as well as presentation and disclosures, but does not affect accounting for investments in debt securities and loans. Investments in equity securities, other than equity method investments, will be measured at fair value through earnings, except for equity securities without readily determinable fair values which may be measured at cost less impairment and adjusted for observable price changes under application of the measurement alternative, unless these equity securities qualify for the net asset value (“NAV”) practical expedient. This provision eliminates cost method accounting and recognition of unrealized holding gains or losses on equity investments in other comprehensive income. For financial liabilities under the fair value option, changes in fair value resulting from the Company’s own instrument-specific credit risk will be recorded separately in other comprehensive income. Fair value disclosures of financial instruments measured at amortized cost will be based on exit price and corresponding disclosures of valuation methodology and significant inputs will no longer be required. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments, Recognition and Measurement of Financial Assets and Financial Liabilities*, which provided several clarifications and amendments to the standard. These include specifying that for equity instruments without readily determinable fair values for which the measurement alternative is applied: (i) adjustments made when an observable transaction occurs for a similar security are intended to reflect the fair value as of the observable transaction date, not as of current reporting date; (ii) the measurement alternative may be discontinued upon an irrevocable election to change to a fair value measurement approach under fair value guidance, which would apply to all identical and similar investments of the same issuer; and (iii) the prospective transition approach for equity securities without readily determinable fair values is applicable only when the measurement alternative is applied. ASU No. 2016-01 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs. Early adoption is limited to specific provisions. ASU 2016-01 is to be applied retrospectively with cumulative effect as of the beginning of the first reporting period adopted recognized in retained earnings, except for provisions related to equity investments without readily determinable fair values for which the measurement alternative is applied and exit price fair value disclosures for financial instruments measured at amortized cost, which are to be applied prospectively.



As of December 31, 2017, all of the Companies' investments in unconsolidated ventures are equity method investments and the Companies do not have any cost method investments nor have the Companies elected fair value option on their financial liabilities.

Colony NorthStar Credit will adopt the new guidance on January 1, 2019. Evaluation of the impact of this new guidance is ongoing.

**Leases**—In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which amends existing lease accounting standards, primarily requiring lessees to recognize most leases on balance sheet, as well as making targeted changes to lessor accounting. As lessee, a right-of-use asset and corresponding liability for future obligations under a leasing arrangement would be recognized on balance sheet. As lessor, gross leases will be subject to allocation between lease and non-lease service components, with the latter accounted for under the new revenue recognition standard. As the new lease standard requires congruous accounting treatment between lessor and lessee in a sale-leaseback transaction, if the seller/lessee does not achieve sale accounting, it would be considered a financing transaction to the buyer/lessor. Additionally, under the new lease standard, only incremental initial direct costs incurred in the execution of a lease can be capitalized by the lessor and lessee.

ASU No. 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs. Early adoption is permitted. The new leases standard requires adoption using a modified retrospective approach for all leases existing at, or entered into after, the date of initial application. Full retrospective application is prohibited. The FASB has subsequently issued and proposed several amendments to the standard, including a proposal to provide optional transitional relief to apply the effective date of the new lease standard as the date of initial application in transition instead of the earliest comparative period presented, as well as to provide certain practical expedients, which include not segregating non-lease components from the related lease components but to account for those components as a single lease component by class of underlying assets.

Colony NorthStar Credit intends to adopt the package of practical expedients under the guidance, which provides exemptions from having to reassess whether any expired or expiring contracts contain leases, revisit lease classification for any expired or expiring leases and reassess initial direct costs for any existing leases.

If the proposed amendments by the FASB are approved, Colony NorthStar Credit expects to adopt the transition option, in which case, the cumulative effect adjustment to the opening balance of retained earnings will be recognized as of the effective date of adoption, including new disclosures, rather than as of the earliest period presented, and are not required for prior comparative periods. In addition, Colony NorthStar Credit expects to make an accounting policy election to treat lease and related non-lease components in a contract as a single performance obligation to the extent that the timing and pattern of revenue recognition are the same for the lease and non-lease components and the combined single lease component is classified as an operating lease.

Evaluation of the impact of this new guidance to Colony NorthStar Credit is ongoing.

**Credit Losses**—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses*, which amends the credit impairment model for financial instruments. The existing incurred loss model will be replaced with a lifetime current expected credit loss ("CECL") model for financial instruments carried at amortized cost and off-balance sheet credit exposures, such as loans, loan commitments, held-to-maturity ("HTM") debt securities, financial guarantees, net investment in leases, reinsurance and trade receivables, which will generally result in earlier recognition of allowance for losses. For AFS debt securities, unrealized credit losses will be recognized as allowances rather than reductions in amortized cost basis and elimination of the OTTI concept will result in more frequent estimation of credit losses. The accounting model for purchased credit impaired loans and debt securities will be simplified, including elimination of some of the asymmetrical treatment between credit losses and credit recoveries, to be consistent with the CECL model for originated and purchased non-credit impaired assets. The existing model for beneficial interests that are not of high credit quality will be amended to conform to the new impairment models for HTM and AFS debt securities. Expanded disclosures on credit risk include credit quality indicators by vintage for financing receivables and net investment in leases. Transition will generally be on a modified retrospective basis, with prospective application for other-than-temporarily impaired debt securities and purchased credit impaired assets. ASU No. 2016-13 is effective for fiscal years and interim periods beginning after December 15, 2019 for public companies that are not EGCs and December 15, 2020 for private companies and public companies that are EGCs. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. Colony NorthStar Credit expects that recognition of credit losses will generally be accelerated under the CECL model. Evaluation of the impact of this new guidance is ongoing.

**Cash Flow Classifications**—In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce diversity in practice in certain classifications on the statement of cash flows. This guidance addresses eight types of cash flows, which includes clarifying how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows, as well as requiring an accounting policy election for classification of distributions received from equity method investees using either the cumulative earnings or nature of distributions approach, among others. Transition will generally be on a retrospective basis. ASU No. 2016-15 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs. Early adoption is permitted, provided that all amendments within the guidance are adopted in the same period. Colony NorthStar Credit will adopt the new guidance on January 1, 2019. Upon adoption, Colony NorthStar Credit anticipates making an accounting policy election for classification of distributions from its equity method investees using the cumulative earnings approach.

**Restricted Cash**—In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that cash and cash equivalent balances in the statement of cash flows include restricted cash and restricted cash equivalent amounts, and therefore, changes in restricted cash and restricted cash equivalents be presented in the statement of cash flows. This will eliminate the presentation of transfers between cash and cash equivalents with restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, this ASU requires disclosure of a reconciliation between the totals in the statement of cash flows and the related captions in the balance sheet. The new guidance also requires disclosure of the nature of restricted cash and restricted cash equivalents, similar to existing requirements under Regulation S-X; however, it does not define restricted cash and restricted cash equivalents. ASU No. 2016-18 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs, to be applied retrospectively, with early adoption permitted. If early adopted in an interim period, adjustments are to be reflected as of the beginning of the fiscal year of adoption. As of December 31, 2017, the Companies have \$41.9 million of restricted cash that will be subject to changes in presentation on the statement of cash flows. Colony NorthStar Credit will adopt the new guidance on January 1, 2019.

**Derecognition and Partial Sales of Nonfinancial Assets**—In February 2017, the FASB issued ASU 2017-05, *Clarifying the Scope of Asset Derecognition and Accounting for Partial Sales of Nonfinancial Assets*, which clarifies the scope and application of Accounting Standards Codification (“ASC”) 610-20, *Other Income—Gains and Losses from Derecognition of Nonfinancial Assets*, and defines in substance nonfinancial assets. ASC 610-20 applies to derecognition of all nonfinancial assets which are not contracts with customers or revenue transactions under ASC 606, *Revenue from Contracts with Customers*. Derecognition of a business is governed by ASC 810, *Consolidation*, while derecognition of financial assets, including equity method investments, even if the investee holds predominantly nonfinancial assets, is governed by ASC 860, *Transfers and Servicing*. The ASU also aligns the accounting for partial sales of nonfinancial assets to be more consistent with accounting for sale of a business. Specifically, in a partial sale to a noncustomer, when a noncontrolling interest is received or retained, the latter is considered a noncash consideration and measured at fair value in accordance with ASC 606, which would result in full gain or loss recognized upon sale. This ASU removes guidance on partial exchanges of nonfinancial assets in ASC 845, *Nonmonetary Transactions*, and eliminates the real estate sales guidance in ASC 360-20, *Property, Plant and Equipment—Real Estate Sales*. ASU 2017-05 has the same effective date as the new revenue guidance, which is January 1, 2018 for public companies that are not EGCs and January 1, 2019 for private companies and public companies that are EGCs, with early adoption permitted beginning January 1, 2017. Both ASC 606 and ASC 610-20 must be adopted concurrently. While the transition method is similar to the new revenue guidance, either full retrospective or modified retrospective, the transition approach applied need not be aligned between both standards.

Colony NorthStar Credit will adopt the new guidance on January 1, 2019 using the modified retrospective approach, consistent with the adoption of the new revenue standard. Under the new standard, if a partial interest in real estate is sold to noncustomers or contributed to unconsolidated ventures, and a noncontrolling interest in the asset is retained, such transactions could result in a larger gain on sale. The adoption of this standard could have a material impact to the results of operations in a period that a significant partial interest in real estate is sold. There were no such sales in the year ended December 31, 2017.

3. Loans Receivable

*Loans Held for Investment*

The following tables provide a summary of the Companies' loans held for investment:

(In thousands)	December 31, 2017		December 31, 2016	
	Unpaid Principal Balance	Carrying Value	Unpaid Principal Balance	Carrying Value
<b>Non-PCI Loans</b>				
<i>Fixed rate</i>				
Mortgage loans	\$ 471,669	\$ 463,748	\$ 345,214	\$ 332,778
Mezzanine loans	141,931	141,828	95,561	95,992
	<u>613,600</u>	<u>605,576</u>	<u>440,775</u>	<u>428,770</u>
<i>Variable rate</i>				
Mortgage loans	260,366	260,932	293,413	293,022
Securitized loans (1)	377,939	379,670	696,142	697,463
Mezzanine loans	34,391	34,279	34,477	34,278
	<u>672,696</u>	<u>674,881</u>	<u>1,024,032</u>	<u>1,024,763</u>
	<u>1,286,296</u>	<u>1,280,457</u>	<u>1,464,807</u>	<u>1,453,533</u>
<b>PCI Loans</b>				
Mortgage loans	21,444	20,844	75,346	73,279
Allowance for loan losses	NA	(517)	NA	(3,386)
<b>Loans receivable, net</b>	<b>\$ 1,307,740</b>	<b>\$ 1,300,784</b>	<b>\$ 1,540,153</b>	<b>\$ 1,523,426</b>

	December 31, 2017		December 31, 2016	
	Weighted Average Coupon	Weighted Average Maturity in Years	Weighted Average Coupon	Weighted Average Maturity in Years
<b>Non-PCI Loans</b>				
<i>Fixed rate</i>				
Mortgage loans	8.3%	2.0	8.8%	3.0
Mezzanine loans	13.2%	3.2	13.5%	1.3
<i>Variable rate</i>				
Mortgage loans	8.1%	2.3	8.4%	0.8
Securitized loans (1)	6.7%	0.3	6.0%	0.8
Mezzanine loans	9.8%	1.3	9.0%	2.3

(1) Represents loans transferred into securitization trusts that are consolidated by the Companies.

*Nonaccrual and Past Due Loans*

Non-PCI loans that are 90 days or more past due as to principal or interest, or where reasonable doubt exists as to timely collection, are generally considered nonperforming and placed on nonaccrual status. The following table provides an aging summary of non-PCI loans held for investment at carrying values before allowance for loan losses.

(In thousands)	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Nonaccrual	Total Non-PCI Loans
December 31, 2017	\$ 1,101,522	\$ 144,241	\$ 7,929	\$ 26,765	\$ 1,280,457
December 31, 2016	1,429,656	—	—	23,877	1,453,533

*Troubled Debt Restructuring*

At December 31, 2017 and 2016, there was one mezzanine loan modified in a TDR with carrying value before allowance for loan losses of \$28.6 million and \$28.5 million, respectively. The loan had been modified in 2015. The Companies also have three other loans with a combined carrying value of \$108.5 million that are cross-defaulted with the TDR loan to the same borrower. Two loans matured in November 2017 and were in default at December 31, 2017, while the third loan remains current. All four loans are collateralized with 27 office, retail, multifamily and industrial properties with an estimated aggregate fair value of approximately \$137.1 million. In February 2018, the borrower and the Companies entered into a forbearance agreement to allow both parties to review the exit strategy for a period through the end of May 2018, which may be extended at the Company's option for an additional 120 day period. No provision for loan loss was made in 2017 on the two defaulted loans as the Companies believe there is sufficient collateral value to cover the outstanding loan balances in aggregate. The Companies have no additional commitments to lend to the borrower with the TDR loan.

There were no loans modified as TDRs during the years ended December 31, 2017 and 2016.

*Non-PCI Impaired Loans*

Non-PCI loans are identified as impaired when it is no longer probable that interest or principal will be collected according to the contractual terms of the original loan agreement. Non-PCI impaired loans include predominantly loans under nonaccrual, performing and nonperforming TDRs. The following table presents non-PCI impaired loans at the respective reporting dates:

(In thousands)	Unpaid Principal Balance	Gross Carrying Value			Allowance for Loan Losses
		With Allowance for Loan Losses	Without Allowance for Loan Losses	Total	
December 31, 2017	\$ 215,997	\$ 42,176	\$ 175,090	\$217,266	\$ 517
December 31, 2016	52,118	23,877	28,465	52,342	3,386

The average carrying value and interest income recognized on non-PCI impaired loans were as follows:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Average carrying value before allowance for loan losses	\$83,316	\$39,505	\$13,334
Interest income	8,031	3,714	2,937

*Purchased Credit-Impaired Loans*

Changes in accretable yield of PCI loans were as follows:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Beginning accretable yield	\$ 5,929	\$ 13,771	\$ 12,729
Changes in accretable yield	(807)	(172)	6,762
Accretion recognized in earnings	(4,396)	(7,670)	(5,720)
Ending accretable yield	\$ 726	\$ 5,929	\$ 13,771

*Allowance for Loan Losses*

As of December 31, 2017 the allowance for loan losses was \$0.5 million related to \$42.2 million in carrying value of non-PCI loans. As of December 31, 2016 the allowance for loan losses was \$3.4 million related to \$23.9 million in carrying value of non-PCI loans.

Changes in allowance for loan losses on non-PCI loans are presented below:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Allowance for loan losses at beginning of period	\$ 3,386	\$ —	\$ —
Provision for loan losses	518	3,386	721
Charge-off	(3,387)	—	(721)
Allowance for loan losses at end of period	\$ 517	\$3,386	\$ —

**4. Real Estate**

The Companies' real estate at December 31, 2017 comprised predominantly net lease properties from the NRF portfolio acquired through the CLNS Merger and foreclosed properties. At December 31, 2016, the Companies owned one foreclosed property, which was classified as held for sale and sold in 2017.

(In thousands)	December 31,	
	2017	2016
Land and improvements	\$ 25,959	\$ 2,344
Buildings, building leaseholds and improvements	196,698	6,703
Tenant improvements	2,352	36
Furniture, fixtures and equipment	680	—
Construction-in-progress	21	—
	225,710	9,083
Less: Accumulated depreciation	(5,970)	(145)
Real estate, net	<u>\$ 219,740</u>	<u>\$ 8,938</u>

**Future Minimum Rents**

Future contractual minimum rental payments to be received under noncancelable operating leases for real estate held for investment as of December 31, 2017 are as follows:

Year Ending December 31,	(In thousands)
2018	\$ 13,664
2019	13,747
2020	13,841
2021	12,742
2022	10,843
2023 and after	12,674
Total	<u>\$ 77,511</u>

**5. Deferred Leasing Costs and Intangibles**

The Companies' deferred leasing costs, other intangible assets and intangible liabilities at December 31, 2017 are as follows. Balances at December 31, 2016 and 2015 were de minimis. Intangible liabilities are included in accrued and other liabilities on the combined balance sheets.

(In thousands)	December 31, 2017		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Deferred Leasing Costs and Intangible Assets</b>			
In-place lease values	\$ 9,214	\$ (2,657)	\$ 6,557
Above-market lease values	1,682	(283)	1,399
Below-market ground lease obligations	52	(8)	44
Deferred leasing costs	3,671	(657)	3,014
	<u>\$ 14,619</u>	<u>\$ (3,605)</u>	<u>\$ 11,014</u>
<b>Intangible Liabilities</b>			
Below-market lease values	<u>\$ 51</u>	<u>\$ (15)</u>	<u>\$ 36</u>

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The following table summarizes the amortization of deferred leasing costs and intangible assets and intangible liabilities for the year ended December 31, 2017. Amortization for the year ended December 31, 2016 and 2015 were de minimis:

(In thousands)	Year Ended December 31, 2017
Above-market lease values	\$ (283)
Below-market lease values	15
Net decrease to rental income	\$ (268)
Below-market ground lease obligations	\$ 8
Increase to ground rent expense	\$ 8
In-place lease values	\$ 2,657
Deferred leasing costs	655
Amortization expense	\$ 3,312

The following table presents the amortization of deferred leasing costs, intangible assets and intangible liabilities for each of the next five years and thereafter as of December 31, 2017:

(In thousands)	2018	2019	2020	2021	2022	2023 and after	Total
Above-market lease values	\$ 296	\$ 296	\$ 283	\$ 235	\$ 211	\$ 78	\$ 1,399
Below-market lease values	(15)	(15)	(6)	—	—	—	(36)
Decrease to rental income	\$ 281	\$ 281	\$ 277	\$ 235	\$ 211	\$ 78	\$ 1,363
Below-market ground lease obligations	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 4	\$ 44
Increase to property operating expense	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 4	\$ 44
In-place lease values	\$ 1,327	\$ 1,327	\$ 1,273	\$ 1,051	\$ 788	\$ 791	\$ 6,557
Deferred leasing costs	562	562	551	464	396	479	3,014
Amortization expense	\$ 1,889	\$ 1,889	\$ 1,824	\$ 1,515	\$ 1,184	\$ 1,270	\$ 9,571

**6. Other Assets and Liabilities**

The following table summarizes the Companies' other assets:

(In thousands)	December 31,	
	2017	2016
Interest receivable	\$ 10,023	\$ 11,601
Straight-line rents and rent receivable	723	—
Derivative assets	117	—
Loan payoff proceeds held in escrow	9,720	—
Prepaid taxes and deferred tax assets, net of a \$3.2 million valuation allowance <sup>(1)</sup>	15,549	236
Prepaid expenses, accounts receivable and other assets	907	568
	<u>\$ 37,039</u>	<u>\$ 12,405</u>

<sup>(1)</sup> At December 31, 2017, consists predominantly of prepaid taxes related to the Companies' investments in private real estate funds.

The following table summarizes the Companies' accrued and other liabilities:

(In thousands)	December 31,	
	2017	2016
Borrower escrow deposits	\$ 36,961	\$ 58,530
Tenant security deposits	118	—
Deferred income	481	1,723
Interest payable	924	685
Current and deferred tax liability	118	235
Accounts payable, accrued expenses and other liabilities	3,569	3,042
	<u>\$ 42,171</u>	<u>\$ 64,215</u>

**7. Debt**

The Companies' debt is made up of the following components:

(In thousands)	Secured Debt	Securitization Bonds Payable	Total Debt
<b>December 31, 2017</b>			
Principal	\$284,035	\$ 108,794	\$392,829
Purchase discount, net (1)	(1,650)	—	(1,650)
Deferred financing costs	(1,403)	(115)	(1,518)
	<u>\$280,982</u>	<u>\$ 108,679</u>	<u>\$389,661</u>
<b>December 31, 2016</b>			
Principal	\$103,641	\$ 403,117	\$506,758
Deferred financing costs	(1,828)	(2,517)	(4,345)
	<u>\$101,813</u>	<u>\$ 400,600</u>	<u>\$502,413</u>

(1) Pertains to secured debt from NRF assumed at fair value in connection with the CLNS Merger.

Secured debt represents investment level financing secured by mortgage loans receivable and commercial real estate, and is generally non-recourse to the owners.

Securitization bonds payable represent debt issued by securitization vehicles consolidated by the Companies. Senior notes issued by these securitization trusts were generally sold to third parties and subordinated notes retained by the Companies. Payments from underlying collateral loans must be applied to repay the notes until fully paid off, irrespective of the contractual maturities of the notes.

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The following table summarizes certain information about the Companies' debt:

(Amounts in thousands) Type	Interest Rate (Per Annum) (1)	Current Maturity Date	Payment Terms (1)	Outstanding Principal December 31,	
				2017	2016
<b>Secured Debt</b>					
<b>Real Estate Debt</b>					
Hotel development loan (2)	1ML+3.50%	Oct-2019	I/O	\$ 130,000	\$ 58,183
Warehouse facility A (3)	1ML+2.50%	NA	I/O	—	17,598
Warehouse facility B (4)	1ML+2.65%	NA	I/O	—	27,860
Hotel A-Note (5)	1ML+1.60%	May-2023	P&I	50,314	—
<b>Real Estate Equity</b>					
Net lease 1	4.45%	Oct-2027	I/O	25,074	—
Net lease 2	4.45%	Nov-2026	I/O	3,544	—
Net lease 3	4.45%	Nov-2026	I/O	7,647	—
Net lease 4	4.00%	Jun-2021	I/O	13,133	—
Net lease 5	1ML+2.15%	Jul-2023	I/O	2,482	—
Net lease 6	4.08%	Aug-2026	I/O	32,600	—
Net lease 7	4.45%	Nov-2026	(6)	19,241	—
				<u>284,035</u>	<u>103,641</u>
<b>Securitization Bonds Payable (7)</b>					
2014 FL1	1ML+3.24%	Apr-2031	I/O	27,119	57,626
2014 FL2	1ML+3.48%	Nov-2031	I/O	55,430	145,421
2015 FL3	1ML+4.50%	Sept-2032	I/O	26,245	200,070
				<u>108,794</u>	<u>403,117</u>
<b>Total</b>				<b>\$ 392,829</b>	<b>\$ 506,758</b>

(1) Interest rate: 1ML = 1-month LIBOR (London Interbank Offered Rate). Interest rates presented are as of December 31, 2017. Multiple classes of securitization bonds are outstanding; spreads are expressed as weighted averages based on outstanding principal.

Payment terms: P&I = Periodic payment of principal and interest; I/O = Periodic payment of interest only with principal at maturity (except for principal repayments to release collateral properties disposed).

- (2) A development loan originated by the Companies was restructured into a senior and junior note, with the senior note assumed by a third party lender. The Companies accounted for the transfer of the senior note as a financing transaction. The senior note bears interest at 1ML plus 3.5%, with a 4.0% floor, and is subject to two 1-year extension options on its initial term, exercisable by the borrower.
- (3) The facility was paid off and terminated in March 2017.
- (4) The facility was paid off and terminated in September 2017.
- (5) Represents the Companies' senior participation interest in a first mortgage loan that was transferred at cost into a securitization trust with the transfer accounted for as a secured financing transaction. The Companies did not retain any legal interest in the senior participation and retained the junior participation on an unleveraged basis.
- (6) Payment terms are P&I for debt on two properties and I/O for debt on one property.
- (7) The Companies, through indirect Cayman subsidiaries, securitized commercial mortgage loans originated by the Companies. Senior notes issued by the securitization trusts were generally sold to third parties and subordinated notes retained by the Companies. These securitizations are accounted for as secured financing with the underlying mortgage loans pledged as collateral. Principal payments from underlying collateral loans must be applied to repay the notes until fully paid off, irrespective of the contractual maturities on the notes. Underlying collateral loans have initial terms of two to three years.

**Future Minimum Principal Payments**

The following table summarizes future scheduled minimum principal payments at December 31, 2017 based on current contractual maturity, except for financing on certain loan portfolios, which are based on the Companies' expectation of cash flows from underlying loan collateral as principal repayments on the loan financing depend upon net cash flows from collateral assets and ratio of outstanding principal to collateral.



<u>(In thousands)</u>	<u>Secured Debt</u>	<u>Securitization Bonds Payable (1)</u>	<u>Total</u>
<b>Year Ending December 31,</b>			
2018	\$ 2,247	\$ —	\$ 2,247
2019	134,128	—	134,128
2020	4,221	—	4,221
2021	16,117	—	16,117
2022	4,068	—	4,068
2023 and after	123,254	108,794	232,048
Total	<u>\$ 284,035</u>	<u>\$ 108,794</u>	<u>\$ 392,829</u>

(1) For securitization bonds payable, principal may be repaid earlier if the underlying loans are repaid by borrowers. If based on reasonable expectations of cash flows from underlying loans, \$62.7 million and \$46.1 million would be due in 2018 and 2019, respectively.

## 8. Fair Value

### Recurring Fair Values

*Derivatives*—At December 31, 2017, the Companies held an interest rate cap with a \$130 million notional, 2.5% strike, maturing in November 2020, and an amortizing interest rate swap with a \$2.5 million notional, 4.165% strike, maturing in July 2023, included in other assets on the combined balance sheets. The combined value of the instruments at December 31, 2017 was \$117,000. These interest rate contracts economically hedge the Companies' interest rate risk on floating rate financing and are not designated as accounting hedges. For the year ended December 31, 2017, unrealized loss of approximately \$0.4 million from fair value changes on the interest rate contracts was recorded in other loss, net, in the combined statement of operations. Quotations on over-the-counter derivatives are not adjusted and are generally valued using observable inputs such as contractual cash flows, yield curve, and credit spreads, and are classified as Level 2 of the fair value hierarchy. If a significant credit valuation adjustment is applied to a derivative instrument to account for the risk of non-performance, such fair value measurement is classified as Level 3 of the fair value hierarchy. Although credit valuation adjustments, such as the risk of default, rely on Level 3 inputs, these inputs are not significant to the overall valuation of its derivatives. As a result, derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Companies did not hold any derivatives at December 31, 2016.

*Investment in Unconsolidated Ventures*—The Companies elected the fair value option to account for their investments in private real estate funds, included in investments in unconsolidated ventures on the combined balance sheets. Fair value of investments in private real estate funds is determined using discounted cash flow models based on expected future cash flows for income and realization events of the underlying assets of the funds, with a weighted average discount rate of 12.4%, and classified as Level 3 of the fair value hierarchy. The Companies consider cash flow and net asset value ("NAV") information provided by general partners of private funds and the implied yields of those funds in valuing its investments in private funds. However, the Companies have not elected the practical expedient to measure the fair value of their investments in private funds using the NAV of the underlying funds.

The following table presents changes in fair value of investments in private real estate funds:

<u>(In thousands)</u>	
<b>Fair value at December 31, 2016</b>	<b>\$ —</b>
Acquired through the CLNS Merger	70,609
Contributions	1,716
Distributions	(49,344)
Income	5,138
Unrealized loss in earnings	(3,702)
<b>Fair value at December 31, 2017</b>	<b>\$ 24,417</b>
Change in unrealized loss related to balance at December 31, 2017 recorded in earnings	<u>\$ (3,702)</u>

**Nonrecurring Fair Values**

The Companies may carry certain assets at fair value on a nonrecurring basis at the lower of carrying value and fair value less estimated costs to sell if an asset is held for sale, or at fair value if an asset is impaired and held for investment. At December 31, 2017, 2016 and 2015, there were no assets that had been written down to fair value.

**Fair Value Information on Financial Instruments Reported at Cost**

Carrying amounts and estimated fair values of financial instruments reported at amortized cost are presented below:

(In thousands)	December 31, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Assets</b>				
Loans held for investment	\$ 1,311,783	\$ 1,300,784	\$ 1,531,042	\$ 1,523,426
<b>Liabilities</b>				
Secured debt	282,333	280,982	103,641	101,813
Securitization bonds payable	108,794	108,679	393,595	400,600

*Loans Receivable*—Loans receivable consist of first mortgages and subordinated mortgages, including such loans held by securitization trusts consolidated by the Companies. Fair values were determined by comparing the current yield to the estimated yield or newly originated loans with similar credit risk or the market yield at which a third party might expect to purchase such investment; or based on discounted cash flow projections of principal and interest expected to be collected, which include consideration of the financial standing of the borrower or sponsor as well as operating results of the underlying collateral. Fair value of loans receivable is classified as Level 3 of the fair value hierarchy. Carrying values of loans held for investment are presented net of allowance for loan losses, where applicable.

*Debt*—Fair value of secured debt was estimated by discounting expected future cash outlays at interest rates currently available for instruments with similar terms and remaining maturities, and such fair values approximated carrying value for floating rate debt with credit spreads that approximate market rates. Fair value of secured debt is classified as Level 3 of the fair value hierarchy. Fair value of securitization bonds payable was based on quotations from brokers or financial institutions that act as underwriters of the securitized bonds and are classified as Level 2 of the fair value hierarchy.

*Other*—The carrying values of cash, interest receivable, accounts receivable, interest payable and accounts payable approximate fair value due to their short term nature and credit risk, if any, are negligible.

**9. Transactions with Affiliates**

***Cost Reimbursements to Colony NorthStar***

The Companies reimburse Colony NorthStar for costs incurred on their behalf, including costs of its asset management personnel based upon time spent and an allocation of overhead attributable to asset management personnel. For the years ended December 31, 2017, 2016 and 2015, the Companies were allocated \$0.5 million, \$0.4 million and \$0.4 million, respectively, in costs of asset management. Such costs are included in transaction, investment and servicing expense in the combined statements of operations.

***Expense Allocations***

The combined financial statements present the operations of the Companies as carved out from the financial statements of Colony NorthStar. Certain general and administrative costs borne by Colony NorthStar, including, but not limited to, compensation and benefits, and corporate overhead, have been allocated to the Companies using reasonable allocation methodologies. Such costs do not necessarily reflect what the actual general and administrative costs would have been if the Companies had been operating as a separate stand-alone public company. Allocated amounts are included as a component of administrative expenses in the combined statements of operations. The following table summarizes the amounts allocated from Colony NorthStar to the Companies, solely for purposes of these carve-out financial statements.

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Compensation and benefits	\$ 7,955	\$ 10,102	\$ 10,008
Corporate overhead	2,757	3,362	3,044
Professional services and other	1,433	1,655	1,935
	<u>\$12,145</u>	<u>\$ 15,119</u>	<u>\$ 14,987</u>

## 10. Commitments and Contingencies

### Investment Commitments

The Companies have lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding based on the achievement of certain criteria, which must be approved by the Companies as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. At December 31, 2017, assuming the terms to qualify for future fundings, if any, have been met, total unfunded lending commitments was \$19.2 million.

### Ground Lease Obligations

In connection with real estate acquisitions, the Companies assumed certain noncancelable operating ground leases as lessee or sublessee with expiration dates through 2027. Rents on certain ground leases are paid directly by the tenants. Ground rent expense for the year ended December 31, 2017 was approximately \$2.1 million. The Companies were not lessees to any ground leases in 2016 and 2015.

At December 31, 2017, future minimum rental payments, excluding contingent rents, on noncancelable ground leases on real estate were as follows:

Year Ending December 31,	(In thousands)
2018	\$ 2,000
2019	2,011
2020	2,010
2021	1,842
2022	1,798
2023 and after	3,136
Total	<u>\$ 12,797</u>

### Litigation

The Companies may be involved in litigation and claims in the ordinary course of business. As of December 31, 2017, the Companies were not involved in any legal proceedings that are expected to have a material adverse effect on the Companies' results of operations, financial position or liquidity.

## 11. Segment Reporting

The Companies' business is segregated into two reportable segments:

- *Real Estate Debt*—Originations including senior and subordinated mortgage loans, as well as secondary loan acquisitions including performing and non-performing commercial real estate debt, real estate acquired in settlement of loans as well as ADC arrangements accounted for as equity method investments.
- *Real Estate Equity*—Acquisition of operating properties and investments in real estate private equity funds.

Each reportable segment has assets with distinct economic characteristics, consisting of real estate debt and real estate equity, which generate distinct revenue streams of interest income and property operating income, respectively.

**Selected Segment Results of Operations**

The following table presents selected results of operations of the Companies' reportable segments:

<u>(In thousands)</u>	<u>Real Estate Debt</u>	<u>Real Estate Equity</u>	<u>Total</u>
<b><u>Year Ended December 31, 2017</u></b>			
Total revenues	\$ 143,353	\$ 21,402	\$164,755
Interest expense	21,019	5,095	26,114
Property operating expenses	2,291	5,687	7,978
Depreciation and amortization	329	8,808	9,137
Earnings from investments in unconsolidated ventures	23,273	1,436	24,709
Income tax expense	(87)	(2,121)	(2,208)
<b>Net income</b>	<b>127,101</b>	<b>779</b>	<b>127,880</b>
<b>Net income attributable to owners</b>	<b>126,412</b>	<b>779</b>	<b>127,191</b>
<b><u>Year Ended December 31, 2016</u></b>			
Total revenues	\$ 142,203	\$ —	\$142,203
Interest expense	26,031	—	26,031
Property operating expenses	905	—	905
Depreciation and amortization	146	—	146
Provision for loan loss	3,386	—	3,386
Earnings from investments in unconsolidated ventures	16,067	—	16,067
Income tax expense	(1,521)	—	(1,521)
<b>Net income</b>	<b>109,021</b>	<b>—</b>	<b>109,021</b>
<b>Net income attributable to owners</b>	<b>108,285</b>	<b>—</b>	<b>108,285</b>
<b><u>Year Ended December 31, 2015</u></b>			
Total revenues	\$ 112,712	\$ —	\$112,712
Interest expense	18,949	—	18,949
Property operating expenses	67	—	67
Provision for loan loss	721	—	721
Earnings from investments in unconsolidated ventures	6,115	—	6,115
Income tax expense	(247)	—	(247)
<b>Net income</b>	<b>81,608</b>	<b>—</b>	<b>81,608</b>
<b>Net income attributable to owners</b>	<b>80,554</b>	<b>—</b>	<b>80,554</b>

Total assets and equity method investments of the reportable segments are summarized as follows:

<u>(In thousands)</u>	<u>Real Estate Debt</u>	<u>Real Estate Equity</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>			
Total assets	\$ 1,573,714	\$ 265,688	\$1,839,402
Equity method investments (1)	179,303	24,417	203,720
<b><u>December 31, 2016</u></b>			
Total assets	\$ 1,802,192	\$ —	\$1,802,192
Equity method investments	155,537	—	155,537

(1) Includes investments in private real estate funds that are accounted for under the fair value option.

*Geography*

Geography is generally defined as the location in which the income producing assets reside or the location in which income generating services are performed. Long-lived assets comprise real estate, deferred leasing costs and intangible assets, all of which are located in the United States. Geography information on total income, which includes earnings from investments in unconsolidated ventures, is presented as follows:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
<b>Total income by geography:</b>			
United States	\$ 185,853	\$ 154,418	\$ 114,981
Other	3,611	3,852	3,846
Total	<u>\$ 189,464</u>	<u>\$ 158,270</u>	<u>\$ 118,827</u>

**12. Subsequent Events**

On January 18, 2018, the Combination was approved by the stockholders of NorthStar I and NorthStar II. The CLNS Contributed Portfolio was contributed to Colony NorthStar Credit upon closing of the Combination on January 31, 2018. Additional information on the Combination is discussed in Note 1.

Subsequent events have been evaluated through March 23, 2018, the date that these combined financial statements were available to be issued.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to assure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission's ("SEC's") rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2017, our disclosure controls and procedures were effective at the reasonable assurance level such that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

**Management Report or Attestation Report Regarding Internal Control**

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Board of Directors

The following table sets forth certain information with respect to our directors.

Name	Age	Director Since	Title
Richard B. Saltzman	61	2017	Chairman of the Board of Directors
Kevin P. Traenkle	47	2018	Director, Chief Executive Officer and President
Darren J. Tangen	47	2018	Director
Catherine D. Rice	58	2018	Director
Vernon B. Schwartz	67	2018	Director
John E. Westerfield	58	2018	Director
Winston W. Wilson	49	2018	Director

All of our directors were appointed on January 29, 2018, except for Mr. Saltzman, who was appointed on August 23, 2017. During 2017, our Board of Directors consisted of a sole director who did not have a formal meeting. Set forth below is biographical information for our directors. Our directors serve until the next annual meeting of stockholders of the Company and his or her successor is duly elected and qualified.

*Richard B. Saltzman* is Chairman of the Board of Directors. Mr. Saltzman is the Chief Executive Officer and President and a member of the board of directors of Colony NorthStar, an indirect stockholder of the Company, having previously held the positions of Chief Executive Officer, President and a member of the board of directors of Colony Capital, Inc. ("Colony Capital"). Prior to joining the Colony business in 2003, Mr. Saltzman spent 24 years in the investment banking business primarily specializing in real estate-related businesses and investments. Most recently, Mr. Saltzman was a Managing Director and Vice Chairman of Merrill Lynch's investment banking division. As a member of the investment banking operating committee, he oversaw the firm's global real estate, hospitality and restaurant businesses. Previously, he also served as Chief Operating Officer of Investment Banking and had responsibility for Merrill Lynch's Global Leveraged Finance business. Mr. Saltzman was also responsible for various real estate-related principal investments, including the Zell/Merrill Lynch series of funds, which acquired more than \$3.0 billion of CRE assets and where he was a member of the investment committee.

Mr. Saltzman serves on the board of directors of Kimco Realty Corporation (NYSE: KIM) and the Board of Trustees of NorthStar Europe (NYSE: NRE), and served on the Board of Trustees of Colony Starwood Homes (NYSE: SFR) from January 2016 to June 2017. Previously, he was also a member of the Board of Governors of NAREIT, on the board of directors of the Real Estate Roundtable and a member of the Board of Trustees of the Urban Land Institute, Treasurer of the Pension Real Estate Association, a Director of the Association of Foreign Investors in Real Estate and a past Chairman of the Real Estate Capital Policy Advisory Committee of the National Realty Committee. Mr. Saltzman received his Bachelor of Arts from Swarthmore College in 1977 and a Master of Science in Industrial Administration from Carnegie Mellon University in 1979.

Mr. Saltzman's expertise in real estate-related businesses, investments and capital markets, developed through more than 37 years of real estate principal investing and investment banking experience, provides a valuable perspective to the Board of Directors. Mr. Saltzman's current and past service on the boards of a real estate investment trust and other real estate-based organizations also provides the Board of Directors with valuable perspectives into the real estate industry.

*Kevin P. Traenkle* is the Chief Executive Officer, President and a director of the Company. Mr. Traenkle is an Executive Vice President and Chief Investment Officer of Colony NorthStar, having previously held the position of Executive Director and Chief Investment Officer for Colony Capital. In his roles at Colony NorthStar and Colony Capital, he has been involved in many facets of the businesses, including business strategy, product development, global client relations, oversight of individual investment and divestment decisions, as well as portfolio construction and risk management. Prior to rejoining the Colony Capital business in 2002, Mr. Traenkle worked for a private

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equity investment firm, where, among other responsibilities, he focused on the firm's real estate-related investment and management activities. Prior to originally joining Colony Capital in 1993, Mr. Traenkle worked in the municipal finance department for the investment bank First Albany Corporation in Albany, New York. Mr. Traenkle received a Bachelor of Science in Mechanical Engineering in 1992 from Rensselaer Polytechnic Institute in Troy, New York. As a 24 year veteran of Colony NorthStar, Mr. Traenkle brings his extensive acquisition, ownership, lending and operating experience across the CRE sector as well as his proven leadership abilities to the Board of Directors and his role as Chief Executive Officer of the Company.

*Darren J. Tangen* is a director of the Company. Mr. Tangen is an Executive Vice President and Chief Financial Officer of Colony NorthStar. Since 2002, Mr. Tangen has held various senior investment related roles at Colony NorthStar and Colony Capital, including Executive Director and Chief Financial Officer. Mr. Tangen was one of the key executives (Chief Financial Officer and Chief Operating Officer) responsible for Colony Financial, Inc. (NYSE: CLNY), having taken the company public in 2009 and leading it through its successful combination with Colony Capital, LLC in 2015. Prior to joining Colony in 2002, Mr. Tangen held positions at Credit Suisse and Colliers International (NASDAQ: CIGI). Mr. Tangen received his Bachelor of Commerce from McGill University and his Master of Business Administration in Finance and Real Estate at The Wharton School, University of Pennsylvania where he was recognized as a Palmer Scholar.

The Company determined that Mr. Tangen should serve on the Board of Directors based on his extensive capital markets experience, his substantial knowledge of financial and accounting matters, as well as his deep understanding of the real estate and finance markets.

*Catherine D. Rice* is a director of the Company. Ms. Rice has served as a director of Store Capital Corporation, a New York Stock Exchange publicly listed company (NYSE: STOR), since November 2017. Ms. Rice has over 30 years of experience in the real estate capital and investment markets and in the management and operation of public and private real estate companies. From June 2015 to February 2016, Ms. Rice was Senior Managing Director of W.P. Carey Inc. ("W.P. Carey"), a New York Stock Exchange publicly listed company (NYSE: WPC), one of the largest public global net-lease REITs. Prior to that role, from March 2013 to June 2015, Ms. Rice was Managing Director and Chief Financial Officer of W.P. Carey. While at W.P. Carey, Ms. Rice completed a comprehensive reorganization of the finance, accounting, and IT functions as well as the development of the investor relations and capital markets areas to facilitate the company's growth plan. She was responsible for financial strategy, public capital-raising initiatives and company-wide strategic evaluation, and was also a member of the operating and investment committees. Prior to joining W.P. Carey, Ms. Rice was a partner and a Managing Director at Parmenter Realty Partners, a private real estate investment firm focused on distressed and value-add properties in the southern regions of the United States. Her responsibilities included both capital raising and investing for the firm's fourth fund. Prior to that, Ms. Rice was the Chief Financial Officer of iStar Inc. ("iStar") (NYSE: STAR), a publicly traded finance company focused on the commercial real estate industry, where she was responsible for financial strategy and capital-raising initiatives, financial reporting and investor relations. Ms. Rice spent the first 16 years of her career as a professional in the real estate investment banking groups of Merrill Lynch, Lehman Brothers and Banc of America Securities. During her career as an investment banker, she was involved in numerous capital-raising and strategic advisory transactions, including REIT IPOs, public and private debt and equity offerings, mergers and acquisitions, leveraged buyouts, and asset and corporate acquisitions and dispositions. Ms. Rice received a Bachelor of Arts degree from the University of Colorado and a Master of Business Administration from Columbia University.

The Company determined that Ms. Rice should serve on the Board of Directors based on her experience managing and operating real estate companies as well as her vast knowledge of effectuating strategic transactions for, and overseeing the growth of, various companies.

*Vernon B. Schwartz* is a director of the Company. Mr. Schwartz was an independent director of NorthStar I and a member of NorthStar I's audit committee from March of 2016 until closing of the Combination. Mr. Schwartz served as Executive Vice President at iStar from 2005 to February 2017, where he was responsible for managing a portfolio of real estate investments, including iStar's condominium portfolio and its European assets. He has also served as President of AutoStar, iStar's platform focused on the auto dealership market. Mr. Schwartz has been active in real estate investment and development for almost 30 years. Previously, Mr. Schwartz was a founding partner and Chief Executive Officer of Falcon Financial, the predecessor of AutoStar before it was acquired by iStar in 2005. Prior to forming Falcon Financial, Mr. Schwartz was the Chief Executive Officer of Soros Real Estate



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Advisors, the advisor to Quantum Realty Partners, an offshore real estate investment fund sponsored by George Soros and Paul Reichmann. Mr. Schwartz previously served as Chairman, President and Chief Executive Officer of Catellus Development Corporation, the largest private landowner in the state of California, and also held executive positions at both Bank of Montreal and The Hahn Company, a developer, owner and operator of regional shopping centers. Mr. Schwartz has a Bachelor of Commerce degree in Economics and a Master of Business Administration from the University of the Witwatersrand in Johannesburg, South Africa.

The Company determined that Mr. Schwartz should serve on the Board of Directors based on his knowledge of the real estate investment and finance industries, including his extensive experience in real estate development and portfolio management, both domestically and internationally.

*John E. Westerfield* is a director of the Company. Mr. Westerfield serves as Chief Executive Officer of Mitsui Fudosan America, Inc. ("MFA") and is a member of MFA's board of directors. MFA is the U.S. subsidiary of Mitsui Fudosan Group, a publicly listed real estate company in Japan. Mr. Westerfield was appointed Chief Executive Officer of MFA in April 2015 after serving as Senior Advisor to MFA's board of directors from 2012 to 2015. Mr. Westerfield also serves as a member of the board of directors of Halekulani Corporation, a wholly-owned subsidiary of MFA. Mr. Westerfield spent the majority of his career as a managing director at Morgan Stanley, having joined the firm in 1985 upon graduation from business school. At Morgan Stanley, Mr. Westerfield worked in numerous roles in investment banking, fixed income and investment management, all with a specialization in commercial real estate finance and investment. In his last role at Morgan Stanley, Mr. Westerfield had responsibility for the firm's global commercial mortgage finance business. Upon retirement from Morgan Stanley in June 2008, Mr. Westerfield formed and managed Braddock Capital Management LLC, a private company which invested in REITs and commercial real estate related assets, including various office, industrial, multi-family rental and condominium development projects, primarily in the New York area. Mr. Westerfield received a Master of Business Administration from Harvard Business School in 1985 and a Bachelor of Arts in Government from Dartmouth College in 1981.

The Company determined that Mr. Westerfield should serve on the Board of Directors based on his extensive knowledge of the real estate industry and his experience managing investments in real estate related assets.

*Winston W. Wilson* is a director of the Company. Mr. Wilson was an independent director of NorthStar II and the chairman and financial expert of NorthStar II's audit committee from April of 2013 until closing of the Combination. Mr. Wilson has also served as a director of NorthStar/RXR New York Metro Real Estate, Inc. and as the chairman and financial expert of its Audit Committee since February 2015. Mr. Wilson most recently worked for Grant Thornton's New York office, from August 2008 until December 2012 as Partner in Charge and Financial Services Industry Leader, and from August 2011 until December 2012 as National Asset Management Sector Leader. Mr. Wilson has over 27 years of experience with financial services companies including, among others, mortgage and equity REITs, broker-dealers, mutual funds and registered investment advisors. Prior to joining Grant Thornton, Mr. Wilson worked for PricewaterhouseCoopers LLP, Credit Suisse First Boston and Brown Brothers Harriman & Co. Mr. Wilson is a certified public accountant in the states of New York, New Jersey and Pennsylvania. He is a member of the American Institute of Certified Public Accountants and New York State Society of CPAs. Mr. Wilson was also recently a member of the American Institute of Certified Public Accountants (AICPA) Investment Company Expert Panel as well as a member of the Strategic Partners Advisory Committee for Managed Funds Associations. Mr. Wilson has a Master of Business Administration in Finance and Marketing from New York University's Stern School of Business in New York, New York and a Master of Science in Economics and a Bachelor of Science in Accounting from Brooklyn College in Brooklyn, New York.

The Company determined that Mr. Wilson should serve on the Board of Directors based on his extensive public accounting and financial services expertise, including as it relates to REITs and broker-dealers.

**Executive Officers**

The following table sets forth certain information with respect to our executive officers.

<u>Name</u>	<u>Age</u>	<u>Officer Since</u>	<u>Position Held with Our Company</u>
Kevin P. Traenkle	47	2018	Chief Executive Officer and President
Sujan S. Patel	39	2018	Chief Financial Officer and Treasurer
Neale W. Redington	51	2018	Chief Accounting Officer
David A. Palamé	40	2018	General Counsel and Secretary

Set forth below is biographical information for our executive officers. For biographical information regarding Mr. Traenkle, please see above under the section “—Board of Directors.”

*Sujan S. Patel* is the Company’s Chief Financial Officer and Treasurer. Mr. Patel is the Managing Director and Co-Head of U.S. Investment Management at Colony NorthStar and has held such position since January 2017. He is responsible for overseeing the sourcing, structuring and execution of Colony NorthStar’s opportunistic equity, debt and strategic investments across all asset types and geographies. Prior to serving in his current position, Mr. Patel was Managing Director and Co-Head of Investments at NSAM, where he was directly involved in or oversaw over \$21 billion of closed transactions. Prior to joining NSAM in 2007, Mr. Patel was with Thayer Lodging Group, a lodging-dedicated private equity firm, focusing on all aspects of sourcing, acquiring, financing and disposing of over \$2 billion of hotel investments. Mr. Patel began his career at Morgan Stanley in their investment banking division based in New York. He currently serves on the Advisory Board of the NYU Schack Institute of Real Estate and is a member of the Board of Advisors of the Graaskamp Center for Real Estate at the Wisconsin School of Business. Mr. Patel also sits on the Major Decision Committee of Island Hospitality Management and on the Board of SteelWave, a San Francisco Bay Area-based full-service commercial real estate management and operating company. In addition, Mr. Patel is involved in several real estate industry organizations including being a Member of the ULI Global Exchange Council and is a frequent speaker at industry conferences and seminars. Mr. Patel was named by the Commercial Observer in March 2014 as a member of its “Power 100” list honoring top commercial real estate professionals. Mr. Patel received a Bachelor of Arts in Engineering Sciences modified with Economics from Dartmouth College.

*Neale W. Redington* is the Chief Accounting Officer of the Company. Mr. Redington is a Managing Director and Chief Accounting Officer of Colony NorthStar. He is responsible for financial accounting and reporting for firm-sponsored investments and related affiliates and subsidiaries of Colony NorthStar. Prior to joining the predecessor Colony Capital business in 2008, Mr. Redington was an audit partner in the real estate and hospitality practice of Deloitte & Touche LLP. During his twenty years with Deloitte, Mr. Redington worked in both London and Los Angeles. Mr. Redington, a Certified Public Accountant (license inactive) and a Chartered Accountant in England & Wales, received a Bachelor of Commerce in Accounting degree with Honors from the University of Birmingham in England.

*David A. Palamé* is the General Counsel and Secretary of the Company. Mr. Palamé is a Managing Director and Deputy General Counsel of Colony NorthStar where he is responsible for global legal, private capital formation, investment allocation and support for the Colony NorthStar business. Prior to joining the Colony Capital business in 2007, Mr. Palamé was an associate with the law firm of Sullivan & Cromwell LLP and previously served as a law clerk to the Honorable William J. Rea, United States District Court for the Central District of California at Los Angeles. Mr. Palamé received a Bachelor of Arts from the State University of New York at Buffalo and a Juris Doctor degree from the University of Pennsylvania Law School.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires that executive officers and directors, and persons who own more than 10% of a registered class of equity securities, file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC. Executive officers, directors and greater than 10% stockholders are required by the SEC to furnish the issuer with copies of all Forms 3, 4 and 5 that they file.

During the year ended December 31, 2017, the Company’s executive officers, directors and 10% stockholders were not required to make filings pursuant to Section 16(a) of the Exchange Act.

### **Composition of the Board of Directors**

Our charter and our bylaws provide that, subject to the rights of holders of one or more classes or series of preferred stock, the number of directors of our Company may be established by our Board of Directors but may not be fewer than the minimum required by the MGCL (which is currently one) nor more than 15. Any vacancy will be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum.

### **Director Independence**

The Board of Directors currently has seven directors, a majority (four) of whom the Board of Directors affirmatively has determined to be “independent” under the listing standards of the NYSE and under applicable rules of the Securities and Exchange Commission. The Board affirmatively has determined that each of the following directors is independent under these standards: Catherine D. Rice, Vernon B. Schwartz, John E. Westerfield and Winston W. Wilson. Kevin P. Traenkle is not independent as he is an executive officer of the Company and Colony NorthStar and Richard B. Saltzman and Darren J. Tangen are not independent as they are executive officers of Colony NorthStar.

### **Committees of the Board of Directors**

Our Board of Directors established an audit committee (the “Audit Committee”), a compensation committee (the “Compensation Committee”) and a nominating and corporate governance committee (the “Nominating and Corporate Governance Committee”) at the closing of the Combination. None of these committees met during 2017. The Company encourages board members to attend the Company’s annual meeting of shareholders. However, we did not hold an annual meeting in 2017 because we were not formed until August 2017 and our annual meeting in 2018 was held prior to each of the directors becoming a director of the Company except for Mr. Saltzman.

#### ***Audit Committee***

Our Audit Committee consists of Ms. Rice and Messrs. Schwartz, Westerfield and Wilson, with Mr. Wilson serving as chair of the committee. All members of the Audit Committee are “independent” of the Company as that term is defined in the NYSE’s listing standards and Section 10A-3 under the Exchange Act. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent auditors and is also responsible for reviewing with our independent auditors any audit problems or difficulties they encounter in the course of their audit work. The Audit Committee is also charged with the tasks of reviewing our financial statements, any significant financial reporting issues and any major issues as to the adequacy of internal control with management and our independent auditors. The principal purpose of the Audit Committee is to assist the Board of Directors in the oversight of:

- the integrity of our consolidated financial statements and financial reporting process;
- our systems of disclosure controls and procedures and internal control over financial reporting;
- our compliance with financial, legal and regulatory requirements and our ethics program;
- the evaluation of the qualifications, independence and performance of our independent registered public accounting firm;
- the performance of our internal audit function; and
- our overall risk profile and risk management policies.

Our Audit Committee’s written charter requires that all members of the committee must satisfy the requirements of the NYSE, the rules and regulations of the SEC and applicable laws relating to independence, financial literacy and experience. All of the members of the Audit Committee meet the foregoing requirements. Mr. Wilson is an “audit committee financial expert” as defined by the rules and regulations of the SEC.

**Compensation Committee**

Our Compensation Committee consists of Ms. Rice and Messrs. Schwartz, Westerfield and Wilson with Mr. Schwartz servicing as chair of the committee. All members of the Compensation Committee are “independent” of the Company as that term is defined in the NYSE’s listing standards and Section 10A-3 under the Exchange Act. The Compensation Committee ensures that compensation plans are designed with an appropriate balance of risk and reward in relation to our Company’s overall business strategy and do not encourage excessive or unnecessary risk-taking behavior. The Compensation Committee is responsible for, among other things,

- annually evaluating the performance of our Manager;
- annually reviewing the Management Agreement;
- reviewing and approving on an annual basis the corporate goals and objectives relevant to our Chief Executive Officer’s compensation, if any, evaluating our Chief Executive Officer’s performance in light of such goals and objectives and determining and approving the remuneration of our Chief Executive Officer based on such evaluation;
- reviewing and approving the compensation, if any, of all of our other executive officers, including our Chief Financial Officer;
- annually reviewing and evaluating the compensation for the members of our Board of Directors;
- reviewing our executive compensation policies and plans;
- assisting management with complying with our proxy statement and annual report disclosure requirements;
- preparing a report for inclusion in the Company’s annual proxy statement or Annual Report on Form 10-K; and
- reviewing the Company’s succession plan for key executive positions.

The Compensation Committee has the resources and authority appropriate to discharge its duties and responsibilities, including the sole authority to retain, on terms it deems appropriate, legal counsel and other experts, consultants or advisers as it deems appropriate.

**Nominating and Corporate Governance Committee**

Our Nominating and Corporate Governance Committee consists of Ms. Rice and Messrs. Schwartz, Westerfield and Wilson with Mr. Westerfield serving as chair of the committee. The Nominating and Corporate Governance Committee is responsible for, among other things,

- identifying and recommending to our Board of Directors qualified candidates for election as directors and recommending nominees for election as directors at the annual meeting of stockholders;
- reviewing our committee structure and recommending changes to the Board of Directors;
- developing and recommending to our Board of Directors corporate governance guidelines and code of business conduct and ethics and reviewing such guidelines and code;

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- reviewing and making recommendations on matters involving the general operation of our Board of Directors, including board size and composition, and committee composition and structure; and
- overseeing the annual evaluation of the Board of Directors, management and the other committees of the Board of Directors.

The charter for our Nominating and Corporate Governance Committee provides that the Nominating and Corporate Governance Committee must select individuals as director nominees who have the highest personal and professional integrity, who have demonstrated exceptional ability and judgment and who will be most effective, in conjunction with the other nominees to the Board of Directors, in collectively serving the long-term interests of the Company and its stockholders. Stockholders seeking to recommend a prospective candidate for the Nominating and Corporate Governance Committee's consideration should follow the procedures set forth in our bylaws and submit the candidate's name and qualifications, including the candidate's consent to serve as a director if nominated and elected, to Colony NorthStar Credit Real Estate, Inc., 515 South Flower Street, 44th Floor, Los Angeles, California 9007.

Pursuant to the Stockholders Agreement, until the later of the two year anniversary of the completion of the closing of the Combination and the second annual meeting of Company stockholders, CLNS OP will cause its shares of our Class A common stock to be voted in favor of the director nominees recommended by our Board of Directors in our Company's definitive proxy statement on Schedule 14A. The Stockholders Agreement also provides that, until the later of the two year anniversary of the closing of the Combination and the second annual meeting of Company stockholders, CLNS OP will not, and will cause its affiliates not to (each solely in its capacity as a Company stockholders), take any action to change the composition of our Board of Directors from at least a majority of independent directors.

### **Corporate Governance Guidelines**

Our Board of Directors has adopted corporate governance guidelines to advance the functioning of our Board of Directors and its committees and to set forth our Board of Directors' expectations as to how it and they should perform its and their respective function.

### **Code of Business Conduct and Ethics**

The Board of Directors adopted a code of business conduct and ethics that applies to all of our directors, employees (if any) and the officers and employees of our Manager and its affiliates who provide services to us, including our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. Our code of business conduct and ethics, as it relates to employees of Colony NorthStar, operates in conjunction with, and in addition to, any applicable policies of Colony NorthStar. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and promote the following:

- honest and ethical conduct;
- compliance with applicable governmental laws, rules and regulations;
- avoiding situations in which personal interests conflict, or have the appearance of conflicting, with those of the Company;
- full, fair, accurate, timely and understandable disclosure in our public communications and reports and other information filed with or submitted to the SEC; and
- prompt and consistent internal reporting of violations of the code to appropriate persons and through appropriate channels identified in the code.

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Any waiver of the code of business conduct and ethics for our executive officers or directors may be made only by the Audit Committee or another committee of the Board of Directors comprised solely of independent directors or a majority of independent directors. Any such amendment or waiver of the code of business conduct and ethics for an executive officer or director must be promptly disclosed to stockholders as required by law or regulation of the SEC and the rules of NYSE.

**Committee Charters and Corporate Governance Documents**

Our Board of Directors has adopted a written set of corporate governance guidelines and a code of business conduct and ethics for our principal executive officers and senior financial officers. To view our committee charters, corporate governance guidelines, code of business conduct and ethics and code of ethics for our principal executive officers and senior financial officers, please visit our website at [www.clncredit.com](http://www.clncredit.com). Each of these documents is also available in print to any stockholder who sends a written request to such effect to General Counsel, Colony NorthStar Credit Real Estate, Inc., 515 South Flower Street, 44th Floor, Los Angeles, California 90071.

**Director Compensation**

A member of our Board of Directors who is our employee or an employee of Colony NorthStar is referred to as a non-independent director. Non-independent directors (including Messrs. Saltzman, Traenkle and Tangen) do not receive compensation for serving on our Board.

The Company's independent directors did not receive any compensation for the year ended December 31, 2017.

The following discussion relates to 2018 compensation for our non-executive independent directors, Ms. Rice and Messrs. Schwartz, Westerfield and Wilson.

Effective February 2018, the Board of Directors adopted a "Non-Executive Independent Director Compensation Policy" that provides that each non-executive independent director elected for service on the Board of Directors in 2018 will thereafter and throughout such annual term of service receive an annual base fee for his or her services of \$180,000, with \$80,000 payable in cash in quarterly installments in conjunction with quarterly meetings of the Board of Directors and \$100,000 payable in the form of an annual award of restricted shares of Class A common stock, which will vest in full on the one-year anniversary of the date of grant (anticipated to occur on or shortly after the date of our annual meeting of stockholders), subject to the director's continued service on the Board of Directors. In addition, in 2018, the chairs of each of the Audit, Compensation, and Nominating and Corporate Governance Committees will receive an additional annual cash retainer of \$20,000, \$15,000 and \$15,000, respectively, and the Lead Director will receive an additional annual cash retainer of \$20,000. With respect to the period beginning on February 1, 2018, and the next annual meeting of stockholders of the Company, each non-executive independent director will receive a ratable allocation of additional compensation based on the annual cash and equity based compensation to be paid in accordance with the Non-Executive Independent Director Compensation Policy summarized above, with such stock grant vesting May 3, 2019. The Company will also reimburse each of the non-executive independent directors for their travel expenses incurred in connection with their attendance at Board of Directors and committee meetings.

**Stockholder Communication with the Board of Directors**

Our Board of Directors established the position of Lead Director to encourage independent board leadership. The Lead Director is selected on an annual basis by a majority of the independent directors then serving on the Board of Directors from among the independent directors. Catherine D. Rice currently serves as our Lead Director. The role of the Lead Director is to serve as liaison (a) between the Board of Directors and management, including the Chief Executive Officer, (b) among independent directors and (c) between interested third parties and the Board of Directors.

Stockholders and other parties interested in communicating directly with the Lead Director, Chairman or the independent directors as a group may do so by writing either to the Lead Director or Chairman of the Board of Directors, c/o General Counsel, Colony NorthStar Credit Real Estate, Inc., 515 South Flower Street, 44th Floor, Los Angeles, California 9007. Correspondence so addressed will be forwarded directly to the Lead Director and/or Chairman, as applicable. The Lead Director will decide what action should be taken with respect to the communication, including whether such communication should be reported to the Board of Directors.

**ITEM 11. EXECUTIVE COMPENSATION**

**Executive Compensation**

During the year ended December 31, 2017, none of our executive officers received any compensation from the Company or our Manager.

**Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee are Catherine D. Rice, Vernon B. Schwartz, John E. Westerfield and Winston W. Wilson, each of whom is an independent director. None of our directors, nor any of our executive officers, serves as a member of the governing body or compensation committee of any entity that has an executive officer serving as a member of our Board of Directors or our Compensation Committee. Accordingly, to the knowledge of the Compensation Committee and as it relates to our Board of Directors and our executive officers, during 2017 there were no interlocks with other companies within the meaning of the SEC’s rules.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**Security Ownership of Certain Beneficial Owners**

The following table sets forth information regarding the beneficial ownership of the Company’s Class A common stock and Class B common stock as of March 21, 2018 by:

- each director and executive officer of the Company;
- all directors and executive officers of the Company as a group; and
- each person who owns (to our knowledge and based on the most current Schedule 13Ds and 13Gs filed with the SEC for each such person) more than 5% of the Company’s outstanding Class A common stock or Class B common stock.

For purposes of this table, and in accordance with SEC rules, a person is a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of the security, or “investment power,” which includes the power to dispose of or to direct the disposition of the security. A person is also considered to beneficially own securities that he or she has the right to acquire within 60 days, in accordance with Rule 13d-3 promulgated under the Exchange Act. To the Company’s knowledge, unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to their beneficially owned shares of Class A common stock. Unless otherwise indicated, the address of each person named below is c/o Colony NorthStar Credit Real Estate, Inc., 515 South Flower Street, 44th Floor, Los Angeles, California 90071.

Name of Beneficial Owner	Number of shares of Class A Common Stock	Total Beneficial Ownership of Class A Common Stock (%) <sup>(1)</sup>	Number of shares of Class B-3 Common Stock <sup>(2)</sup>	Total Beneficial Ownership of Class B-3 Common Stock (%) <sup>(1)</sup>	Aggregate Number of Shares of Common Stock <sup>(3)</sup>	Aggregate Beneficial Ownership of Common Stock <sup>(1)</sup>
<b><i>Directors and Executive Officers</i></b>						
Catherine D. Rice	6,218	*	—	—	6,218	*
Darren J. Tangen	31,809	*	—	—	31,809	*
John E. Westerfield	6,218	*	—	—	6,218	*
Kevin P. Traenkle	58,689	*	—	—	58,689	*
Richard B. Saltzman	79,368	*	—	—	79,368	*

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Vernon B. Schwartz	12,431	*	—	—	12,431	*
Winston W. Wilson	13,184	*	—	—	13,184	*
David A. Palamé	12,809	*	—	—	12,809	*
Sujan S. Patel	34,737	*	—	—	34,737	*
Neale W. Redington	12,508	*	—	—	12,508	*
All directors and executive officers as a group (10 persons)	267,971	*	—	—	267,971	*
<b>5% Stockholders</b>						
CLNS OP <sup>(4)</sup>	—	—	44,399,444	100%	44,399,444	35%

\* Represents less than 1.0% of the relevant class(es) of common stock.

(1) Assumes 83,487,352 shares of Class A common stock and 44,399,444 shares of Class B common stock are outstanding as of March 21, 2018.

(2) The Company's Class B-3 common stock will automatically convert to Class A common stock upon the close of trading on February 1, 2019.

(3) Includes Class A common stock and Class B common stock.

(4) The address of CLNS OP is c/o Colony NorthStar, Inc., 515 South Flower Street, 44th Floor, Los Angeles, California 90071.

To our knowledge, no person beneficially owned more than 5% of the Class A common stock as of March 21, 2018.

In addition, RED REIT, a subsidiary of CLNS OP, owns approximately 3.1 million OP Units in the Company OP or 2.4% of all outstanding OP Units. The OP Units are redeemable for cash, or at the Company's election, the Company's Class A common stock on a one-for-one basis.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The Board of Directors adopted the 2018 equity incentive plan in January 2018. The Company did not have any incentive plan in place during 2017 and therefore no securities were available for issuance under any equity compensation plan for the Company during 2017.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

**Related Person Transactions**

**Management Agreement**

On January 31, 2018, the Company and Company OP entered into a Management Agreement with our Manager, a subsidiary of CLNS OP, pursuant to which the Manager manages the Company's assets and its day-to-day operations. Our Manager will be responsible for, among other matters, (1) the selection, origination, acquisition, management and sale of the Company's portfolio investments, (2) the Company's financing activities and (3) providing the Company with investment advisory services. Our Manager is also responsible for the Company's day-to-day operations and will perform (or will cause to be performed) such services and activities relating to the Company's investments and business and affairs as may be appropriate. The Management Agreement requires our Manager to manage the Company's business affairs in conformity with the investment guidelines and other policies that are approved and monitored by the Board of Directors. Each of our executive officers is also an employee of our Manager or its affiliates. Our Manager's role as Manager will be under the supervision and direction of the Board of Directors.

The initial term of the Management Agreement expires on the third anniversary of the closing of the Combination and will be automatically renewed for a one-year term each anniversary date thereafter unless earlier terminated as described below. The Company's independent directors review our Manager's performance and the fees that may be payable to our Manager annually and, following the initial term, the Management Agreement may be terminated annually if there has been an affirmative vote of at least two-thirds of the Company's independent directors determining that (1) there has been unsatisfactory performance by our Manager that is materially detrimental to the Company or (2) the compensation payable to our Manager, in the form of base management fees and incentive fees taken as a whole, or the amount thereof, is not fair to the Company, subject to the Manager's right to prevent such termination due to unfair fees by accepting reduced compensation as agreed to by at least two-thirds of the Company's independent directors. The Company must provide the Manager 180 days' prior written notice of any such termination.



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The Company may also terminate the Management Agreement for cause (as defined in the Management Agreement) at any time, including during the initial term, without the payment of any termination fee, with at least 30 days' prior written notice from the Board of Directors. Unless terminated for cause, our Manager will be paid a termination fee as described below. The Manager may terminate the Management Agreement if the Company becomes required to register as an investment company under the Investment Company Act with such termination deemed to occur immediately before such event, in which case the Company would not be required to pay a termination fee. Our Manager may decline to renew the Management Agreement by providing the Company with 180 days' prior written notice, in which case the Company would not be required to pay a termination fee. Our Manager may also terminate the Management Agreement with at least 60 days' prior written notice if the Company breaches the Management Agreement in any material respect or otherwise is unable to perform its obligations thereunder and the breach continues for a period of 30 days after written notice to the Company, in which case the Manager will be paid a termination fee as described below.

### *Management Fee*

The management fee payable to our Manager is equal to 1.5% of the Company's stockholders' equity, per annum (0.375% per quarter), payable quarterly in arrears in cash. For purposes of calculating the base management fee, the Company's stockholders' equity means: (a) the sum of (1) the net proceeds received by the Company (or, without duplication, the Company's direct subsidiaries, such as the Company OP) from all issuances of the Company's or such subsidiaries' common and preferred equity securities since inception (allocated on a pro rata basis for such issuances during the calendar quarter of any such issuance), plus (2) the Company's cumulative Core Earnings (as defined below) from and after the closing date of the Combination to the end of the most recently completed calendar quarter, less (b)(1) any distributions to the Company's common stockholders (or owners of common equity of the Company's direct subsidiaries, such as the Company OP, other than the Company or any of such subsidiaries), (2) any amount that the Company or any of the Company's direct subsidiaries, such as the Company OP, have paid to (x) repurchase for cash the Company's common stock or common equity securities of such subsidiaries or (y) repurchase or redeem for cash the Company's preferred equity securities or preferred equity securities of such subsidiaries, in each case since the closing date of the Combination and (3) any incentive fee (as described below) paid to our Manager since the closing date of the Combination.

With respect to that portion of the period from and after the closing date of the Combination that is used in the calculation of the base management fee, all items in the foregoing sentence (other than clause (a)(2)) are calculated on a daily weighted average basis. The Company's stockholders' equity includes any restricted shares of the Company's common stock or common equity of the Company's direct subsidiaries, such as the Company OP, and any other shares of the Company's common stock or common equity of such subsidiaries underlying awards granted under the Company's or such subsidiaries' equity incentive plans. The amount of net proceeds received will be subject to the determination of the Board of Directors to the extent such proceeds are other than cash. The Company's stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's financial statements.

### *Incentive Fee*

Our Manager is entitled to an incentive fee, payable quarterly in arrears in cash, with respect to each calendar quarter (or portion thereof) that the Management Agreement is in effect in an amount, not less than zero, equal to the difference between (1) the product of (x) 20% and (y) the difference between (i) Core Earnings (as defined below) for the most recent 12-month period (or if the closing date of the Combination is less than 12 months earlier, since the closing date of the Combination), including the current quarter, and (ii) the product of (A) the Company's common equity in the most recent 12-month period (or if the closing date of the Combination is less than 12 months earlier, since the closing date of the Combination), including the current quarter and (B) 7% per annum, and (2) the sum of any incentive fee paid to our Manager with respect to the first three calendar quarters of the most recent 12-month period (or if the closing date of the Combination is less than 12 months earlier, since the closing date of the Combination); provided, however, that no incentive fee is payable with respect to any calendar quarter unless Core Earnings is greater than zero for the most recently completed 12 calendar quarters (or if the closing date of the Combination is less than 12 calendar quarters earlier, since the closing date of the Combination).

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For purposes of calculating the incentive fee prior to the completion of a 12-month period following the closing of the Combination, Core Earnings will be calculated on an annualized basis. Core Earnings is a non-U.S. generally accepted accounting principles ("GAAP") measure and is defined as U.S. GAAP net income (loss) attributable to the Company's common stockholders (or, without duplication, the owners of the common equity of the Company's direct subsidiaries, such as the Company OP) and excluding (i) non-cash equity compensation expense, (ii) the expenses incurred in connection with the Company's formation and an initial public offering, including the initial underwriting discounts and commissions, (iii) the incentive fee, (iv) acquisition costs from successful acquisitions, (v) depreciation and amortization, (vi) any unrealized gains or losses or other similar non-cash items that are included in net income for the current quarter, regardless of whether such items are included in other comprehensive income or loss, or in net income, (vii) one-time events pursuant to changes in U.S. GAAP and (viii) certain material non-cash income or expense items that in the judgment of management should not be included in Core Earnings. For clauses (vii) and (viii), such exclusions shall only be applied after discussions between our Manager and the Company's independent directors and after approval by a majority of the Company's independent directors.

For purposes of calculating the incentive fee, the Company's common equity means: (a) the sum of (1) the net proceeds received by the Company (or, without duplication, the Company's direct subsidiaries, such as the Company OP) from all issuances of the Company's common stock or such subsidiaries' common equity securities since inception (allocated on a pro rata basis for such issuances during the calendar quarter of any such issuance), plus (2) the Company's cumulative Core Earnings from and after the closing date of the Combination to the end of the most recently completed calendar quarter, less (b) (1) any distributions to the Company's common stockholders (or owners of common equity the Company's direct subsidiaries (such as the Company OP), other than the Company or any of such subsidiaries), (2) any amount that the Company or any of the Company's direct subsidiaries (such as the Company OP) pay to repurchase for cash the Company's common stock or common equity securities of such subsidiaries since the closing date of the Combination and (3) any incentive fee paid to the Manager since the closing date of the Combination. With respect to that portion of the period from and after the closing date of the Combination that is used in the calculation of the incentive fee, all items in the foregoing sentence (other than clause (a)(2)) are calculated on a daily weighted average basis. The Company's common equity includes any restricted shares of the Company's common stock or common equity of the Company's direct subsidiaries (such as the Company OP) and any other shares of the Company's common stock or common equity of such subsidiaries underlying awards granted under the Company's or such subsidiaries' equity incentive plans. The amount of net proceeds received will be subject to the determination of the Board of Directors to the extent such proceeds are other than cash.

### *Reimbursement of Expenses*

Reimbursement of expenses related to the Company incurred by our Manager, including legal, accounting, financial, due diligence and other services are paid on the Company's behalf by the Company OP or its designee(s). The Company reimburses our Manager for the Company's allocable share of the salaries and other compensation of the Company's chief financial officer and certain of its affiliates' non-investment personnel who spend all or a portion of their time managing the Company's affairs, and the Company's share of such costs are based upon the percentage of such time devoted by personnel of our Manager (or its affiliates) to the Company's affairs. The Company may be required to pay the Company's pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its affiliates required for the Company's operations.

### *Termination Fee*

Upon termination of the Management Agreement by the Company without cause or by the Manager if the Company materially breaches the Management Agreement, the Company will owe the Manager a termination fee equal to three times the sum of (i) the average annual base management fee and (ii) the average annual incentive fee, in each case earned by the Manager during the 24-month period immediately preceding such termination, calculated as of the end of the most recently completed calendar quarter before the date of termination.

**Stockholders Agreement**

In connection with the Combination, on January 31, 2018, the Company entered into a Stockholders Agreement with CLNS OP, the operating partnership of Colony NorthStar (the “Stockholders Agreement”). Pursuant to the Stockholders Agreement, until the later of the two year anniversary of the closing of the Combination and the second annual meeting of stockholders of the Company, CLNS OP will cause its shares of Class A common stock or Class B-3 common stock, as applicable, to be present for purposes of establishing a quorum of the stockholders at any meeting of stockholders of the Company and to cause its shares of Class A common stock or Class B-3 common stock, as applicable, to be voted in favor of the director nominees recommended by the Board of Directors in the Company’s definitive proxy statement on Schedule 14A. The Stockholders Agreement also provides that, until the later of the two year anniversary of the closing of the Combination and the second annual meeting of stockholders of the Company, CLNS OP will not, and will cause its affiliates not to (each solely in its capacity as a Company stockholder), take any action to change the composition of the Board of Directors in a manner that results in the Board of Directors being comprised of less than a majority of independent directors.

Pursuant to the Stockholders Agreement, CLNS OP will, and will cause RED REIT to, enter into a customary lock-up agreement with the underwriters of any offering of our common stock for a term not to extend beyond the one year anniversary of the closing of the Combination. In addition, until the one year anniversary of the closing of the Combination, CLNS OP will not, and will cause its affiliates not to, make any transfers of OP Units to non-affiliates of CLNS OP unless such transfer is approved by a majority of the Board of Directors, including a majority of the independent directors. However, the approval of the Board of Directors is not required in connection with a transfer by operation of law or pursuant to a merger, sale of all or substantially all of the assets or similar fundamental transaction involving Colony NorthStar and/or CLNS OP. The foregoing does not restrict any conversion of OP Units for equity of the Company pursuant to Company OP’s limited liability company agreement.

**Registration Rights Agreement**

In connection with the closing of the Combination, on January 31, 2018, the Company entered into a registration rights agreement with CLNS OP and RED REIT (the “Registration Rights Agreement”). Pursuant to the Registration Rights Agreement, subject to certain exceptions, the Company will be required to use commercially reasonable efforts to file one or more registration statements within 13 months following the consummation of the Combination that (i) register for resale the Class A common stock issued in the Combination and the Class A common stock issued upon the conversion of the Class B-3 common stock and (ii) register the issuance or resale of the Class A common stock issued upon redemption of the OP Units issued in the Combination. Further, pursuant to the Registration Rights Agreement, at the request of a holder, the Company must use commercially reasonable efforts to effect the sale of all or part of the registrable securities through an underwritten public offering under the applicable registration statement; provided, however, that such holders may not exercise such registration rights more than once in any consecutive 120-day period.

Pursuant to the Registration Rights Agreement, CLNS OP and RED REIT are also entitled to receive notice of any proposed underwritten public offering for the Company’s own account or for another security holder. Such holders may request in writing within five business days following receipt of such notice to participate in any underwritten public offering; provided that if the number of shares of Class A common stock or Class B-3 common stock, as applicable, as to which registration has been demanded exceeds the maximum number of shares that can be sold in such offering without adversely affecting its success, the shares of common stock requested by CLNS OP or RED REIT may be cutback from such underwritten public offering.

The Company is required to bear the registration expenses, other than underwriting discounts and commissions and transfer taxes, associated with any registration of shares by the holders. The Company also is required to indemnify each holder who includes registrable securities in any registration and any person who is or might be deemed a controlling person of such holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against certain liabilities incurred in connection with the registration of such holder’s registrable securities.

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The registration rights described above will terminate as to any stockholder at such time as all of such stockholder's securities could be sold in a single calendar quarter without compliance with the registration requirements of the Securities Act pursuant to Rule 144.

### **Trademark License Agreement**

On January 31, 2018, a subsidiary of our Company entered into license agreements with each of CLNS OP and Colony NorthStar, pursuant to which CLNS OP and Colony NorthStar granted our Company a non-exclusive, royalty-free license to use the name and trademark "Colony", "NorthStar" and the logo for Colony NorthStar.

Each license agreement provides CLNS OP or Colony NorthStar, as applicable, with the right to terminate the applicable license agreement in the event that: (1) our Company becomes insolvent or admits its inability to pay its debts; (2) our Company becomes subject to any bankruptcy or insolvency proceeding; (3) our Company is dissolved or liquidated or takes any corporate action for such purpose; (4) our Company makes a general assignment for the benefit of creditors; (5) our Company has an agent appointed by a court to take charge of or sell any material portion of its property or business; or (6) any lawsuit or proceeding is commenced (or claim threatened) relating to the relevant marks or the relevant trademark license agreement. The license agreement automatically terminates (i) upon a change of control of our Company without the consent of CLNS OP or Colony NorthStar, as applicable, or (ii) in the event the Manager or one of its affiliates ceases to be the external manager of the Company for any reason. CLNS OP and Colony NorthStar also have the right to terminate the applicable license agreement without cause upon 120 days' prior written notice.

### **Indemnification Agreements**

On January 31, 2018, we entered into indemnification agreements with each of our executive officers and directors that obligate us to indemnify them to the maximum extent permitted by Maryland law. The indemnification agreements provide that if a director or executive officer is a party or is threatened to be made a party to any proceeding by reason of such director's or executive officer's status as our director, officer or employee, we must indemnify such director or executive officer for all expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, unless it has been established that:

- the act or omission of the director or executive officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty;
- the director or executive officer actually received an improper personal benefit in money, property or services; or
- with respect to any criminal action or proceeding, the director or executive officer had reasonable cause to believe that his or her conduct was unlawful;

provided, however, that we will (i) have no obligation to indemnify such director or executive officer for a proceeding by or in the right of our Company, for expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, if it has been adjudged that such director or executive officer is liable to us with respect to such proceeding and (ii) have no obligation to indemnify or advance expenses of such director or executive officer for a proceeding brought by such director or executive officer against the Company, except for a proceeding brought to enforce indemnification under Section 2-418 of the MGCL or as otherwise provided by our charter or bylaws, a resolution of the Board of Directors or an agreement approved by the Board of Directors.

### **Related Person Transaction Policy**

On January 30, 2018, our Board of Directors adopted a written related person transaction policy setting forth the policies and procedures for the review, approval or ratification of related person transactions. This policy covers, with certain exceptions set forth in Item 404 of Regulation S-K under the Securities Act, any financial transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which we were or are to be a participant, where the amount involved exceeds \$120,000 and a related person had or will have a direct or

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indirect material interest. Under the policy, related person transactions will be approved or ratified by the Audit Committee or a majority of the disinterested members of our Board of Directors. No investment by our Company will require approval solely because such investment constitutes a co-investment made by and between our Company or any of its subsidiaries, on the one hand, and one or more investment vehicles formed, sponsored or managed by Colony NorthStar, on the other hand. Prior to January 30, 2018, we did not have a related person transaction policy because the Company was newly formed, did not conduct any operations and had not yet put in place such a policy.

**Director Independence**

See the section entitled “Director Independence” under Item 10 above for information regarding the members of the Board of Directors that the Board of Directors has determined are “independent” under the listing standards of the NYSE and the rules of the Securities and Exchange Commission.

**Equity Compensation Plans**

The Board of Directors adopted the 2018 equity incentive plan in January 2018. The Company did not have any incentive plan in place during 2017.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

**Policy For Pre-Approval of Audit and Permitted Non-Audit Services**

On January 30, 2018, the Audit Committee adopted a policy for the pre-approval of all audit and permitted non-audit services proposed to be provided to the Company by its independent auditors. Under the policy, the Audit Committee has delegated to its Chairman of the Audit Committee the authority to address any requests for pre-approval of audit and permitted non-audit services between Audit Committee meetings where associated fees do not exceed \$100,000. The chairman must report all pre-approval decisions to the Audit Committee at its next scheduled meeting and provide a description of the terms of the engagement, including (1) the type of services covered by the engagement, (2) the dates the engagement is scheduled to commence and terminate, (3) the estimated fees payable by the Company pursuant to the engagement, (4) other material terms of the engagement, and (5) such other information as the Audit Committee may request. Following adoption of the policy for the pre-approval of all audit and permitted non-audit services, all audit and non-audit services will be pre-approved by the Audit Committee or will be approved pursuant to the Audit Committee’s pre-approval policy.

**Auditor Fees and Services**

The Company did not pay or accrue any fees for audit or other services provided by Ernst and Young LLP for fiscal year 2017.

## PART IV

## ITEM 15. EXHIBITS, AND FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated and combined information is included in this Annual Report on Form 10-K:

## (1) - (2) Financial Statements and Schedules

The financial statements of the Company and our accounting predecessor, the CLNS Investment Entities, and notes thereto, together with the Reports of Independent Registered Public Accounting Firms, are included in Item 8 of this Annual Report on Form 10-K.

## (3) Exhibits

<u>Exhibits</u>	<u>Description</u>
2.1	<a href="#">Amended and Restated Master Combination Agreement, dated as of November 20, 2017, among Colony Capital Operating Company, LLC, NRF RED REIT Corp., NorthStar Real Estate Income Trust, Inc., NorthStar Real Estate Income Trust Operating Partnership, LP, NorthStar Real Estate Income II, Inc., NorthStar Real Estate Income Operating Partnership II, LP, Colony NorthStar Credit Real Estate, Inc. and Credit RE Operating Company, LLC (incorporated by reference to Exhibit 2.1 to Colony NorthStar Credit Real Estate, Inc.'s Registration Statement on Form S-4 (No. 333-221685) effective December 6, 2017)</a>
3.1	<a href="#">Articles of Amendment and Restatement of Colony NorthStar Credit Real Estate, Inc. (incorporated by reference to Exhibit 3.1 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
3.2	<a href="#">Amended and Restated Bylaws of Colony NorthStar Credit Real Estate, Inc. (incorporated by reference to Exhibit 3.2 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
10.1	<a href="#">Amended and Restated Operating Agreement of Credit RE Operating Company, LLC, dated as of January 31, 2018 (incorporated by reference to Exhibit 10.1 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
10.2	<a href="#">Credit Agreement, dated as of January 31, 2018, by and among Credit RE Operating Company, LLC, as a borrower, the several lenders from time to time parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
10.3	<a href="#">Management Agreement, dated as of January 31, 2018, by and among Colony NorthStar Credit Real Estate, Inc., Credit RE Operating Company, LLC and CLNC Manager, LLC (incorporated by reference to Exhibit 10.3 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
10.4	<a href="#">Stockholders Agreement, dated as of January 31, 2018, by and between Colony NorthStar Credit Real Estate, Inc. and Colony Capital Operating Company, LLC (incorporated by reference to Exhibit 10.4 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
10.5	<a href="#">Registration Rights Agreement, dated as of January 31, 2018, by and among Colony NorthStar Credit Real Estate, Inc., Colony Capital Operating Company, LLC and NRF RED REIT Corp. (incorporated by reference to Exhibit 10.5 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
10.6†	<a href="#">Form of Indemnification Agreement, between Colony NorthStar Credit Real Estate, Inc. and the Officers and Directors of the Company (incorporated by reference to Exhibit 10.6 to Colony NorthStar Credit Real Estate, Inc.'s Form 8-K (No. 001-38377) filed on February 1, 2018)</a>
10.7†	<a href="#">Colony NorthStar Credit Real Estate, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to Colony NorthStar Credit Real Estate, Inc.'s Registration Statement on Form S-8 (No. 333-222812) filed on February 1, 2018)</a>
10.8	<a href="#">Master Repurchase and Securities Contract Agreement, dated October 13, 2015, by and between MS Loan NT-I, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on October 19, 2015)</a>

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<u>Exhibits</u>	<u>Description</u>
10.9	<a href="#">Guaranty Agreement, made as of October 13, 2015, by NorthStar Real Estate Income Trust, Inc. and NorthStar Real Estate Income Trust Operating Partnership, LP, for the benefit of Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on October 19, 2015)</a>
10.10	<a href="#">Master Repurchase Agreement, dated July 18, 2012, between NSREIT CB Loan, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on July 19, 2012)</a>
10.11	<a href="#">First Amendment to Master Repurchase Agreement, dated as of November 30, 2012, by and among NSREIT CB Loan, LLC, NorthStar Real Estate Income Trust, Inc. and Citibank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on December 4, 2012)</a>
10.12	<a href="#">Second Amendment to Master Repurchase Agreement and First Amendment to Limited Guaranty, dated as of April 18, 2013, by and among NSREIT CB Loan, LLC, NorthStar Real Estate Income Trust, Inc. and Citibank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on April 23, 2013)</a>
10.13	<a href="#">Third Amendment to Master Repurchase Agreement, dated as of June 30, 2014, by and among NSREIT CB LOAN, LLC, Citibank, N.A. and NorthStar Real Estate Income Trust, Inc. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Quarterly Report on Form 10-Q (No. 000-54671) filed on November 14, 2014)</a>
10.14	<a href="#">Fourth Amendment to Master Repurchase Agreement, dated as of October 20, 2014, by and among NSREIT CB LOAN, LLC, Citibank, N.A. and NorthStar Real Estate Income Trust, Inc. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on October 24, 2014)</a>
10.15	<a href="#">Fifth Amendment to Master Repurchase Agreement, dated as of October 17, 2016, by and among NSREIT CB Loan, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on October 20, 2016)</a>
10.16	<a href="#">Limited Guaranty, made as of July 18, 2012, by NorthStar Real Estate Income Trust, Inc. for the benefit of Citibank, N.A. (incorporated by reference to Exhibit 10.2 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on July 19, 2012)</a>
10.17	<a href="#">Master Repurchase Agreement, dated as of March 11, 2013, by and among NS Income DB Loan, LLC, as master seller, and Deutsche Bank AG, Cayman Islands Branch, as buyer. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on March 12, 2013)</a>
10.18**	<a href="#">First Amendment to Master Repurchase Agreement, dated as of October 8, 2013, by and among NS Income DB Loan, LLC, as master seller, and Deutsche Bank AG, Cayman Islands Branch, as buyer</a>
10.19**	<a href="#">Second Amendment to Master Repurchase Agreement, dated as of January 6, 2016, by and among NS Income DB Loan, LLC, as master seller, and Deutsche Bank AG, Cayman Islands Branch, as buyer</a>

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<u>Exhibits</u>	<u>Description</u>
10.20	<a href="#">Limited Guaranty, dated as of March 11, 2013, executed and delivered by NorthStar Real Estate Income Trust, Inc. and NorthStar Real Estate Income Trust Operating Partnership, LP to Deutsche Bank AG, Cayman Islands Branch. (incorporated by reference to Exhibit 10.2 to NorthStar Real Estate Income Trust, Inc.'s Form 8-K (No. 000-54671) filed on March 12, 2013)</a>
10.21	<a href="#">Master Repurchase Agreement, dated October 15, 2013, between CB Loan NT-II, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income II, Inc.'s Form 8-K (No. 333-185640) filed on October 16, 2013)</a>
10.22**	<a href="#">First Amendment to the Master Repurchase Agreement, dated as of June 30, 2014, by and among CB Loan NT-II, LLC and Citibank, N.A., to the Master Repurchase Agreement, between CB Loan NT-II, LLC and Citibank, N.A.</a>
10.23	<a href="#">Second Amendment to the Master Repurchase Agreement, dated as of October 14, 2016, by and among CB Loan NT-II, LLC and Citibank, N.A., to the Master Repurchase Agreement, between CB Loan NT-II, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.28 to NorthStar Real Estate Income II, Inc.'s Post-Effective Amendment (No. 333-185640) filed on October 17, 2016)</a>
10.24	<a href="#">Limited Guaranty, made as of October 15, 2013, by NorthStar Real Estate Income II, Inc. for the benefit of Citibank, N.A. (incorporated by reference to Exhibit 10.2 to NorthStar Real Estate Income II, Inc.'s Form 8-K (No. 333-185640) filed on October 16, 2013)</a>
10.25	<a href="#">Master Repurchase and Securities Contract Agreement, dated June 5, 2015, by and between MS Loan NT-II, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income II, Inc.'s Form 8-K (No. 000-55189) filed on June 11, 2015)</a>
10.26	<a href="#">First Omnibus Amendment dated as of July 14, 2016 among Morgan Stanley Bank, N.A., MS Loan NT-II, LLC and Credit RE Operating Company, LLC to the Master Repurchase and Securities Contract. (incorporated by reference to Exhibit 10.26 to NorthStar Real Estate Income II, Inc.'s Post-Effective Amendment (No. 333-185640) filed on July 15, 2016)</a>
10.27	<a href="#">Guaranty Agreement, made as of June 5, 2015, by NorthStar Real Estate Income II, Inc. and NorthStar Real Estate Income Operating Partnership II, LP for the benefit of Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.2 to NorthStar Real Estate Income II, Inc.'s Form 8-K (No. 000-55189) filed on June 11, 2015)</a>
10.28	<a href="#">Master Repurchase Agreement, dated July 2, 2014, by and between DB Loan NT-II, LLC and Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income II, Inc.'s Form 8-K (No. 000-55189) filed on July 9, 2014)</a>
10.29**	<a href="#">First Amendment to the Master Repurchase Agreement, dated as of January 6, 2016, by and between DB Loan NT-II LLC, and Deutsche Bank AG, Cayman Islands Branch and acknowledged and agreed to by Credit RE Operating Company, LLC, and DB Loan Member NT-II, LLC</a>
10.30	<a href="#">Limited Guaranty, made as of July 2, 2014, by NorthStar Real Estate Income II, Inc. and NorthStar Real Estate Income Operating Partnership II, LP for the benefit of Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.2 to NorthStar Real Estate Income II, Inc.'s Form 8-K (No. 000-55189) filed on July 9, 2014)</a>
21.1**	<a href="#">List of Subsidiaries of Colony NorthStar Credit Real Estate, Inc.</a>
23.1**	<a href="#">Consent of Ernst &amp; Young, LLP</a>



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<u>Exhibits</u>	<u>Description</u>
23.2**	<a href="#">Consent of Ernst &amp; Young, LLP to CLNS Investment Entities</a>
23.3**	<a href="#">Consent of Grant Thornton LLP to NorthStar Real Estate Income Trust, Inc.</a>
23.4**	<a href="#">Consent of Grant Thornton LLP to NorthStar Real Estate Income II, Inc.</a>
31.1**	<a href="#">Certification by the Chief Executive Officer and President pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2**	<a href="#">Certification by the Chief Financial Officer and Treasurer pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1**	<a href="#">Certification by the Chief Executive Officer and President pursuant to pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2**	<a href="#">Certification by the Chief Financial Officer and Treasurer pursuant to pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
99.1**	<a href="#">Audited consolidated financial statements of NorthStar Real Estate Income Trust, Inc. as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015</a>
99.2**	<a href="#">Audited consolidated financial statements of NorthStar Real Estate Income II, Inc. for and as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015</a>
99.3**	<a href="#">Unaudited pro forma condensed combined financial statements of Colony NorthStar Credit Real Estate, Inc. as of December 31, 2017 and for the year ended December 31, 2017</a>

\*\* Filed herewith.

† Denotes a management contract or compensatory plan, contract or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Colony NorthStar Credit Real Estate, Inc.**

Date: March 23, 2018

/s/ Kevin P. Traenkle  
Kevin P. Traenkle  
Chief Executive Officer and President

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

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Kevin P. Traenkle</u> Kevin P. Traenkle	Chief Executive Officer and President and Director (Principal Executive Officer)	March 23, 2018
<u>/s/ Sujan S. Patel</u> Sujan S. Patel	Chief Financial Officer (Principal Financial Officer)	March 23, 2018
<u>/s/ Neale W. Redington</u> Neale W. Redington	Chief Accounting Officer (Principal Accounting Officer)	March 23, 2018
<u>/s/ Richard B. Saltzman</u> Richard B. Saltzman	Chairman of the Board of Directors	March 23, 2018
<u>/s/ Darren J. Tangen</u> Darren J. Tangen	Director	March 23, 2018
<u>/s/ Catherine D. Rice</u> Catherine D. Rice	Director	March 23, 2018
<u>/s/ Vernon B. Schwartz</u> Vernon B. Schwartz	Director	March 23, 2018
<u>/s/ John E. Westerfield</u> John E. Westerfield	Director	March 23, 2018
<u>/s/ Winston W. Wilson</u> Winston W. Wilson	Director	March 23, 2018

## FIRST AMENDMENT TO MASTER REPURCHASE AGREEMENT

FIRST AMENDMENT TO MASTER REPURCHASE AGREEMENT, dated as of October 8, 2013 (this "Amendment"), by and between NS INCOME DB LOAN, LLC, a Delaware limited liability company ("Master Seller"), and DEUTSCHE BANK AG, CAYMAN ISLANDS BRANCH, a branch of a foreign banking institution ("Buyer"), and acknowledged and agreed to by NS INCOME DB LOAN MEMBER, LLC, a Delaware limited liability company ("Member"). Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Repurchase Agreement (as hereinafter defined).

## RECITALS

WHEREAS, Master Seller and Buyer are parties to that certain Master Repurchase Agreement, dated as of March 11, 2013 (as amended, modified and/or restated, the "Repurchase Agreement"), between Master Seller and Buyer;

WHEREAS, NorthStar Real Estate Income Trust, Inc., a Maryland corporation, and NorthStar Real Estate Income Trust Operating Partnership, LP, a Delaware limited partnership (collectively, "Sponsor"), guaranteed the obligations of Seller under the Repurchase Agreement and the other Transaction Documents pursuant to that certain Limited Guaranty, dated as of March 11, 2013 (as amended, modified and/or restated, the "Guaranty"), from Sponsor to Buyer;

WHEREAS, Member guaranteed the obligations of Seller under the Repurchase Agreement and the other Transaction Documents pursuant to that certain Member Guaranty, dated as of March 11, 2013 (as amended, modified and/or restated, the "Member Guaranty"), from Member to Buyer; and

WHEREAS, Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, and Buyer wish to amend and modify the Repurchase Agreement upon the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, and Buyer hereby agree that the Repurchase Agreement shall be amended and modified as follows:

1. Mandatory Amortization. Section 4(a) of the Repurchase Agreement is hereby deleted in its entirety and replaced with the following:

"(a) Upon the occurrence and during the continuance of a Credit Event with respect to any Purchased Loan, Buyer shall determine the Maximum Repurchase Price of such Purchased Loan on each Business Day during the existence of a Credit Event, and shall determine the amount, if any, by which (i) the Repurchase Price (excluding Price Differential) exceeds (ii) such Maximum Repurchase Price for such Purchased Loan (a "Mandatory Amortization Amount")."

2. Amendment of Transaction Documents. From and after the date hereof, all references in the Repurchase Agreement to “this Agreement” and all references in the other Transaction Documents to “the Repurchase Agreement” shall be deemed to refer to the Repurchase Agreement as amended and modified by this Amendment and as same may be further amended, modified and/or restated.

3. Due Authority. Each of Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, Sponsor and Member hereby represents and warrants to Buyer that, as of the date hereof, (i) it has the power to execute, deliver and perform its respective obligations under this Amendment, (ii) this Amendment has been duly executed and delivered by it for good and valuable consideration, and constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms subject to bankruptcy, insolvency, and other limitations on creditors’ rights generally and to equitable principles, and (iii) neither the execution and delivery of this Amendment, nor the consummation by it of the transactions contemplated by this Amendment, nor compliance by it with the terms, conditions and provisions of this Amendment will conflict with or result in a breach of any of the terms, conditions or provisions of (A) its organizational documents, (B) any contractual obligation to which it is now a party or the rights under which have been assigned to it or the obligations under which have been assumed by it or to which its assets are subject or constitute a default thereunder, or result thereunder in the creation or imposition of any lien upon any of its assets, other than pursuant to this Amendment, (C) any judgment or order, writ, injunction, decree or demand of any court applicable to it, or (D) any applicable Requirement of Law, in the case of clauses (A)-(C) above, to the extent that such conflict or breach is reasonably likely to result in a Material Adverse Effect.

4. Counterparts. This Amendment may be executed by each of the parties hereto in any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment in Portable Document Format (PDF) or by facsimile transmission shall be effective as delivery of a manually executed original counterpart thereof.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

6. Reaffirmation of Guaranty and Member Guaranty. Sponsor acknowledges the amendments and modifications of the Repurchase Agreement pursuant to this Amendment and hereby ratifies and reaffirms all of the terms, covenants and conditions of the Guaranty and agrees that the Guaranty remains unmodified and in full force and effect and enforceable in accordance with its terms. Member acknowledges the amendments and modifications of the Repurchase Agreement pursuant to this Amendment and hereby ratifies and reaffirms all of the terms, covenants and conditions of the Member Guaranty and agrees that the Member Guaranty remains unmodified and in full force and effect and enforceable in accordance with its terms.

7. Repurchase Agreement and Transaction Documents in Full Force and Effect. Except as expressly amended hereby, Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, Sponsor and

Member acknowledge and agree that all of the terms, covenants and conditions of the Repurchase Agreement and the other Transaction Documents remain unmodified and in full force and effect and are hereby ratified and confirmed in all respects.

**[NO FURTHER TEXT ON THIS PAGE]**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

**BUYER:**

**DEUTSCHE ANK AG, CAYMAN ISLANDS BRANCH**

By: /s/ Dean Aotani  
Name: Dean Aotani  
Title: Managing Director

By: /s/ Christine Belbusti  
Name: Christine Belbusti  
Title: Director

**MASTER SELLER:**

**NS INCOME DB LOAN, LLC, a Delaware limited liability company**

By: NS Income DB Loan Member, LLC, a Delaware limited liability company, its sole member

By: NorthStar Real Estate Income Trust Operating Partnership, LP, a Delaware limited partnership, its sole member

By: NorthStar Real Estate Income Trust, Inc., a Maryland corporation, its general partner

By: /s/ Daniel R. Gilbert  
Name: Daniel R. Gilbert  
Title: Chief Executive Officer

[SIGNATURES CONTINUE ON FOLLOWING PAGE]

**ACKNOWLEDGED AND AGREED TO  
AS OF OCTOBER 8, 2013:**

**SPONSOR:**

**NORTHSTAR REAL ESTATE INCOME  
TRUST, INC.**, a Maryland corporation

By: /s/ Daniel R. Gilbert  
Name: Daniel R. Gilbert  
Title: Chief Executive Officer

**NORTHSTAR REAL ESTATE INCOME  
TRUST OPERATING PARTNERSHIP, LP**, a  
Delaware limited partnership

By: NorthStar Real Estate Income Trust, Inc., a  
Maryland corporation, its general partner

By: /s/ Daniel R. Gilbert  
Name: Daniel R. Gilbert  
Title: Chief Executive Officer

**MEMBER:**

**NRFC DB LOAN MEMBER, LLC**,  
a Delaware limited liability company

By: NRFC Sub-REIT Corp., a  
Maryland corporation, its sole member

By: /s/ Daniel R. Gilbert  
Name: Daniel R. Gilbert  
Title: Chief Investment & Operating Officer

## SECOND AMENDMENT TO MASTER REPURCHASE AGREEMENT

SECOND AMENDMENT TO MASTER REPURCHASE AGREEMENT, dated as of January 6, 2016 (this "Amendment"), by and among NS INCOME DB LOAN, LLC, a Delaware limited liability company ("Master Seller"), NORTHSTAR REAL ESTATE INCOME TRUST, INC., a Maryland corporation ("Trust"), and NORTHSTAR REAL ESTATE INCOME TRUST OPERATING PARTNERSHIP, LP, a Delaware limited partnership ("Operating Partnership"); and together with Trust, "Sponsor", and DEUTSCHE BANK AG, CAYMAN ISLANDS BRANCH, a branch of a foreign banking institution ("Buyer"), and acknowledged and agreed to by NS INCOME DB LOAN MEMBER, LLC, a Delaware limited liability company ("Member"). Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Repurchase Agreement (as hereinafter defined).

## RECITALS

WHEREAS, Master Seller and Buyer are parties to that certain Master Repurchase Agreement, dated as of March 11, 2013 (as amended, modified and/or restated, the "Repurchase Agreement"), between Master Seller and Buyer;

WHEREAS, Sponsor guaranteed the obligations of Seller under the Repurchase Agreement and the other Transaction Documents pursuant to that certain Limited Guaranty, dated as of March 11, 2013 (as amended, modified and/or restated, the "Guaranty"), from Sponsor to Buyer;

WHEREAS, Master Seller and Buyer amended the Repurchase Agreement pursuant to that certain First Amendment to Master Repurchase Agreement, dated as of October 8, 2013 (the "First Amendment"), by and between Master Seller and Buyer, and acknowledged and agreed to by Sponsor and Member;

WHEREAS, Member guaranteed the obligations of Seller under the Repurchase Agreement and the other Transaction Documents pursuant to that certain Member Guaranty, dated as of March 11, 2013 (as amended, modified and/or restated, the "Member Guaranty"), from Member to Buyer;

WHEREAS, Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, and Buyer wish to further amend and modify the Repurchase Agreement upon the terms and conditions hereinafter set forth; and

WHEREAS, Sponsor and Buyer wish to amend and modify the Guaranty upon the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, (i) Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, and Buyer hereby agree that the Repurchase Agreement shall be amended and modified as follows, and (ii) Sponsor and Buyer hereby agree that the Guaranty shall be amended and modified as follows:



1. Amendments to the Repurchase Agreement.

a. The following defined terms as set forth in Section 2(a) of the Repurchase Agreement are hereby deleted in their entirety: "Amortization Event", "Amortization Event Amount", "Purchased Loan LTV", "Stabilized Loan Maximum Original Purchase Amount", "Stabilized Loan Maximum Original Purchase Percentage", "Transition Loan Maximum Original Purchase Amount" and "Transition Loan Maximum Original Purchase Percentage".

b. The following defined terms as set forth in Section 2(a) of the Repurchase Agreement are hereby amended and restated in their entirety to read as follows:

"Change of Control" shall mean any of the following events shall have occurred without the prior written approval of Buyer: (i) if Manager is no longer the manager of Trust; (ii) any "person" or "group" (within the meaning of Section 13(d) or 14(d) of the 1934 Act) shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the beneficial owner, directly or indirectly, of 49% or more of the total voting power of all classes of ownership interests of Seller, Sponsor or Manager, entitled to vote generally in the election of the directors (or the applicable equivalent) of any such Person, (iii) Sponsor shall cease to own, of record and beneficially, 100% of the ownership interests in Member and Control Member, or (iv) Member shall cease to own, of record and beneficially, 100% of the ownership interests in Seller and Control Seller.

"Maximum Original Purchase Percentage" shall mean, with respect to any Transaction, the percentage specified as the Maximum Original Purchase Percentage in the Confirmation for such Transaction as determined by Buyer in its sole and absolute discretion.

"Maximum Repurchase Price" shall mean, with respect to any Purchased Loan as of any date of determination, an amount equal to (i) the product of (x) the then current Principal Balance of such Purchased Loan, (y) the Purchase Date Market Value Percentage of such Purchased Loan, and (z) the Maximum Original Purchase Percentage of such Purchased Loan, less (ii) the Net Market Value Decrease of such Purchased Loan.

c. The following defined terms are hereby added to Section 2(a) of the Repurchase Agreement (in the proper alphabetical order):

"Asset Management Agreement" shall mean the asset management agreement or advisory agreement entered into by Manager with respect to Sponsor or such other asset management or advisory agreement with respect to Sponsor acceptable to Buyer in its reasonable discretion, in each case, as the same may be amended, modified and/or restated from time to time.

"Credit Event Threshold" shall mean, for any Purchased Loan, any term, covenant or condition set forth in the Confirmation for the related Transaction designated as a Credit Event Threshold therein.

“Manager” shall mean NorthStar Asset Management Group Inc., a Delaware corporation, or a subsidiary thereof.

“Market Value Percentage” shall mean, with respect to any Eligible Loan or Purchased Loan, as of any date, the fraction, expressed as a percentage and rounded to the next highest hundredth of a percent, the numerator of which is the then current Market Value of such Eligible Loan or Purchased Loan, and the denominator of which is the then current Principal Balance of such Eligible Loan or Purchased Loan.

“Net Market Value Decrease” shall mean, with respect to any Purchased Loan, as of any date of determination, an amount equal to the greater of (i) zero and (ii) the product of (1) the then current Principal Balance of such Purchased Loan and (2) (x) the Purchase Date Market Value Percentage of such Purchased Loan, less (y) the then current Market Value Percentage of such Purchased Loan.

“Purchase Date Market Value” shall mean, with respect to any Purchased Loan, the Market Value of such Purchased Loan as of the related Purchase Date, and which Purchase Date Market Value shall be set forth in the Confirmation for the related Transaction.

“Purchase Date Market Value Percentage” shall mean, with respect to any Purchased Loan, the fraction, expressed as a percentage and rounded to the next highest hundredth of a percent, the numerator of which is the Purchase Date Market Value of such Purchased Loan, and the denominator of which is the Principal Balance as of the related Purchase Date, and which Purchase Date Market Value Percentage shall be set forth in the Confirmation for the related Transaction.

d. The term “Cash Flow Deficiency” in Section 2(a) of the Repurchase Agreement is hereby amended by deleting: “or 5(f)(i)-(v)” in the third (3<sup>rd</sup>) line thereof and inserting the word “or” before “5(e)(i)-(v)” in the third (3<sup>rd</sup>) line thereof.

e. For all Transactions entered into under the Repurchase Agreement after the date of this Amendment, the term “Credit Event” in Section 2(a) of the Repurchase Agreement is hereby amended by deleting the word “and” after clause (iv) thereof, deleting the period after clause (v) thereof and adding the following at the end of such definition (it being acknowledged and agreed that the definition of “Credit Event” for all Transactions in effect under the Repurchase Agreement as of the date of this Amendment shall remain unmodified):

- “(vi) the existence of any pending litigation, action, suit, arbitration, investigation or other legal or arbitration proceeding affecting any Mortgagor or guarantor for the Purchased Loan or the applicable Mortgaged Property which if adversely determined could reasonably be expected to have a material adverse effect on such Mortgagor, guarantor or the applicable Mortgaged Property;
- (vii) a failure to satisfy any Credit Event Threshold for such Purchased Loan;

(viii) the occurrence of a Securitization Extension Event: or

(ix) the occurrence of a Securitization Failure Event.”

f. The term “Debt Yield” in Section 2(a) of the Repurchase Agreement is hereby amended by deleting the words “underwritten net cash flow” in the second (2nd) line thereof and replacing same with “net operating income”.

g. The term “Market Value” in Section 2(a) of the Repurchase Agreement is hereby amended by adding the following sentence at the end of such definition: “Notwithstanding the foregoing, Buyer shall not reduce the Market Value for any Purchased Loan unless a Credit Event has occurred and is continuing with respect to such Purchased Loan.”

h. The term “Repurchase Price” in Section 2(a) of the Repurchase Agreement is hereby amended by deleting the words: “and 5(f)(iii)” and inserting the word “and” before “5(e)(iii)” in the last line thereof.

i. Section 5(f) of the Repurchase Agreement is hereby deleted in its entirety and replaced with the words “(f) Intentionally omitted.”.

j. Section 13(a)(I)(ii) of the Repurchase Agreement is hereby deleted in its entirety and replaced with the following:

“(ii) Seller, Sponsor, Member or Manager shall admit in writing its inability to, or its intention not to, perform any of its obligations hereunder or under any of the Transaction Documents;”

k. Section 13(a)(I) of the Repurchase Agreement is hereby amended by adding the following as a new Section 13(a)(I)(xiv):

“(xiv) prior to an internalization of management of Trust, Manager resigns or is removed, terminated or otherwise no longer serves or is unable to serve as the asset manager and investment advisor of the Trust or Manager is in material breach of its duties or obligations under the Asset Management Agreement, which breach would give rise to a right to terminate the Asset Management Agreement pursuant to the terms thereof, beyond any applicable notice and cure period and Manager is not replaced with a successor manager reasonably acceptable to Buyer pursuant to a replacement asset management agreement acceptable to Buyer within sixty (60) days.”

l. Exhibit I attached to the Repurchase Agreement is amended by inserting the following immediately prior to “Actual Original Purchase Percentage”:

“Purchase Date Market Value: [ ]

Purchase Date Market Value  
Percentage: [ ]”.

2. Amendment of Transaction Documents. From and after the date hereof, all references in the Repurchase Agreement to “this Agreement” and all references in the other Transaction Documents to “the Repurchase Agreement” shall be deemed to refer to the Repurchase Agreement as amended and modified by this Amendment, by the First Amendment and as same may be further amended, modified and/or restated.

3. Due Authority. Each of Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, Sponsor and Member hereby represents and warrants to Buyer that, as of the date hereof, (i) it has the power to execute, deliver and perform its respective obligations under this Amendment, (ii) this Amendment has been duly executed and delivered by it for good and valuable consideration, and constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms subject to bankruptcy, insolvency, and other limitations on creditors’ rights generally and to equitable principles, and (iii) neither the execution and delivery of this Amendment, nor the consummation by it of the transactions contemplated by this Amendment, nor compliance by it with the terms, conditions and provisions of this Amendment will conflict with or result in a breach of any of the terms, conditions or provisions of (A) its organizational documents, (B) any contractual obligation to which it is now a party or the rights under which have been assigned to it or the obligations under which have been assumed by it or to which its assets are subject or constitute a default thereunder, or result thereunder in the creation or imposition of any lien upon any of its assets, other than pursuant to this Amendment, (C) any judgment or order, writ, injunction, decree or demand of any court applicable to it, or (D) any applicable Requirement of Law, in the case of clauses (A)-(C) above, to the extent that such conflict or breach is reasonably likely to result in a Material Adverse Effect.

4. Counterparts. This Amendment may be executed by each of the parties hereto in any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment in Portable Document Format (PDF) or by facsimile transmission shall be effective as delivery of a manually executed original counterpart thereof.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

6. Reaffirmation of Guaranty and Member Guaranty. Sponsor acknowledges the amendments and modifications of the Repurchase Agreement pursuant to this Amendment and hereby ratifies and reaffirms all of the terms, covenants and conditions of the Guaranty and agrees that the Guaranty remains unmodified and in full force and effect and enforceable in accordance with its terms. Member acknowledges the amendments and modifications of the Repurchase Agreement pursuant to this Amendment and hereby ratifies and reaffirms all of the terms, covenants and conditions of the Member Guaranty and agrees that the Member Guaranty remains unmodified and in full force and effect and enforceable in accordance with its terms.

7. Repurchase Agreement and Transaction Documents in Full Force and Effect. Except as expressly amended hereby, Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, Sponsor and

Member acknowledge and agree that all of the terms, covenants and conditions of the Repurchase Agreement and the other Transaction Documents remain unmodified and in full force and effect and are hereby ratified and confirmed in all respects.

**[NO FURTHER TEXT ON THIS PAGE]**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

**BUYER:**

**DEUTSCHE ANK AG, CAYMAN ISLANDS BRANCH**

By: /s/ Dean Aotani  
Name: Dean Aotani  
Title: Managing Director

By: /s/ R. Christopher Jones  
Name: R. Christopher Jones  
Title: Director

**MASTER SELLER:**

**NS INCOME DB LOAN, LLC, a Delaware limited liability company**

By: NS Income DB Loan Member, LLC, a Delaware limited liability company, its sole member

By: NorthStar Real Estate Income Trust Operating Partnership, LP, a Delaware limited partnership, its sole member

By: NorthStar Real Estate Income Trust, Inc., a Maryland corporation, its general partner

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary

[SIGNATURES CONTINUE ON FOLLOWING PAGE]

**SPONSOR:**

**NORTHSTAR REAL ESTATE INCOME  
TRUST, INC.**, a Maryland corporation

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary

**NORTHSTAR REAL ESTATE INCOME  
TRUST OPERATING PARTNERSHIP, LP, a**  
Delaware limited partnership

By: NorthStar Real Estate Income Trust, Inc., a  
Maryland corporation, its general partner

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary

[SIGNATURES CONTINUE ON FOLLOWING PAGE]

ACKNOWLEDGED AND AGREED TO  
AS OF JANUARY 6, 2016:

**MEMBER:**

**NS INCOME DB LOAN MEMBER, LLC,**  
a Delaware limited liability company

By: NorthStar Real Estate Income Trust Operating  
Partnership, LP, its sole member

By: NorthStar Real Estate Income Trust, Inc.  
its general partner

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary



## FIRST AMENDMENT TO MASTER REPURCHASE AGREEMENT

FIRST AMENDMENT TO MASTER REPURCHASE AGREEMENT dated as of June 30, 2014 (this "Amendment"), by and among CB LOAN NT-II, LLC, a Delaware limited liability company ("Seller"), and CITIBANK, N.A., a national banking association ("Buyer"), and acknowledged and agreed to by NORTHSTAR REAL ESTATE INCOME II, INC., a Maryland corporation ("Guarantor"). Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the MRA (defined below).

## RECITALS

WHEREAS, Seller and Buyer are parties to that certain Master Repurchase Agreement, dated as of October 15, 2013 (as the same may be further amended, supplemented or otherwise modified from time to time, the "MRA");

WHEREAS, in connection with the MRA, Guarantor entered into that certain Limited Guaranty dated as of October 15, 2013 (as the same may be amended, supplemented or otherwise modified from time to time, the "Guaranty"), in favor of Buyer, guaranteeing certain obligations of Seller;

WHEREAS, Seller and Buyer wish to amend the MRA as more particularly set forth herein, and Guarantor wishes to reaffirm the covenants made in the Guaranty.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer and Guarantor hereby agree as follows:

**SECTION 1. Amendment to Master Repurchase Agreement.**

(a) The following definition in Section 2 of the MRA is hereby deleted in their entirety and the following corresponding definition is substituted therefor:

"Manager" shall mean NorthStar Asset Management Group Inc., a Delaware corporation, or a subsidiary thereof.

(b) The following is hereby added after the last sentence of Section 5(b) of the MRA:

"Notwithstanding anything contained in this Section 5(b), Seller shall only be obligated to deliver or cause to be delivered an Irrevocable Direction Letter to each Mortgagor or issuer of a participation under a Purchased Loan if (x) an Event of Default has occurred and is continuing under this Agreement or (y) Buyer delivers to Seller a written notice requiring Seller to send Irrevocable Direction Letters to each Mortgagor or issuer of a participation under a Purchased Loan."

**SECTION 2. Omnibus Amendment to Transaction Documents.** Any references to the MRA in the Transaction Documents shall hereinafter refer to the MRA as modified by this Amendment.

**SECTION 3. Reaffirmation of Guaranty.** Guarantor acknowledges the amendments and modifications of the MRA pursuant to this Amendment and hereby ratifies and reaffirms all of the terms, covenants and conditions of the Guaranty and agrees that the Guaranty remains unmodified by this Amendment and in full force and effect and enforceable in accordance with its terms.

**SECTION 4. Due Authority.** Each of Seller and Guarantor hereby represents and warrants to Buyer that, as of the date hereof, (i) it has the power to execute, deliver and perform its respective obligations under this Amendment, (ii) this Amendment has been duly executed and delivered by it for good and valuable consideration, and constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms subject to bankruptcy, insolvency, and other limitations on creditors' rights generally and to equitable principles, and (iii) neither the execution and delivery of this Amendment, nor the consummation by it of the transactions contemplated by this Amendment, nor compliance by it with the terms, conditions and provisions of this Amendment will conflict with or result in a breach of any of the terms, conditions or provisions of (A) its organizational documents, (B) any contractual obligation to which it is now a party or the rights under which have been assigned to it or the obligations under which have been assumed by it or to which its assets are subject or constitute a default thereunder, or result thereunder in the creation or imposition of any lien upon any of its assets, other than pursuant to this Amendment, (C) any judgment or order, writ, injunction, decree or demand of any court applicable to it, or (D) any applicable Requirement of Law, in the case of clauses (A)-(C) above, to the extent that such conflict or breach is reasonably likely to result in a Material Adverse Effect.

**SECTION 5. Counterparts.** This Amendment may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment in Portable Document Format (PDF) or by facsimile transmission shall be effective as delivery of a manually executed original counterpart thereof.

**SECTION 6. GOVERNING LAW.** THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAWS PRINCIPALS.

**SECTION 7. MRA and Transaction Documents in Full Force and Effect.** Except as expressly amended hereby, Seller and Guarantor acknowledge and agree that all of the terms, covenants and conditions of the MRA and the other Transaction Documents remain unmodified and in full force and effect and are hereby ratified and confirmed in all respects.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

**BUYER:**

**CITIBANK, N.A.**

By: /s/ Richard B. Schlenger  
Name: Richard B. Schlenger  
Title: Authorized Signatory

[Signatures Continue on Following Page]

**SELLER:**

**CB LOAN NT-II, LLC,**  
a Delaware limited liability company

By: NorthStar Real Estate Income Operating Partnership II, LP, a Delaware limited partnership, its sole equity member

By: NorthStar Real Estate Income II, Inc., a Maryland corporation, its general partner

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: Associate General Counsel and Assistant Secretary

[Signatures Continue on Following Page]

ACKNOWLEDGED AND AGREED TO AS OF  
\_\_\_\_\_, 2014:

**GUARANTOR:**

**NORTHSTAR REAL ESTATE INCOME II, INC.,**  
a Maryland corporation

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: Associate General Counsel and  
Assistant Secretary

## FIRST AMENDMENT TO MASTER REPURCHASE AGREEMENT

FIRST AMENDMENT TO MASTER REPURCHASE AGREEMENT, dated as of January 6, 2016 (this "Amendment"), by and among DB LOAN NT-II, LLC, a Delaware limited liability company ("Master Seller"), NORTHSTAR REAL ESTATE INCOME II, INC., a Maryland corporation ("NS Income II"), and NORTHSTAR REAL ESTATE INCOME OPERATING PARTNERSHIP II, LP, a Delaware limited partnership ("Operating Partnership"); and together with NS Income II, "Sponsor", and DEUTSCHE BANK AG, CAYMAN ISLANDS BRANCH, a branch of a foreign banking institution ("Buyer"), and acknowledged and agreed to by DB LOAN MEMBER NT-II, LLC, a Delaware limited liability company ("Member"). Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Repurchase Agreement (as hereinafter defined).

## RECITALS

WHEREAS, Master Seller and Buyer are parties to that certain Master Repurchase Agreement, dated as of July 2, 2014 (as amended, modified and/or restated, the "Repurchase Agreement"), between Master Seller and Buyer;

WHEREAS, Sponsor guaranteed the obligations of Seller under the Repurchase Agreement and the other Transaction Documents pursuant to that certain Limited Guaranty, dated as of July 2, 2014 (as amended, modified and/or restated, the "Guaranty"), from Sponsor to Buyer;

WHEREAS, Member guaranteed the obligations of Seller under the Repurchase Agreement and the other Transaction Documents pursuant to that certain Member Guaranty, dated as of July 2, 2014 (as amended, modified and/or restated, the "Member Guaranty"), from Member to Buyer;

WHEREAS, Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, and Buyer wish to amend and modify the Repurchase Agreement upon the terms and conditions hereinafter set forth; and

WHEREAS, Sponsor and Buyer wish to amend and modify the Guaranty upon the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, (i) Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, and Buyer hereby agree that the Repurchase Agreement shall be amended and modified as follows, and (ii) Sponsor and Buyer hereby agree that the Guaranty shall be amended and modified as follows:

1. Amendments to the Repurchase Agreement.

- a. The Table of Contents is hereby amended by deleting the section heading "Mandatory Amortization" and replacing same with: "Margin Maintenance".

b. The following defined terms as set forth in Section 2(a) of the Repurchase Agreement are hereby deleted in their entirety: "Purchased Loan LTV", "Stabilized Loan Maximum Original Purchase Amount", "Stabilized Loan Maximum Original Purchase Percentage", "Transition Loan Maximum Original Purchase Amount" and "Transition Loan Maximum Original Purchase Percentage".

c. The following defined terms as set forth in Section 2(a) of the Repurchase Agreement are hereby amended and restated in their entirety to read as follows:

"Maximum Original Purchase Percentage" shall mean, with respect to any Transaction, the percentage specified as the Maximum Original Purchase Percentage in the Confirmation for such Transaction as determined by Buyer in its sole and absolute discretion.

"Maximum Repurchase Price" shall mean, with respect to any Purchased Loan as of any date of determination, an amount equal to (i) the product of (x) the then current Principal Balance of such Purchased Loan, (y) the Purchase Date Market Value Percentage of such Purchased Loan, and (z) the Maximum Original Purchase Percentage of such Purchased Loan, less (ii) the Net Market Value Decrease of such Purchased Loan.

d. The following defined terms are hereby added to Section 2(a) of the Repurchase Agreement (in the proper alphabetical order):

"Credit Event Threshold" shall mean, for any Purchased Loan, any term, covenant or condition set forth in the Confirmation for the related Transaction designated as a Credit Event Threshold therein.

"Market Value Percentage" shall mean, with respect to any Eligible Loan or Purchased Loan, as of any date, the fraction, expressed as a percentage and rounded to the next highest hundredth of a percent, the numerator of which is the then current Market Value of such Eligible Loan or Purchased Loan, and the denominator of which is the then current Principal Balance of such Eligible Loan or Purchased Loan.

"Net Market Value Decrease" shall mean, with respect to any Purchased Loan, as of any date of determination, an amount equal to the greater of (i) zero and (ii) the product of (1) the then current Principal Balance of such Purchased Loan and (2) (x) the Purchase Date Market Value Percentage of such Purchased Loan, less (y) the then current Market Value Percentage of such Purchased Loan.

"Purchase Date Market Value" shall mean, with respect to any Purchased Loan, the Market Value of such Purchased Loan as of the related Purchase Date, and which Purchase Date Market Value shall be set forth in the Confirmation for the related Transaction.

“Purchase Date Market Value Percentage” shall mean, with respect to any Purchased Loan, the fraction, expressed as a percentage and rounded to the next highest hundredth of a percent, the numerator of which is the Purchase Date Market Value of such Purchased Loan, and the denominator of which is the Principal Balance as of the related Purchase Date, and which Purchase Date Market Value Percentage shall be set forth in the Confirmation for the related Transaction.

e. For all Transactions entered into under the Repurchase Agreement after the date of this Amendment, the term “Credit Event” in Section 2(a) of the Repurchase Agreement is hereby amended by deleting the word “and” after clause (vi) thereof, deleting the period after clause (vii) thereof and adding the following at the end of such definition (it being acknowledged and agreed that the definition of “Credit Event” for all Transactions in effect under the Repurchase Agreement as of the date of this Amendment shall remain unmodified):

- “(viii) the existence of any pending litigation, action, suit, arbitration, investigation or other legal or arbitration proceeding affecting any Mortgagor or guarantor for the Purchased Loan or the applicable Mortgaged Property which if adversely determined could reasonably be expected to have a material adverse effect on such Mortgagor, guarantor or the applicable Mortgaged Property; or
- (ix) a failure to satisfy any Credit Event Threshold for such Purchased Loan.”

f. The term “Debt Yield” in Section 2(a) of the Repurchase Agreement is hereby amended by deleting the words “underwritten net cash flow” in the second (2<sup>nd</sup>) line thereof and replacing same with “net operating income”.

g. The term “Market Value” in Section 2(a) of the Repurchase Agreement is hereby amended by adding the following sentence at the end of such definition: “Notwithstanding the foregoing, Buyer shall not reduce the Market Value for any Purchased Loan unless a Credit Event has occurred and is continuing with respect to such Purchased Loan.”

h. Exhibit I attached to the Repurchase Agreement is amended by inserting the following immediately prior to “Actual Original Purchase Percentage”:

“Purchase Date Market Value: [ \_\_\_\_\_ ]  
Purchase Date Market Value Percentage: [ \_\_\_\_\_ ]”.

2. Amendment of Transaction Documents. From and after the date hereof, all references in the Repurchase Agreement to “this Agreement” and all references in the other Transaction Documents to “the Repurchase Agreement” shall be deemed to refer to the Repurchase Agreement as amended and modified by this Amendment and as same may be further amended, modified and/or restated.



3. Due Authority. Each of Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, Sponsor and Member hereby represents and warrants to Buyer that, as of the date hereof, (i) it has the power to execute, deliver and perform its respective obligations under this Amendment, (ii) this Amendment has been duly executed and delivered by it for good and valuable consideration, and constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms subject to bankruptcy, insolvency, and other limitations on creditors' rights generally and to equitable principles, and (iii) neither the execution and delivery of this Amendment, nor the consummation by it of the transactions contemplated by this Amendment, nor compliance by it with the terms, conditions and provisions of this Amendment will conflict with or result in a breach of any of the terms, conditions or provisions of (A) its organizational documents, (B) any contractual obligation to which it is now a party or the rights under which have been assigned to it or the obligations under which have been assumed by it or to which its assets are subject or constitute a default thereunder, or result thereunder in the creation or imposition of any lien upon any of its assets, other than pursuant to this Amendment, (C) any judgment or order, writ, injunction, decree or demand of any court applicable to it, or (D) any applicable Requirement of Law, in the case of clauses (A)-(C) above, to the extent that such conflict or breach is reasonably likely to result in a Material Adverse Effect.

4. Counterparts. This Amendment may be executed by each of the parties hereto in any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment in Portable Document Format (PDF) or by facsimile transmission shall be effective as delivery of a manually executed original counterpart thereof.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

6. Reaffirmation of Guaranty and Member Guaranty. Sponsor acknowledges the amendments and modifications of the Repurchase Agreement pursuant to this Amendment and hereby ratifies and reaffirms all of the terms, covenants and conditions of the Guaranty and agrees that the Guaranty remains unmodified and in full force and effect and enforceable in accordance with its terms. Member acknowledges the amendments and modifications of the Repurchase Agreement pursuant to this Amendment and hereby ratifies and reaffirms all of the terms, covenants and conditions of the Member Guaranty and agrees that the Member Guaranty remains unmodified and in full force and effect and enforceable in accordance with its terms.

7. Repurchase Agreement and Transaction Documents in Full Force and Effect. Except as expressly amended hereby, Master Seller, on behalf of itself and each Series Seller that is a party to a Transaction under the Repurchase Agreement as of the date hereof, Sponsor and Member acknowledge and agree that all of the terms, covenants and conditions of the Repurchase Agreement and the other Transaction Documents remain unmodified and in full force and effect and are hereby ratified and confirmed in all respects.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

**BUYER:**

**DEUTSCHE ANK AG, CAYMAN ISLANDS BRANCH**

By: /s/ Dean Aotani  
Name: Dean Aotani  
Title: Managing Director

By: /s/ R. Christopher Jones  
Name: R. Christopher Jones  
Title: Director

**MASTER SELLER:**

**DB LOAN NT-II, LLC, its sole member**

By: DB Loan Member NT-II, LLC, its sole member

By: NorthStar Real Estate Income Operating  
Partnership II, LP, its sole member

By: NorthStar Real Estate Income II, Inc.,  
its general partner

By: \_\_\_\_\_  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary

[SIGNATURES CONTINUE ON FOLLOWING PAGE]

**SPONSOR:**

**NORTHSTAR REAL ESTATE INCOME II, INC.,**  
a Maryland corporation

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary

**NORTHSTAR REAL ESTATE INCOME  
OPERATING PARTNERSHIP II, LP,**  
a Delaware limited partnership

By: NorthStar Real Estate Income II, Inc., a  
Maryland corporation, its general partner

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary

[SIGNATURES CONTINUE ON FOLLOWING PAGE]

**ACKNOWLEDGED AND AGREED TO  
AS OF JANUARY 6, 2016:**

**MEMBER:**

**DB LOAN MEMBER NT-II, LLC,**  
a Delaware limited liability company

By: NorthStar Real Estate Income Operating  
Partnership II, LP, its sole member

By: NorthStar Real Estate Income II, Inc.  
its general partner

By: /s/ Jenny B. Neslin  
Name: Jenny B. Neslin  
Title: General Counsel and Secretary

**COLONY NORTHSTAR CREDIT REAL ESTATE, INC.**  
**LIST OF SIGNIFICANT SUBSIDIARIES**

<u>Subsidiary Name</u>	<u>State or Jurisdiction of Formation</u>
Credit RE Operating Company, LLC	Delaware
Credit RE Holdco, LLC	Delaware
NorthStar Real Estate Income Trust Operating Partnership, LLC	Delaware
NorthStar Real Estate Income Operating Partnership, LLC	Delaware
Credit PE Corporation, LLC	Delaware
CMC Parent REIT, LLC	Delaware
CoFin Fair Austin Funding, LLC	Delaware
NRFC DB Loan Member, LLC	Delaware
NRFC DB Loan, LLC	Delaware
NS Income DB Loan Member, LLC	Delaware
NS Income DB Loan, LLC	Delaware
NorthStar MP JV, General Partnership	Delaware
NRFC Income Opportunity Securities Holdings, LLC	Delaware
PE Investments-T CAM2, LLC	Delaware

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-222812) pertaining to the 2018 Equity Incentive Plan of Colony NorthStar Credit Real Estate, Inc. of our report dated March 23, 2018, with respect to the consolidated balance sheet of Colony NorthStar Credit Real Estate, Inc. included in this Annual Report (Form 10-K) of Colony NorthStar Credit Real Estate, Inc. for the year ended December 31, 2017.

/s/ ERNST & YOUNG, LLP

Los Angeles, California  
March 23, 2018

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement (Form S-8 No. 333-222812) pertaining to the 2018 Equity Incentive Plan of Colony NorthStar Credit Real Estate, Inc. of our report dated March 23, 2018 with respect to the combined financial statements of the CLNS Investment Entities included in this Annual Report (Form 10-K) of Colony NorthStar Credit Real Estate, Inc. for the year ended December 31, 2017.

/s/ ERNST & YOUNG, LLP

Los Angeles, California  
March 23, 2018

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated March 23, 2018, with respect to the consolidated financial statements of NorthStar Real Estate Income Trust, Inc. attached as an exhibit to the Annual Report of Colony NorthStar Credit Real Estate, Inc. on Form 10-K for the year ended December 31, 2017. We consent to the incorporation by reference of said report in the Registration Statement of Colony NorthStar Credit Real Estate, Inc. on Form S-8 (File No. 333-222812).

/s/ GRANT THORNTON LLP

New York, New York  
March 23, 2018



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated March 23, 2018, with respect to the consolidated financial statements of NorthStar Real Estate Income II, Inc. attached as an exhibit to the Annual Report of Colony NorthStar Credit Real Estate, Inc. on Form 10-K for the year ended December 31, 2017. We consent to the incorporation by reference of said report in the Registration Statement of Colony NorthStar Credit Real Estate, Inc. on Form S-8 (File No. 333-222812).

/s/ GRANT THORNTON LLP

New York, New York  
March 23, 2018

**Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Kevin P. Traenkle, certify that:

1. I have reviewed this Annual Report on Form 10-K of Colony NorthStar Credit Real Estate, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [Language omitted in accordance with SEC release No. 34-54942] for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Language omitted in accordance with SEC release No. 34-54942];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2018

---

/s/ Kevin P. Traenkle  
Kevin P. Traenkle  
Chief Executive Officer and President

**Certification of Chief Financial Officer**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sujan S. Patel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Colony NorthStar Credit Real Estate, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [Language omitted in accordance with SEC release No. 34-54942] for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Language omitted in accordance with SEC release No. 34-54942];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2018

/s/ Sujan S. Patel

---

Sujan S. Patel  
Chief Financial Officer and Treasurer

**Certification of Chief Executive Officer**  
**Pursuant to 18 U.S.C. Section 1350,**  
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Colony NorthStar Credit Real Estate, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin P. Traenkle, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2018

\_\_\_\_\_  
/s/ Kevin P. Traenkle  
Kevin P. Traenkle  
Chief Executive Officer and President

The foregoing certification is being furnished solely pursuant to 18 U.S.C §1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Chief Financial Officer**  
**Pursuant to 18 U.S.C. Section 1350,**  
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Colony NorthStar Credit Real Estate, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sujan S. Patel, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2018

\_\_\_\_\_  
/s/ Sujan S. Patel  
Sujan S. Patel  
Chief Financial Officer and Treasurer

The foregoing certification is being furnished solely pursuant to 18 U.S.C §1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CONSOLIDATED FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**NORTHSTAR REAL ESTATE INCOME TRUST, INC.**  
(Exact Name of Company as Specified in its Charter)

**DECEMBER 31, 2017**

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

**26-4141646**  
(IRS Employer  
Identification No.)

**590 Madison Avenue, 34th Floor, New York, NY 10022**  
(Address of Principal Executive Offices, Including Zip Code)

**(212) 547-2600**  
(Company's Telephone Number, Including Area Code)



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Board of Directors and Stockholders  
Colony NorthStar Credit Real Estate, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of NorthStar Real Estate Income Trust, Inc. (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2009.

New York, New York  
March 23, 2018

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands, Except Per Share Data)

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 208,757	\$ 153,039
Restricted cash	40,585	74,195
Real estate debt investments, net	324,106	745,323
Real estate debt investments, held for sale	150,150	—
Operating real estate, net	475,711	488,839
Investments in unconsolidated ventures (refer to Note 5)	41,159	90,579
Real estate securities, available for sale	158,341	93,975
Mortgage loans held in a securitization trust, at fair value	916,017	—
Receivables, net	14,039	13,956
Deferred costs and other assets, net	50,310	56,370
Loan collateral receivable, related party	50,314	52,204
<b>Total assets<sup>(1)</sup></b>	<b>\$ 2,429,489</b>	<b>\$ 1,768,480</b>
<b>Liabilities</b>		
Securitization bonds payable, net	\$ —	\$ 39,762
Mortgage notes payable, net	395,974	393,410
Credit facilities	221,489	249,156
Mortgage obligations issued by a securitization trust, at fair value	863,447	—
Accounts payable and accrued expenses (refer to Note 8)	13,116	7,930
Escrow deposits payable	22,762	58,453
Distribution payable	7,095	8,192
Other liabilities	15,297	19,191
Loan collateral payable, net, related party (refer to Note 8)	23,458	23,261
<b>Total liabilities<sup>(1)</sup></b>	<b>1,562,638</b>	<b>799,355</b>
Commitments and contingencies		
<b>Equity</b>		
<b>NorthStar Real Estate Income Trust, Inc. Stockholders' Equity</b>		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of December 31, 2017 and 2016, respectively	—	—
Common stock, \$0.01 par value, 400,000,000 shares authorized, 119,333,203 and 120,903,352 shares issued and outstanding as of December 31, 2017 and 2016, respectively	1,193	1,209
Additional paid-in capital	1,066,778	1,080,434
Retained earnings (accumulated deficit)	(229,649)	(151,731)
Accumulated other comprehensive income (loss)	21,013	20,175
Total NorthStar Real Estate Income Trust, Inc. stockholders' equity	859,335	950,087
<b>Non-controlling interests</b>	<b>7,516</b>	<b>19,038</b>
<b>Total equity</b>	<b>866,851</b>	<b>969,125</b>
<b>Total liabilities and equity</b>	<b>\$ 2,429,489</b>	<b>\$ 1,768,480</b>

(1) Represents the consolidated assets and liabilities of NorthStar Real Estate Income Trust Operating Partnership, LP (the "Operating Partnership"). The Operating Partnership is a consolidated variable interest entity ("VIE"), of which the Company is the sole general partner and owns approximately 99.98%. As of December 31, 2017, the Operating Partnership includes \$1.3 billion and \$1.3 billion of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. Refer to Note 2, "Summary of Significant Accounting Policies."

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Data)

	Years Ended December 31,		
	2017	2016	2015
<b>Net interest income</b>			
Interest income	\$ 66,427	\$ 77,657	\$ 96,471
Interest expense	(11,927)	(16,674)	(21,339)
Interest income on mortgage loans held in a securitization trust	27,646	—	—
Interest expense on mortgage obligations issued by a securitization trust	(24,777)	—	—
Net interest income	57,369	60,983	75,132
<b>Property and other revenues</b>			
Rental and other income	87,657	78,602	60,394
Total property and other revenues	87,657	78,602	60,394
<b>Expenses</b>			
Asset management and other fees, related party	17,815	23,765	23,965
Mortgage notes interest expense	18,895	17,519	14,832
Other expenses related to securitization trust	96	—	—
Transaction costs	7,455	1,978	1,344
Property operating expenses	40,028	36,950	31,135
General and administrative expenses (refer to Note 8)	10,617	14,503	15,475
Depreciation and amortization	38,408	31,227	25,982
Total expenses	133,314	125,942	112,733
<b>Other income (loss)</b>			
Unrealized gain (loss) on mortgage loans and obligations held in a securitization trust, net	1,336	—	—
Unrealized gain (loss) on investments	(14,080)	(3,432)	(12,108)
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	(1,032)	10,211	10,685
Equity in earnings (losses) of unconsolidated ventures	5,841	24,963	36,017
Income tax benefit (expense)	1,679	(2,967)	(1,111)
<b>Net income (loss)</b>	6,488	32,207	45,591
Net (income) loss attributable to non-controlling interests	(608)	(255)	23
<b>Net income (loss) attributable to NorthStar Real Estate Income Trust, Inc. common stockholders</b>	\$ 5,880	\$ 31,952	\$ 45,614
Net income (loss) per share of common stock, basic/diluted	\$ 0.05	\$ 0.26	\$ 0.38
Weighted average number of shares of common stock outstanding, basic/diluted	119,757,180	120,946,177	119,321,920

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Dollars in Thousands)

	Years Ended December 31,		
	2017	2016	2015
<b>Net income (loss)</b>	\$ 6,488	\$ 32,207	\$ 45,591
<b>Other comprehensive income (loss)</b>			
Unrealized gain (loss) on real estate securities, available for sale	838	(1,726)	(6,513)
<b>Total other comprehensive income (loss)</b>	838	(1,726)	(6,513)
<b>Comprehensive income (loss)</b>	7,326	30,481	39,078
Comprehensive (income) loss attributable to non-controlling interests	(608)	(255)	23
<b>Comprehensive income (loss) attributable to NorthStar Real Estate Income Trust, Inc. common stockholders</b>	<b>\$ 6,718</b>	<b>\$ 30,226</b>	<b>\$ 39,101</b>

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Dollars and Shares in Thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non- controlling Interests	Total Equity
	Shares	Amount						
<b>Balance as of December 31, 2014</b>	<u>117,847</u>	<u>\$ 1,178</u>	<u>\$ 1,050,632</u>	<u>\$ (36,884)</u>	<u>\$ 28,414</u>	<u>\$ 1,043,340</u>	<u>\$ 19,357</u>	<u>\$ 1,062,697</u>
Non-controlling interests—contributions	—	—	—	—	—	—	268	268
Non-controlling interests—distributions	—	—	—	—	—	—	(1,915)	(1,915)
Proceeds from distribution reinvestment plan	4,599	46	43,737	—	—	43,783	—	43,783
Shares redeemed for cash	(1,710)	(17)	(16,447)	—	—	(16,464)	—	(16,464)
Issuance and amortization of equity-based compensation	22	—	232	—	—	232	—	232
Other comprehensive income (loss)	—	—	—	—	(6,513)	(6,513)	—	(6,513)
Distributions declared	—	—	—	(95,668)	—	(95,668)	—	(95,668)
Net income (loss)	—	—	—	45,614	—	45,614	(23)	45,591
<b>Balance as of December 31, 2015</b>	<u>120,758</u>	<u>\$ 1,207</u>	<u>\$ 1,078,154</u>	<u>\$ (86,938)</u>	<u>\$ 21,901</u>	<u>\$ 1,014,324</u>	<u>\$ 17,687</u>	<u>\$ 1,032,011</u>
Non-controlling interests—contributions	—	—	—	—	—	—	4,473	4,473
Non-controlling interests—distributions	—	—	—	—	—	—	(3,377)	(3,377)
Proceeds from distribution reinvestment plan	4,467	45	43,501	—	—	43,546	—	43,546
Shares redeemed for cash	(4,349)	(43)	(41,412)	—	—	(41,455)	—	(41,455)
Issuance and amortization of equity-based compensation	27	—	191	—	—	191	—	191
Other comprehensive income (loss)	—	—	—	—	(1,726)	(1,726)	—	(1,726)
Distributions declared	—	—	—	(96,745)	—	(96,745)	—	(96,745)
Net income (loss)	—	—	—	31,952	—	31,952	255	32,207
<b>Balance as of December 31, 2016</b>	<u>120,903</u>	<u>\$ 1,209</u>	<u>\$ 1,080,434</u>	<u>\$ (151,731)</u>	<u>\$ 20,175</u>	<u>\$ 950,087</u>	<u>\$ 19,038</u>	<u>\$ 969,125</u>
Non-controlling interests—contributions	—	—	—	—	—	—	178	178
Non-controlling interests—distributions	—	—	—	—	—	—	(12,308)	(12,308)
Proceeds from distribution reinvestment plan	2,711	27	26,805	—	—	26,832	—	26,832
Shares redeemed for cash	(4,301)	(43)	(40,703)	—	—	(40,746)	—	(40,746)
Issuance and amortization of equity-based compensation	20	—	242	—	—	242	—	242
Other comprehensive income (loss)	—	—	—	—	838	838	—	838
Distributions declared	—	—	—	(83,798)	—	(83,798)	—	(83,798)
Net income (loss)	—	—	—	5,880	—	5,880	608	6,488
<b>Balance as of December 31, 2017</b>	<u>119,333</u>	<u>\$ 1,193</u>	<u>\$ 1,066,778</u>	<u>\$ (229,649)</u>	<u>\$ 21,013</u>	<u>\$ 859,335</u>	<u>\$ 7,516</u>	<u>\$ 866,851</u>

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Years Ended December 31,		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 6,488	\$ 32,207	\$ 45,591
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in (earnings) losses of unconsolidated ventures	(5,841)	(24,963)	(36,017)
Depreciation and amortization	38,408	31,227	25,982
Straight-line rental income	(1,359)	(1,690)	(1,798)
Amortization of capitalized above/below market leases	1,329	1,150	1,007
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(3,799)	(861)	3,577
Amortization of deferred financing costs	4,014	3,089	3,944
Interest accretion on investments	(7,362)	(6,408)	(6,505)
Distributions of cumulative earnings from unconsolidated ventures (refer to Note 5)	5,841	24,963	31,690
Unrealized gain (loss) on mortgage loans and obligations held in a securitization trust, net	(1,336)	—	—
Unrealized (gain) loss on investments	14,080	3,432	12,108
Amortization of equity-based compensation	242	191	232
Deferred income tax (benefit) expense	(4,916)	(2,086)	(1,485)
Changes in assets and liabilities:			
Restricted cash	(575)	(2,948)	8,165
Receivables, net	5,275	4,536	58
Deferred costs and other assets	(11,970)	(552)	(1,894)
Due to related party	237	66	—
Accounts payable and accrued expenses	2,340	(1,291)	(47)
Other liabilities	(2,381)	774	387
Net cash provided by (used in) operating activities	38,715	60,836	84,995
<b>Cash flows from investing activities:</b>			
Origination and funding of real estate debt investments, net	(98,481)	(151,837)	(61,639)
Repayment on real estate debt investments	375,913	372,208	287,084
Repayment on loan collateral receivable, related party	1,890	1,852	23,846
Acquisition of operating real estate	—	(103,384)	—
Improvements of operating real estate	(8,438)	(5,649)	(8,700)
Investments in unconsolidated ventures (refer to Note 5)	(24,569)	(55,398)	(10,035)
Proceeds from sale of unconsolidated ventures	—	59,760	—
Distributions in excess of cumulative earnings from unconsolidated ventures (refer to Note 5)	60,184	63,717	38,107
Acquisition of real estate securities, available for sale	(114,797)	(20,657)	(10,818)
Repayment of real estate securities, available for sale	4,694	11,075	806
Change in restricted cash	(1,506)	2,244	(920)
Net cash provided by (used in) investing activities	194,890	173,931	257,731
<b>Cash flows from financing activities:</b>			
Proceeds from distribution reinvestment plan	26,832	43,546	43,783
Shares redeemed for cash	(40,746)	(41,455)	(16,464)
Distributions paid on common stock	(84,895)	(96,758)	(95,470)
Borrowings from mortgage notes	1,453	78,952	—
Repayment of mortgage notes	(217)	(204)	(198)
Borrowings from loan collateral payable, net, related party	—	24,933	—
Borrowings from credit facilities	134,521	115,768	55,148
Repayment of credit facilities	(162,187)	(184,612)	(6,630)
Repayment of securitization bonds	(39,762)	(146,049)	(228,073)
Payment of deferred financing costs	(756)	(4,835)	(1,040)
Contributions from non-controlling interests	178	4,473	268
Distributions to non-controlling interests	(12,308)	(3,377)	(1,915)
Net cash provided by (used in) financing activities	(177,887)	(209,618)	(250,591)
Net increase (decrease) in cash and cash equivalents	55,718	25,149	92,135
Cash and cash equivalents—beginning of period	153,039	127,890	35,755
Cash and cash equivalents—end of period	<u>\$ 208,757</u>	<u>\$ 153,039</u>	<u>\$ 127,890</u>

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands)

	Years Ended December 31,		
	2017	2016	2015
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 27,145	\$ 31,208	\$ 31,755
Cash paid for income taxes	3,486	4,307	4,028
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Consolidation of securitization trust (VIE asset / liability)	\$ 867,445	\$ —	\$ —
Reclassification of CRE debt investments to held for sale	150,150	—	—
Escrow deposits payable related to real estate debt investments	35,691	3,428	42,444
Accrual of distribution payable	7,095	8,192	8,205
Non-cash related to PE Investments	3,908	3,270	2,169
Acquisition of operating real estate / reduction of CRE debt investment <sup>(1)</sup>	—	67,493	—
Transfer of CRE debt investments / loan collateral payable, net, related party	—	23,729	—
Accrued capital expenditures	—	—	1,335
CRE debt investment payoff due from servicer	—	—	31,750
Reclassification of deferred financing costs to securitization bonds payable	—	—	389
Reclassification of deferred financing costs to mortgage notes payable	—	—	1,950
Reclassification related to measurement-period adjustment	—	33,612	—

(1) Non-cash activity in 2016 occurred primarily in connection with taking title to collateral.

Refer to accompanying notes to consolidated financial statements.



**1. Business and Organization**

NorthStar Real Estate Income Trust, Inc. (the “Company”) was formed to originate, acquire and asset manage a diversified portfolio of commercial real estate (“CRE”) debt, select equity and securities investments, predominantly in the United States. The Company may also invest in CRE investments internationally. CRE debt investments include first mortgage loans, subordinate mortgage and mezzanine loans and participations in such loans and preferred equity interests. Real estate equity investments include the Company’s direct ownership in properties, which may be structurally senior to a third-party partner’s equity, as well as indirect interests in real estate through real estate private equity funds (“PE Investments”). CRE securities primarily consist of commercial mortgage-backed securities (“CMBS”) and may in the future include unsecured real estate investment trust (“REIT”) debt, collateralized debt obligation (“CDO”) notes and other securities. In addition, the Company may own investments through joint ventures. The Company was formed in January 2009 as a Maryland corporation and commenced operations in October 2010. The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), commencing with the taxable year ended December 31, 2010. The Company conducts its operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

As of December 31, 2017, the Company was externally managed and had no employees. Prior to January 11, 2017, the Company was managed by an affiliate of NorthStar Asset Management Group Inc. (NYSE: NSAM) (“NSAM”). Effective January 10, 2017, NSAM completed its previously announced merger with Colony Capital, Inc. (“Colony”), NorthStar Realty Finance Corp. (“NorthStar Realty”), and Colony NorthStar, Inc. (“Colony NorthStar”), a wholly-owned subsidiary of NSAM, which the Company refers to as the mergers, with Colony NorthStar surviving the mergers and succeeding NSAM as the Company’s sponsor (the “Sponsor”). As a result of the mergers, the Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform and publicly-traded on the NYSE under the ticker symbol “CLNS.” In addition, following the mergers, CNI NSI Advisors, LLC (formerly known as NSAM J-NSI Ltd), an affiliate of NSAM (the “Advisor”), became a subsidiary of Colony NorthStar. The Advisor manages the Company’s day-to-day operations pursuant to an advisory agreement. The mergers had no material impact on the Company’s operations.

Colony NorthStar manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies.

Substantially all the Company’s business is conducted through NorthStar Real Estate Income Trust Operating Partnership, LP (the “Operating Partnership”). The Company is the sole general partner and a limited partner of the Operating Partnership. The other limited partners of the Operating Partnership are NS Real Estate Income Trust Advisor, LLC (the “Prior Advisor”) and NorthStar OP Holdings, LLC (the “Special Unit Holder”), each an affiliate of the Sponsor. The Prior Advisor invested \$1,000 in the Operating Partnership in exchange for common units and the Special Unit Holder invested \$1,000 in the Operating Partnership and was issued a separate class of limited partnership units (the “Special Units”), which are collectively recorded as non-controlling interests on the consolidated balance sheets as of December 31, 2017 and 2016. As the Company accepted subscriptions for shares in its continuous, public offering which closed in July 2013, it contributed substantially all of the net proceeds to the Operating Partnership as a capital contribution. As of December 31, 2017, the Company’s limited partnership interest in the Operating Partnership was 99.98%.

The Company’s charter authorizes the issuance of up to 400,000,000 shares of common stock with a par value of \$0.01 per share and up to 50,000,000 shares of preferred stock with a par value of \$0.01 per share. The board of directors of the Company is authorized to amend its charter, without the approval of the stockholders, to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

The Company initially registered to offer up to 100,000,000 shares pursuant to its primary offering to the public (the “Primary Offering”) and up to 10,526,315 shares pursuant to its distribution reinvestment plan (the “DRP”), which are herein collectively referred to as the Offering. The Primary Offering (including 7.6 million shares reallocated from the DRP, (the “Total Primary Offering”) was completed on July 1, 2013 and all of the shares initially registered for the Offering were issued. As a result of an additional registration statement to offer up to 10.0 million shares pursuant to the DRP, the Company continued to offer DRP shares beyond the Total Primary Offering. On August 25, 2017, in connection with the entry into the Original Combination Agreement (defined below), the Company’s board of directors, including all of its independent directors, voted to suspend the DRP until further notice. Pursuant to the terms of the DRP, the suspension went into effect prior to the monthly distributions to be paid on or about October 1, 2017 and as a result, all stockholders received cash distributions through the completion of the Combination (defined below).

The Company raised total gross proceeds of \$1.1 billion in the Offering. In addition, from the close of the Primary Offering through January 31, 2018, the Company raised an additional \$0.2 billion in gross proceeds pursuant to the DRP.

On August 25, 2017, the Company entered into a master combination agreement (the "Original Combination Agreement") with, among others, Colony Capital Operating Company, LLC, ("CLNS OP"), the operating company of the Sponsor, and NorthStar Real Estate Income II, Inc. ("NorthStar Income II"), a company managed by an affiliate of the Sponsor, pursuant to which a select portfolio of the assets and liabilities of the Sponsor would be combined with substantially all of the assets and liabilities of the Company and all of the assets and liabilities of NorthStar Income II in an all-stock combination transaction to create an externally managed commercial real estate credit REIT (the transactions collectively referred to as the "Combination"). On November 20, 2017, the parties amended and restated the Original Combination Agreement (the "Combination Agreement"). The Combination, which had been unanimously approved by the special committees and the boards of directors of both the Company and NorthStar Income II and approved by the board of directors of the Sponsor, closed on January 31, 2018, at which time the Company merged with and into Colony NorthStar Credit Real Estate, Inc. ("CLNC"), with CLNC continuing as the surviving corporation.

## 2. Summary of Significant Accounting Policies

### *Basis of Accounting*

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company, the Operating Partnership and their consolidated subsidiaries. The Company consolidates variable interest entities ("VIEs"), if any, where the Company is the primary beneficiary and voting interest entities which are generally majority owned or otherwise controlled by the Company. All significant intercompany balances are eliminated in consolidation.

### *Variable Interest Entities*

A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The determination of whether an entity is a VIE includes both a qualitative and quantitative analysis. The Company bases its qualitative analysis on its review of the design of the entity, its organizational structure including decision-making ability and relevant financial agreements and the quantitative analysis on the forecasted cash flow of the entity. The Company reassesses its initial evaluation of an entity as a VIE upon the occurrence of certain reconsideration events.

A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents has both the: (i) power to direct the activities that most significantly impact the VIE's economic performance; and (ii) obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. The Company determines whether it is the primary beneficiary of a VIE by considering qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE's economic performance and which party controls such activities; the amount and characteristics of its investment; the obligation or likelihood for the Company or other interests to provide financial support; consideration of the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders and the similarity with and significance to the business activities of the Company and the other interests. The Company reassesses its determination of whether it is the primary beneficiary of a VIE each reporting period. Significant judgments related to these determinations include estimates about the current and future fair value and performance of investments held by these VIEs and general market conditions.

The Company evaluates its investments and financings, including investments in unconsolidated ventures and securitization financing transactions, if any, to determine whether each investment or financing is a VIE. The Company analyzes new investments and financings, as well as reconsideration events for existing investments and financings, which vary depending on type of investment or financing.

As of December 31, 2017, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the Operating Partnership, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

**NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Consolidated VIEs*

The most significant consolidated VIEs are the Operating Partnership, the Investing VIE (as discussed below) and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights.

The Operating Partnership consolidates certain properties that have non-controlling interests. Included in operating real estate, net on the Company's consolidated balance sheet as of December 31, 2017 is \$341.9 million related to such consolidated VIEs. Included in mortgage notes payable, net on the Company's consolidated balance sheet as of December 31, 2017 is \$324.4 million collateralized by the real estate assets of the related consolidated VIEs.

*Investing VIEs*

The Company's investments in securitization financing entities ("Investing VIEs"), include subordinate first-loss tranches of the securitization trust, which represent interests in such VIE. Investing VIEs are structured as pass through entities that receive principal and interest payments from the underlying debt collateral assets and distribute those payments to the securitization trust's certificate holders, including the most subordinate tranches of the securitization trust. Generally, a securitization trust designates the most junior subordinate tranche outstanding as the controlling class, which entitles the holder of the controlling class to unilaterally appoint and remove the special servicer for the trust, and as such may qualify as the primary beneficiary of the trust.

If it is determined that the Company is the primary beneficiary of an Investing VIE as a result of acquiring the subordinate first-loss tranches of the securitization trust, the Company would consolidate the assets, liabilities, income and expenses of the entire Investing VIE. The assets held by an Investing VIE are restricted and can only be used to fulfill its own obligations. The obligations of an Investing VIE have neither any recourse to the general credit of the Company as the consolidator of an Investing VIE, nor to any of the Company's other consolidated entities.

As of December 31, 2017, the Company held subordinate tranches of the securitization trust in an Investing VIE for which the Company has determined it is the primary beneficiary because it has the power to direct the activities that most significantly impact the economic performance of the securitization trust. The Company's subordinate tranches of the securitization trust, which represent the retained interest and related interest income, are eliminated in consolidation. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation, the assets, liabilities (obligations to the certificate holders of the securitization trust, less the Company's retained interest from the subordinate tranches of the securitization trust), income and expense of the entire Investing VIE are presented in the consolidated financial statement of the Company. As a result, although the Company legally owns the subordinate tranches of the securitization trust only, U.S. GAAP requires the Company to present the assets, liabilities, income and expenses of the entire securitization trust on its consolidated financial statements. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the subordinate tranches of the securitization trust. Refer to Note 6, "Real Estate Securities, Available for Sale" for further discussion.

The Company elected the fair value option for the initial recognition of the assets and liabilities of its consolidated Investing VIEs. Interest income and interest expense associated with this VIE will be recorded separately on the consolidated statements of operations. The Company will separately present the assets and liabilities of its consolidated Investing VIEs as "Mortgage loans held in a securitization trust, at fair value" and "Mortgage obligations issued by a securitization trust, at fair value," respectively, on its consolidated balance sheets. Refer to Note 12, "Fair Value" for further discussion.

The Company has adopted guidance issued by the FASB, allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity ("CFE"), such as its Investing VIEs, using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. As the liabilities of the Company's Investing VIE are marketable securities with observable trade data, their fair value is more observable and will be referenced to determine the fair value for assets of its Investing VIE. Refer to section "Fair Value Option" below for further discussion.

*Unconsolidated VIEs*

As of December 31, 2017, the Company identified unconsolidated VIEs related to its securities investments, PE investments and CRE debt investments. Assets of each of the VIEs may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the Company's classification, carrying value and maximum exposure of unconsolidated VIEs as of December 31, 2017 (dollars in thousands):

	<u>Carrying Value</u>	<u>Maximum Exposure to Loss</u>
Real estate securities, available for sale	\$ 158,341	\$ 158,341
Investments in unconsolidated ventures	9,321	9,321
Real estate debt investments, net <sup>(1)</sup>	141,658	141,658
Total assets	<u>\$ 309,320</u>	<u>\$ 309,320</u>

(1) Includes loan collateral receivable, related party of \$50.3 million.

Based on management's analysis, the Company determined that it is not the primary beneficiary of the above VIEs. Accordingly, the VIEs are not consolidated in the Company's financial statements as of December 31, 2017. The Company did not provide financial support to the unconsolidated VIEs during the year ended December 31, 2017. As of December 31, 2017, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to the unconsolidated VIEs.

*Voting Interest Entities*

A voting interest entity is an entity in which the total equity investment at risk is sufficient to enable it to finance its activities independently and the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity will generally be consolidated. The Company does not consolidate a voting interest entity if there are substantive participating rights by other parties and/or kick-out rights by a single party or a simple majority vote.

The Company performs on-going reassessments of whether entities previously evaluated under the voting interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework.

*Investments in Unconsolidated Ventures*

A non-controlling, unconsolidated ownership interest in an entity may be accounted for using the equity method or the cost method, and for either method, the Company may elect the fair value option. The Company will account for an investment in an unconsolidated entity that does not qualify for equity method accounting or for which the fair value option was not elected using the cost method if the Company determines that it does not have significant influence. Under the cost method, equity in earnings is recorded as dividends are received to the extent they are not considered a return of capital, which is recorded as a reduction of cost of the investment.

Under the equity method, the investment is adjusted each period for capital contributions and distributions and its share of the entity's net income (loss). Capital contributions, distributions and net income (loss) of such entities are recorded in accordance with the terms of the governing documents. An allocation of net income (loss) may differ from the stated ownership percentage interest in such entity as a result of preferred returns and allocation formulas, if any, as described in such governing documents. Equity method investments are recognized using a cost accumulation model in which the investment is recognized based on the cost to the investor, which includes acquisition fees. The Company records as an expense certain acquisition costs and fees associated with consolidated investments deemed to be business combinations and capitalizes these costs for investments deemed to be acquisitions of an asset, including an equity method investment.

The Company may account for an investment in an unconsolidated entity at fair value by electing the fair value option. The Company elected the fair value option for PE Investments. The Company records the change in fair value for its share of the projected future cash flow of such investments from one period to another in equity in earnings (losses) of unconsolidated ventures in the consolidated statements of operations. Any change in fair value attributed to market related assumptions is considered unrealized gain (loss).

*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 the Company. A non-controlling interest is required to be presented as a separate component of equity on the consolidated balance sheets and presented separately as net income (loss) and other comprehensive income (loss)

("OCI") attributable to non-controlling interests. An allocation to a non-controlling interest may differ from the stated ownership percentage interest in such entity as a result of a preferred return and allocation formula, if any, as described in such governing documents.

#### Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that could affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates and assumptions.

#### Comprehensive Income (Loss)

The Company reports consolidated comprehensive income (loss) in separate statements following the consolidated statements of operations. Comprehensive income (loss) is defined as the change in equity resulting from net income (loss) and OCI. The only component of OCI is unrealized gain (loss) on CRE securities available for sale for which the fair value option was not elected.

#### Fair Value Option

The fair value option provides an election that allows a company to irrevocably elect to record certain financial assets and liabilities at fair value on an instrument-by-instrument basis at initial recognition. The Company may elect to apply the fair value option for certain investments due to the nature of the instrument. Any change in fair value for assets and liabilities for which the election is made is recognized in earnings.

The Company has elected the fair value option for PE Investments. The Company has also elected the fair value option to account for the eligible financial assets and liabilities of its consolidated Investing VIEs in order to mitigate potential accounting mismatches between the carrying value of the instruments and the related assets and liabilities to be consolidated. The Company has adopted guidance issued by the FASB allowing the Company to measure both the financial assets and liabilities of a qualifying CFE it consolidates using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable.

#### Cash and Cash Equivalents

The Company considers all highly-liquid investments with an original maturity date of three months or less to be cash equivalents. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of \$250,000 per institution. The Company mitigates credit risk by placing cash and cash equivalents with major financial institutions. To date, the Company has not experienced any losses on cash and cash equivalents.

#### Restricted Cash

Restricted cash consists of amounts related to loan origination (escrow deposits) and operating real estate (escrows for taxes, insurance, capital expenditures and payments required under certain lease agreements).

#### Real Estate Debt Investments

CRE debt investments are generally intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan fees, premium and discount. CRE debt investments that are deemed to be impaired are carried at amortized cost less a loan loss reserve, if deemed appropriate, which approximates fair value. CRE debt investments where the Company does not have the intent to hold the loan for the foreseeable future or until its expected payoff are classified as held for sale and recorded at the lower of cost or estimated fair value.

The Company may syndicate a portion of the CRE debt investments that it originates or sell the CRE debt investments individually. When a transaction meets the criteria for sale accounting, the Company will no longer recognize the CRE debt investment sold as an asset and will recognize gain or loss based on the difference between the sales price and the carrying value of the CRE debt investment sold. Any related unamortized deferred origination fees, original issue discounts, loan origination costs, discounts or premiums at the time of sale are recognized as an adjustment to the gain or loss on sale, which is included in interest income on the consolidated statement of operations. Any fees received at the time of sale or syndication are recognized as part of interest income.

#### Operating Real Estate

Operating real estate is carried at historical cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their useful life. The Company accounts for purchases of operating real estate that qualify as business combinations using the

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

acquisition method, where the purchase price is allocated to tangible assets such as land, building, improvements and other identified intangibles. Costs directly related to an acquisition deemed to be a business combination are expensed and included in transaction costs in the consolidated statements of operations.

The Company refers to real estate acquired in connection with a foreclosure, deed in lieu of foreclosure or a consensual modification of a loan as real estate owned ("REO"). The Company evaluates whether REO, herein collectively referred to as taking title to collateral, constitutes a business and whether business combination accounting is appropriate. Any excess upon taking title to collateral between the carrying value of a loan over the estimated fair value of the property is charged to provision for loan losses.

Operating real estate is depreciated using the straight-line method over the estimated useful lives of the assets, summarized as follows:

Category:	Term:
Building	30 to 40 years
Building improvements	Lesser of the useful life or remaining life of the building
Land improvements	10 to 30 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture, fixtures and equipment	3 to 10 years

Real Estate Securities

The Company classifies its CRE securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated OCI in the consolidated statements of equity. However, the Company has elected the fair value option for certain of its available for sale securities, and as a result, any unrealized gains (losses) on such securities are recorded in unrealized gain (loss) on mortgage loans and obligations held in a securitization trust, net in the consolidated statements of operations. As of December 31, 2017, the Company held subordinate tranches of a securitization trust, which represent the Company's retained interest in the securitization trust, which the Company consolidates under U.S. GAAP. Refer to Note 6, "Real Estate Securities, Available for Sale" for further discussion.

Deferred Costs

Deferred costs primarily include deferred financing costs and deferred lease costs. Deferred financing costs represent commitment fees, legal and other third-party costs associated with obtaining financing. Costs related to revolving credit facilities are recorded in deferred costs and other assets, net and are amortized to interest expense using the straight-line basis over the term of the facility. Costs related to other borrowings are recorded net against the carrying value of such borrowings and are amortized to interest expense using the effective interest method. Unamortized deferred financing costs are expensed to realized gain (loss) when the associated facility is repaid before maturity. Costs incurred in seeking financing transactions, which do not close, are expensed in the period in which it is determined that the financing will not occur. Deferred lease costs consist of fees incurred to initiate and renew operating leases, which are amortized on a straight-line basis over the remaining lease term and are recorded to depreciation and amortization in the consolidated statements of operations.

Identified Intangibles

The Company records acquired identified intangibles, which includes intangible assets (such as the value of the above-market leases, in-place leases, and other intangibles) and intangible liabilities (such as the value of below market leases), based on estimated fair value. The value allocated to the identified intangibles are amortized over the remaining lease term. Above/below-market leases are amortized into rental income, below-market ground leases are amortized into real estate properties-operating expense and in-place leases are amortized into depreciation and amortization expense. As of December 31, 2017, the weighted average amortization period for above-market leases, below-market leases and in-place lease costs is 4.4 years, 4.6 years and 4.6 years, respectively.

Identified intangible assets are recorded in deferred costs and other assets, net, and identified intangible liabilities are recorded in other liabilities on the accompanying consolidated balance sheets. The following table presents identified intangibles as of December 31, 2017 (dollars in thousands):

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2017			Intangible Liabilities Below- market Leases
	Intangible Assets			
	In-place Leases	Above- market Leases	Total	
Gross amount	\$ 44,152	\$ 12,076	\$ 56,228	\$ 12,247
Accumulated amortization	(24,051)	(6,096)	(30,147)	(5,875)
<b>Total</b>	<b>\$ 20,101</b>	<b>\$ 5,980</b>	<b>\$ 26,081</b>	<b>\$ 6,372</b>

The Company recorded amortization of acquired above-market leases, net of acquired below-market leases of \$1.3 million, \$1.2 million and \$1.0 million for the years ended December 31, 2017, 2016 and 2015 respectively. Amortization of other intangible assets was \$14.7 million, \$11.5 million and \$6.5 million for the years ended December 31, 2017, 2016 and 2015 respectively.

The following table presents annual amortization of intangible assets and liabilities (dollars in thousands):

Years Ending December 31:	In-place Leases, Net(1)	Above-market Leases, Net(1)	Below-market Leases, Net(1)
2018	\$ 6,677	\$ 2,080	\$ 2,001
2019	4,800	1,565	1,904
2020	2,857	913	678
2021	1,933	517	431
2022	1,461	422	416
Thereafter	2,373	483	942
<b>Total</b>	<b>\$ 20,101</b>	<b>\$ 5,980</b>	<b>\$ 6,372</b>

(1) Identified intangibles will be amortized through periods ending April 2027.

**Deferred Costs and Other Assets, Net and Other Liabilities**

The following tables present a summary of deferred costs and other assets, net and other liabilities as of December 31, 2017 and 2016 (dollars in thousands):

	December 31,	
	2017	2016
<b>Deferred costs and other assets, net:</b>		
Intangible assets, net <sup>(1)</sup>	\$ 26,081	\$ 41,375
Prepaid expenses	12,564	1,386
Deferred commissions and leasing costs	10,025	10,287
Deferred financing costs, net—credit facilities	951	2,772
Deposits	689	550
<b>Total</b>	<b>\$ 50,310</b>	<b>\$ 56,370</b>
<b>Other liabilities:</b>		
Intangible liabilities, net <sup>(2)</sup>	\$ 6,372	\$ 8,506
Prepaid rent and unearned revenue	3,917	4,601
PE Investments deferred purchase price, net	3,411	4,248
Tenant security deposits	1,398	1,433
Other	199	403
<b>Total</b>	<b>\$ 15,297</b>	<b>\$ 19,191</b>

(1) Represents in-place leases and above-market leases, net.

(2) Represents below-market leases, net.

Acquisition Fees and Expenses

The total of all acquisition fees and expenses for an investment, including acquisition fees to the Advisor, cannot exceed, in the aggregate, 6.0% of the contract purchase price of such investment unless such excess is approved by a majority of the Company's directors, including a majority of its independent directors. For the year ended December 31, 2017, total acquisition fees and expenses did not exceed the allowed limit for any investment. An acquisition fee incurred related to an equity investment will generally be expensed as incurred. An acquisition fee paid to the Advisor related to the acquisition of an equity or debt investment in an unconsolidated joint venture is included in investments in unconsolidated ventures on the consolidated balance sheets. An acquisition fee paid to the Advisor related to the origination or acquisition of debt investments is included in debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method. The Company records as an expense certain acquisition costs and fees associated with transactions deemed to be business combinations in which it consolidates the asset and capitalizes these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

Revenue Recognition*Real Estate Debt Investments*

Interest income is recognized on an accrual basis and any related premium, discount, origination costs and fees are amortized over the life of the investment using the effective interest method. The amortization is reflected as an adjustment to interest income in the consolidated statements of operations. The amortization of a premium or accretion of a discount is discontinued if such loan is reclassified to held for sale.

*Operating Real Estate*

Rental and other income from operating real estate is derived from the leasing of space to various types of tenants. Rental revenue recognition commences when the tenant takes legal possession of the leased space and the leased space is substantially ready for its intended use. The leases are for fixed terms of varying length and generally provide for annual rentals and expense reimbursements to be paid in monthly installments. Rental income from leases is recognized on a straight-line basis over the term of the respective leases. The excess of rent recognized over the amount contractually due pursuant to the underlying leases is included in receivables on the consolidated balance sheets. The Company amortizes any tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the lease. Other income represents revenue from tenant/operator leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes paid by the Company on behalf of the respective property. This revenue is recognized in the same period as the expenses are incurred.

In a situation in which a lease(s) associated with a significant tenant have been, or are expected to be, terminated early, the Company evaluates the remaining useful life of depreciable or amortizable assets in the asset group related to the lease that will be terminated (i.e., tenant improvements, above- and below-market lease intangibles, in-place lease value and deferred leasing costs). Based upon consideration of the facts and circumstances surrounding the termination, the Company may write-off or accelerate the depreciation and amortization associated with the asset group. Such amounts are included within rental and other income for above- and below-market lease intangibles and depreciation and amortization for the remaining lease related asset groups in the consolidated statements of operations. The total amount of accelerated amortization within rental and other income was \$0.2 million for the year ended December 31, 2017 and de minimis for the years ended December 31, 2016 and 2015, respectively. The total amount of accelerated depreciation and amortization expense was \$3.3 million for the year ended December 31, 2017 and de minimis for the years ended December 31, 2016 and 2015, respectively.

*Real Estate Securities*

Interest income is recognized using the effective interest method with any premium or discount amortized or accreted through earnings based on expected cash flow through the expected maturity date of the security. Changes to expected cash flow may result in a change to the yield which is then applied retrospectively for high-credit quality securities that cannot be prepaid or otherwise settled in such a way that the holder would not recover substantially all of the investment or prospectively for all other securities to recognize interest income.

Credit Losses and Impairment on Investments*Real Estate Debt Investments*

Loans are considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all principal and interest amounts due according to the contractual terms. The Company assesses the credit quality of the portfolio and adequacy of loan loss reserves on a quarterly basis or more frequently as necessary. Significant judgment of the Company is required in this analysis. The Company considers the estimated net recoverable value of the loan as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the quality and



financial condition of the borrower and the competitive situation of the area where the underlying collateral is located. Because this determination is based on projections of future economic events, which are inherently subjective, the amount ultimately realized may differ materially from the carrying value as of the balance sheet date. If, upon completion of the assessment, the estimated fair value of the underlying collateral is less than the net carrying value of the loan, a loan loss reserve is recorded with a corresponding charge to provision for loan losses. The loan loss reserve for each loan is maintained at a level that is determined to be adequate by management to absorb probable losses.

Income recognition is suspended for a loan at the earlier of the date at which payments become 90-days past due or when, in the opinion of the Company, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. Interest accrued and not collected will be reversed against interest income. A loan is written off when it is no longer realizable and/or legally discharged. As of December 31, 2017, the Company did not have any impaired CRE debt investments.

#### *Operating Real Estate*

The Company's real estate portfolio is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if the Company's estimate of the aggregate expected future undiscounted cash flow generated by the property is less than the carrying value. In conducting this review, the Company considers U.S. macroeconomic factors, real estate sector conditions and asset specific and other factors. To the extent an impairment has occurred, the loss is measured as the excess of the carrying value of the property over the estimated fair value and recorded in impairment on operating real estate in the consolidated statements of operations. As of December 31, 2017, the Company did not have any impaired operating real estate.

An allowance for a doubtful account for a tenant receivable is established based on a periodic review of aged receivables resulting from estimated losses due to the inability of tenants to make required rent and other payments contractually due. Additionally, the Company establishes, on a current basis, an allowance for future tenant credit losses on unbilled rent receivable based on an evaluation of the collectability of such amounts.

#### *Real Estate Securities*

CRE securities for which the fair value option is elected are not evaluated for other-than-temporary impairment ("OTTI") as any change in fair value is recorded in the consolidated statements of operations. Realized losses on such securities are reclassified to realized gain (loss) on investments as losses occur.

CRE securities for which the fair value option is not elected are evaluated for OTTI quarterly. Impairment of a security is considered to be other-than-temporary when: (i) the holder has the intent to sell the impaired security; (ii) it is more likely than not the holder will be required to sell the security; or (iii) the holder does not expect to recover the entire amortized cost of the security. When a CRE security has been deemed to be other-than-temporarily impaired due to (i) or (ii), the security is written down to its fair value and an OTTI is recognized in the consolidated statements of operations. In the case of (iii), the security is written down to its fair value and the amount of OTTI is then bifurcated into: (a) the amount related to expected credit losses; and (b) the amount related to fair value adjustments in excess of expected credit losses. The portion of OTTI related to expected credit losses is recognized in the consolidated statements of operations. The remaining OTTI related to the valuation adjustment is recognized as a component of accumulated OCI in the consolidated statements of equity. CRE securities which are not high-credit quality are considered to have an OTTI if the security has an unrealized loss and there has been an adverse change in expected cash flow. The amount of OTTI is then bifurcated as discussed above. As of December 31, 2017, the Company did not have any OTTI recorded on its CRE securities.

#### Equity-Based Compensation

The Company accounts for equity-based compensation awards using the fair value method, which requires an estimate of fair value of the award at the time of grant. All fixed equity-based awards to directors, which have no vesting conditions other than time of service, are amortized to compensation expense over the awards' vesting period on a straight-line basis. Equity-based compensation is classified within general and administrative expense in the consolidated statements of operations.

Income Taxes

The Company elected to be taxed as a REIT and to comply with the related provisions of the Internal Revenue Code beginning in its taxable year ended December 31, 2010. Accordingly, the Company will generally not be subject to U.S. federal income tax to the extent of its distributions to stockholders as long as certain asset, income and share ownership tests are met. To maintain its qualification as a REIT, the Company must annually distribute at least 90% of its REIT taxable income to its stockholders and meet certain other requirements. The Company believes that all of the criteria to maintain the Company's REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax and potential interest and penalties, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. The Company's accounting policy with respect to interest and penalties is to classify these amounts as a component of income tax expense, where applicable. The Company has not recognized any such amounts related to uncertain tax positions for the years ended December 31, 2017, 2016 and 2015.

The Company may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on its undistributed taxable income.

The Company made joint elections to treat certain subsidiaries as taxable REIT subsidiaries ("TRS") which may be subject to U.S. federal, state and local income taxes. In general, a TRS of the Company may perform non-customary services for tenants, hold assets that the REIT cannot hold directly and may engage in most real estate or non-real estate-related business.

Certain subsidiaries of the Company are subject to taxation by federal, state and local authorities for the periods presented. Income taxes are accounted for by the asset/liability approach in accordance with U.S. GAAP. Deferred taxes, if any, represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. Such amounts arise from differences between the financial reporting and tax bases of assets and liabilities and are adjusted for changes in tax laws and tax rates in the period which such changes are enacted. A provision for income tax represents the total of income taxes paid or payable for the current period, plus the change in deferred taxes. Current and deferred taxes are recorded on the portion of earnings (losses) recognized by the Company with respect to its interest in TRSs. Deferred income tax assets and liabilities are calculated based on temporary differences between the Company's U.S. GAAP consolidated financial statements and the federal, state and local tax basis of assets and liabilities as of the consolidated balance sheet date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, 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 estimates of expected future taxable income, 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. Changes in estimate of deferred tax asset realizability, if any, are included in income tax benefit (expense) in the consolidated statements of operations.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted, which provides for a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The Company is still analyzing certain aspects of the TCJA and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

For the year ended December 31, 2017, the Company recorded income tax benefit of \$1.7 million. For the years ended December 31, 2016 and 2015, the Company recorded income tax expense of \$3.0 million and \$1.1 million, respectively. Additionally, as of December 31, 2017 and 2016, the Company recorded a deferred tax asset of \$3.5 million and a deferred tax liability of \$1.4 million, respectively.

Transfers of Financial Assets

Sale accounting for transfers of financial assets requires the transfer of an entire financial asset, a group of financial assets in its entirety or if a component of the financial asset is transferred, that component meets the definition of a participating interest by having characteristics that mirror the original financial asset.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Company has any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following sale conditions: (1) the transferred asset has been legally isolated; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

transferred asset; and (3) the Company does not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Company to repurchase or redeem the asset before its maturity, or (b) the unilateral ability by the Company to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Company to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If sale accounting is met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions, or secured borrowing. As of December 31, 2017, the carrying value of CRE debt investments that did not meet the requirements of sale accounting was \$23.7 million and recorded in real estate debt investments, net with an offsetting secured borrowing recorded in loan collateral payable, net, related party of \$23.5 million. Refer to Note 7, "Borrowings" for additional information.

Recent Accounting Pronouncements

*Revenue Recognition*- In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, requiring a company to recognize as revenue the amount of consideration it expects to be entitled to in connection with the transfer of promised goods or services to customers. The Company has adopted the Revenue Recognition standard on its required effective date of January 1, 2018 using the modified retrospective approach, and has applied the guidance to contracts not yet completed as of the date of adoption. The new revenue standard specifically excludes revenue streams for which specific guidance is stipulated in other sections of the codification, therefore it will not impact rental income or interest income generated on financial instruments such as preferred equity investments. The Company is the lessor for gross leases classified as operating leases in which rental income and tenant reimbursements are recorded. The revenue from these leases are scoped out of the new revenue recognition guidance. All leases are accounted for under ASC 840 until the adoption of the new leasing guidance within ASC 842.

*Financial Instruments*- In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses certain aspects of accounting and disclosure requirements of financial instruments, including the requirement that equity investments with readily determinable fair value be measured at fair value with changes in fair value recognized in results of operations. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company does not have any equity investments with readily determinable fair value recorded as available-for-sale. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

*Leases*- In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The update will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. The new guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Company expects to adopt the package of practical expedients under the guidance and the Company will not need to reassess whether any expired or expiring contracts contain leases; will not need to revisit lease classification for any expired or expiring leases; and will not need to reassess initial direct costs for any existing leases. In addition, the Company expects to adopt the practical expedient which allows lessors to consider lease and non-lease components as a single performance obligation to the extent that the timing and pattern of revenue recognition is the same and the lease is classified an operating lease. The Company continues to assess the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

*Equity Method of Accounting*- In March 2016, the FASB issued ASU No. 2016-07, *Investments- Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. The update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The update should be applied prospectively upon its effective date to increases in the level of ownership interests or degree of influence that results in the adoption of the equity method. The guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Company adopted the new guidance prospectively on January 1, 2017 and the adoption of this standard did not have a material impact on its consolidated financial statements and related disclosures.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Equity-Based Compensation-** In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Share-Based Payment Accounting*, which amends several aspects of the accounting for equity-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statements of cash flows. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The Company adopted the new guidance prospectively on January 1, 2017 and the adoption of this standard did not have a material impact on its consolidated financial statements and related disclosures.

**Credit Losses-** In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments- Credit Losses*, which changes the impairment model for certain financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the incurred loss approach. The guidance will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures (e.g., loan commitments). The new guidance is effective for reporting periods beginning after December 15, 2019 and will be applied as a cumulative adjustment to retained earnings as of the effective date. The Company is currently assessing the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

**Cash Flow Classifications-** In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The new guidance requires adoption on a retrospective basis unless it is impracticable to apply, in which case the company would be required to apply the amendments prospectively as of the earliest date practicable. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

**Restricted Cash-** In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires entities to show the changes in the total of cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. Entities will no longer be permitted to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for reporting periods beginning after December 15, 2017 and will be applied retrospectively to all periods presented. The Company expects the new guidance will result in a change in presentation of restricted cash on the face of the consolidated statement of cash flows; otherwise this guidance will not have a significant impact on the consolidated statements of cash flows and disclosures.

**Business Combinations-** In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*, which amends the guidance for determining whether a transaction involves the purchase or disposal of a business or an asset. The amendments clarify that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendments in this update will be applied on a prospective basis. The Company expects that most acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e. land, buildings, and related intangible assets). A significant difference between the accounting for an asset acquisition and a business combination is that transaction costs are capitalized for an asset acquisition, rather than expensed for a business combination. The Company plans to adopt the standard on its required effective date of January 1, 2018. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

**Derecognition and Partial Sales of Nonfinancial Assets-** In February 2017, the FASB issued ASU No. 2017-05, *Clarifying the Scope of Asset Derecognition and Accounting for Partial Sales of Nonfinancial Assets*, which clarifies the scope and application of recently established guidance on recognition of gains and losses from derecognition of non-financial assets, and defines in-substance non-financial assets. In addition, the guidance clarifies the accounting for partial sales of non-financial assets to be more consistent with the accounting for sale of a business. Specifically, in a partial sale to a non-customer, when a non-controlling interest is received or retained, the latter is considered a non-cash consideration and measured at fair value, which would result in full gain or loss recognized upon sale. This guidance has the same effective date as the new revenue guidance, which is January 1, 2018, with early adoption permitted beginning January 1, 2017. Both the revenue guidance and this update must be adopted concurrently. While the transition method is similar to the new revenue guidance, either full retrospective or modified retrospective, the transition approach need not be aligned between both updates. The Company plans to adopt this standard on January 1, 2018, consistent with its adoption of the new revenue standard, using the modified retrospective approach. Under the new standard, if the Company sells a partial interest in its real estate assets to noncustomers or contributes real estate assets to unconsolidated ventures, and the Company

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

retains a noncontrolling interest in the asset, such transactions could result in a larger gain on sale. The adoption of this standard could have a material impact to the Company's results of operations in a period if the Company sells a significant partial interest in a real estate asset. There were no such sales for the year ended December 31, 2017.

3. Real Estate Debt Investments

The following table presents CRE debt investments as of December 31, 2017 (dollars in thousands):

Asset Type:	Count	Principal Amount(1)	Carrying Value(2)	Allocation by Investment Type(3)	Weighted Average			Floating Rate as % of Principal Amount
					Fixed Rate	Spread over LIBOR(4)	Total Unleveraged Current Yield	
First mortgage loans(5)	9	\$267,235	\$244,635	77.1%	— %	4.85%	6.52%	100.0%
Mezzanine loans(5)	5	79,481	79,471	22.9%	12.23%	11.00%	12.45%	35.9%
Total/Weighted average	14	\$346,716	\$324,106	100.0%	12.23%	5.49%	7.98%	85.3%
Real estate debt, held for sale(6)	1	\$150,150	\$150,150	N/A	— %	6.20%	7.84%	100.0%

- (1) Includes future funding commitments of \$22.6 million.
- (2) Certain CRE debt investments, including loan collateral receivable, related party, serve as collateral for financing transactions including \$338.7 million for term loan facilities and \$23.7 million for secured borrowings (refer to Note 7). The remainder is unleveraged.
- (3) Based on principal amount.
- (4) Includes a fixed minimum LIBOR rate ("LIBOR floor"), as applicable. As of December 31, 2017, the Company had \$367.6 million principal amount of floating-rate loans subject to a weighted average LIBOR floor of 0.60%.
- (5) During the year ended December 31, 2017, the Company originated two first mortgage loans and one mezzanine loan with an aggregate committed principal amount of \$119.7 million and received \$374.9 million related to the repayment of five first mortgage loans, one mezzanine loan and one preferred equity interest.
- (6) In August 2017, pursuant to the Original Combination Agreement, the Company committed to sell to the Sponsor a \$65 million senior interest in one \$150.2 million first mortgage loan at par to the extent that the Company does not otherwise sell such loan to a third party. The junior interest of such loan (or, in the case of a sale to a third party, any unsold portion) will be transferred to a liquidating trust for the benefit of the Company's stockholders. The first mortgage loan is financed on a term loan facility for a total of \$46.9 million. On January 31, 2018, the Company completed this transaction.

The following table presents CRE debt investments as of December 31, 2016 (dollars in thousands):

Asset Type:	Count	Principal Amount(1)	Carrying Value(2)	Allocation by Investment Type(3)	Weighted Average			Floating Rate as % of Principal Amount
					Fixed Rate	Spread over LIBOR(4)	Total Unleveraged Current Yield	
First mortgage loans	13	\$570,339	\$564,722	74.3%	15.00%	5.80%	7.31%	92.5%
Mezzanine loans	5	109,832	92,814	14.3%	12.16%	9.29%	11.24%	55.3%
Preferred equity interest(5)	1	87,323	87,787	11.4%	10.00%	— %	10.00%	— %
Total/Weighted average	19	\$767,494	\$745,323	100.0%	11.79%	6.07%	8.12%	76.6%

- (1) Includes future funding commitments of \$23.2 million.
- (2) Certain CRE debt investments serve as collateral for financing transactions including carrying value of \$70.7 million for a securitization financing transaction, \$364.6 million for term loan facilities and \$23.7 million for secured borrowings (refer to Note 7). The remainder is unleveraged.
- (3) Based on principal amount.
- (4) Includes a fixed minimum LIBOR floor, as applicable. As of December 31, 2016, the Company had \$531.9 million principal amount of floating-rate loans subject to a weighted average LIBOR floor of 0.34%.
- (5) Represents a preferred equity interest originated through a joint venture with affiliates of RXR Realty LLC ("RXR"). The Company's proportionate interest of the loan is 90%, representing \$78.6 million of the carrying value. The Company consolidates the loan and records RXR's investment as a non-controlling interest.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents maturities of CRE debt investments based on principal amount as of December 31, 2017 (dollars in thousands):

	Current Maturity	Maturity Including Extensions <sup>(1)</sup>
<b>Years Ending December 31:</b>		
2018	\$ 29,451	\$ 19,350
2019	213,921	12,000
2020	12,000	34,500
2021	—	93,802
2022	—	95,720
Thereafter	91,344	91,344
Total	<u>\$ 346,716</u>	<u>\$ 346,716</u>

(1) Assumes that all debt with extension options will qualify for extension at such maturity according to the conditions set forth in the governing documents.

As of December 31, 2017, the weighted average maturity, including extensions, of CRE debt investments was 3.8 years.

#### Credit Quality Monitoring

CRE debt investments are typically loans secured by direct senior priority liens on real estate properties or by interests in entities that directly own real estate properties, which serve as the primary source of cash for the payment of principal and interest. The Company evaluates its debt investments at least quarterly and differentiates the relative credit quality principally based on: (i) whether the borrower is currently paying contractual debt service in accordance with its contractual terms and (ii) whether the Company believes the borrower will be able to perform under its contractual terms in the future, as well as the Company's expectations as to the ultimate recovery of principal at maturity. The Company categorizes a debt investment for which it expects to receive full payment of contractual principal and interest payments as "performing." The Company will categorize a weaker credit quality debt investment that is currently performing, but for which it believes future collection of all or some portion of principal and interest is in doubt, into a category called "performing with a loan loss reserve." The Company will categorize a weaker credit quality debt investment that is not performing, which the Company defines as a loan in maturity default and/or past due at least 90 days on its contractual debt service payments, as a non-performing loan ("NPL"). The Company's definition of an NPL may differ from that of other companies that track NPLs.

During the fourth quarter of 2017, the Company ceased accruing payment in kind ("PIK") interest associated with one mezzanine loan with principal amount and carrying value of \$20.8 million, respectively. As of December 31, 2017, the remaining CRE debt investments were performing in accordance with the contractual terms of their governing documents in all material respects and were categorized as performing loans. There were no CRE debt investments with contractual payments past due as of December 31, 2017 and 2016. For the year ended December 31, 2017, two CRE debt investments each contributed more than 10.0% of interest income, of which one debt investment was classified as held for sale in the third quarter of 2017 and one preferred equity interest was repaid in the fourth quarter of 2017.

#### 4. Operating Real Estate

The following table presents operating real estate, net, as of December 31, 2017 and 2016 (dollars in thousands):

	December 31,	
	2017	2016
Land and improvements	\$ 96,232	\$ 96,011
Buildings and improvements <sup>(1)</sup>	437,777	430,776
Furniture, fixtures and equipment	5,688	4,472
Subtotal	\$ 539,697	\$ 531,259
Less: Accumulated depreciation	(63,986)	(42,420)
Operating real estate, net	<u>\$ 475,711</u>	<u>\$ 488,839</u>

(1) Includes tenant improvements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017, 2016, and 2015, depreciation expense was \$23.7 million, \$19.4 million and \$16.4 million, respectively.

*Minimum Future Rents*

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. Leases at the Company's multifamily properties and student housing properties are generally for a term of one year or less and are not reflected in the below table. The following table presents approximate future minimum rental income for the Company's industrial properties and multi-tenant offices under noncancelable operating leases to be received over the next five years and thereafter as of December 31, 2017 (dollars in thousands):

Years Ending December 31:	
2018	\$ 42,002
2019	40,289
2020	32,460
2021	26,623
2022	22,463
Thereafter	46,464
Total	<u>\$ 210,301</u>

The rental properties owned as of December 31, 2017 are leased under operating leases with current expirations ranging from 2018 to 2027, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases.

**5. Investments in Unconsolidated Ventures***Investments in Private Equity Funds*

The Company completed the acquisition of a \$118.0 million portfolio of PE Investments in February 2013 ("PE Investment I"), a \$75.7 million portfolio of PE Investments in July 2013 ("PE Investment IIA"), an additional \$26.5 million portfolio of PE Investment IIA in February 2016 ("PE Investment IIB"), and a \$23.1 million portfolio of PE Investments in March 2016 ("PE Investment III"). PE Investment I, IIA, and IIB own PE Investments indirectly through unconsolidated ventures and PE Investment III owns PE Investments directly. The Company elected the fair value option for PE Investments. As a result, the Company records equity in earnings (losses) based on the change in fair value for its share of the projected future cash flow from one period to another. All PE Investments are considered voting interest entities, except for PE Investment III. PE Investment I, IIA and IIB are considered voting interest entities and are not consolidated by the Company due to the substantive participating rights of the partners in joint ventures that own the interests in the real estate private equity funds. The Company does not consolidate the underlying real estate private equity funds owned in PE Investment III as it neither owns a majority voting interest in any such funds nor is it the primary beneficiary of such funds.

Summary

The following table summarizes the Company's PE Investment acquisitions (dollars in thousands):

PE Investment(1)	Initial Closing Date	NAV Reference Date(2)	Number of Funds	Purchase Price
PE Investment I	February 15, 2013	June 30, 2012	49	\$ 118,035
PE Investment IIA	July 3, 2013	September 30, 2012	24	75,721
PE Investment IIB	February 9, 2016	September 30, 2015	—	26,498
PE Investment III	March 30, 2016	March 31, 2015	2	23,063
Total			<u>75</u>	<u>\$ 243,317</u>

- (1) At December 31, 2017, the Company's contractual unfunded commitments for PE Investments totaled \$11.5 million. As of December 31, 2017, the Company does not expect any additional future contributions related to such unfunded commitments.
- (2) Represents the net asset value ("NAV") date that served as the basis for the purchase price on which the Company agreed to acquire the respective PE Investment.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the Company's PE Investments as of December 31, 2017 and 2016 and activity for the years ended December 31, 2017 and 2016 (dollars in thousands):

PE Investment	Carrying Value		Year Ended December 31, 2017			Year Ended December 31, 2016		
	December 31,		Equity in	Distributions	Contributions <sup>(1)</sup>	Equity in	Distributions	Contributions <sup>(1)</sup>
	2017	2016	Earnings			Earnings		
PE Investment I <sup>(2)</sup>	\$ 8,876	\$ 31,655	\$ 1,669	\$ 20,174	\$ 336	\$ 9,441	\$ 40,082	\$ 415
PE Investment IIA <sup>(3)</sup>	11,878	23,360	1,506	21,548	12,563	5,974	24,897	8,842
PE Investment IIB <sup>(3)</sup>	11,084	19,329	2,647	21,573	11,670	6,950	21,420	33,798
PE Investment III <sup>(4)</sup>	9,321	16,235	19	2,730	275	1,771	2,126	16,591
<b>Total</b>	<b>\$ 41,159</b>	<b>\$ 90,579</b>	<b>\$ 5,841</b>	<b>\$ 66,025</b>	<b>\$ 24,844</b>	<b>\$ 24,136</b>	<b>\$ 88,525</b>	<b>\$ 59,646</b>

- (1) Includes initial investments, before closing statement adjustments for distributions and contributions, and subsequent contributions, including deferred purchase price fundings.
- (2) For PE Investment I, the Company recorded an unrealized loss of \$4.6 million and \$3.4 million for the years ended December 31, 2017 and 2016, respectively.
- (3) For PE Investment IIA and PE Investment IIB, the Company recorded an unrealized loss of \$4.0 million and \$1.0 million, respectively, for the year ended December 31, 2017. As of December 31, 2017, the Company's share of the combined deferred amount for PE Investment IIA and PE Investment IIB was \$55.9 million. The deferred amount will be paid in multiple installments throughout 2018 and is expected to be paid from the distributions received from the underlying investments in PE Investment IIA and PE Investment IIB. The Company guaranteed its proportionate interest of the deferred amount. The Company determined there was an immaterial amount of fair value related to the guarantee. In January 2018, PE Investment IIA and PE Investment IIB collectively paid \$46.6 million of the deferred amount.
- (4) For PE Investment III, the Company recorded an unrealized loss of \$4.5 million for the year ended December 31, 2017. As of December 31, 2017, the deferred purchase price for PE Investment III recorded in other liabilities was \$3.4 million. The remaining portion of the purchase price was paid in January 2018.

The Company's ownership interest in PE Investments represents capital contributed to date and may not be reflective of the Company's economic interest in the entity because of provisions in operating agreements governing various matters. As of December 31, 2017, the Company's ownership interest in investments range from 0.1% to 7.1%.

Summarized Financial Information

The combined balance sheets for the unconsolidated ventures, including PE Investments and excluding unconsolidated ventures accounted for under the cost method, as of December 31, 2017, and 2016 are as follows (dollars in thousands):

	As of December 31,	
	2017	2016 <sup>(1)</sup>
<b>Assets</b>		
Total assets	\$ 624,037	\$ 838,160
<b>Liabilities and equity</b>		
Total liabilities	\$ 251,741	\$ 313,739
Total equity	\$ 372,296	\$ 524,421
Total liabilities and equity	\$ 624,037	\$ 838,160

- (1) Prior periods have been adjusted to conform to current period presentation.

The combined statements of operations for the unconsolidated ventures, including PE Investments and excluding unconsolidated ventures accounted for under the cost method, for the years ended December 31, 2017, 2016 and 2015 are as follows (dollars in thousands):

	Years Ended December 31, (1)		
	2017	2016 <sup>(2)</sup>	2015 <sup>(2)</sup>
Total revenues <sup>(3)</sup>	\$2,272	\$53,628	\$ 119,157
Net income (loss)	2,272	53,628	119,143

- (1) Includes summarized annual financial information for PE Investments on a one quarter lag, which is the most recent financial information available from the underlying funds.
- (2) Prior periods have been adjusted to conform to current period presentation.
- (3) Includes net investment income and unrealized and realized gains and losses for PE Investments.



*Other*

In June 2014, the Company entered into a joint venture with affiliates of RXR to originate a mezzanine loan. The mezzanine loan had a principal amount of \$183.7 million, including future funding commitments. The joint venture owned 50.0% of the mezzanine loan, of which the Company's interest in the joint venture was 78.0%. In January 2016, the Company's participation was sold at par value of \$59.8 million. For the years ended December 31, 2016, and 2015, the Company recognized equity in earnings of \$0.8 million and \$5.8 million, respectively.

**6. Real Estate Securities, Available for Sale***Investments in CRE Securities*

CRE securities are comprised of CMBS backed by a pool of CRE loans which are typically well-diversified by type and geography. The following table presents CMBS investments as of December 31, 2017 and 2016 (dollars in thousands):

As of Date:	Count	Principal Amount <sup>(1)</sup>	Amortized Cost	Cumulative Unrealized on Investments		Fair Value	Weighted Average	
				Gain	(Loss)		Coupon <sup>(2)</sup>	Unleveraged Current Yield
December 31, 2017	22	\$ 221,657	\$ 137,328	\$ 22,360	\$ (1,347)	\$ 158,341	3.58%	9.75%
December 31, 2016	11	138,438	73,800	21,616	(1,441)	93,975	3.85%	10.78%

(1) Certain CRE securities serve as collateral for financing transactions including carrying value of \$77.5 million for the CMBS Credit Facilities (refer to Note 7). The remainder is unleveraged.

(2) All CMBS are fixed rate.

The Company recorded unrealized gain in OCI for the year ended December 31, 2017 of \$0.8 million. The Company recorded year ended unrealized losses of \$1.7 million and \$6.5 million in OCI for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2017, the Company held seven securities with an aggregate carrying value of \$47.4 million with an unrealized loss of \$1.3 million, one of which was in an unrealized loss position for a period of greater than 12 months. Based on management's quarterly evaluation, no OTTI was identified related to these securities. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery of its amortized cost basis, which may be at maturity.

As of December 31, 2017, the weighted average contractual maturity of CRE securities was 30.6 years with an expected maturity of 6.8 years.

*Investments in Investing VIEs*

In June 2017, the Company purchased the subordinate tranches of the \$959.0 million securitization trust (UBS 2017-C1), which is secured by a pool of 67 mortgage loans. The securitization trust issued \$846.3 million of permanent, non-recourse, investment grade securitization bonds, or offered certificates, which were purchased by unrelated third parties, and \$112.7 million of subordinate non-offered certificates. The Company purchased \$102.6 million of the non-offered certificates at a discount to par of \$51.4 million, or 50.1%. The non-offered certificates have a fixed coupon of 4.84% and produce a bond equivalent yield of 10.35%.

The Company is the securitization trust's directing certificate holder and has the ability to appoint and replace the special servicer on all mortgage loans. As such, U.S. GAAP requires the Company to consolidate the assets, liabilities, income and expenses of the securitization trust as an Investing VIE. Refer to Note 2, "Summary of Significant Accounting Policies" for further discussion on Investing VIEs.

Other than the securities represented by the Company's subordinate tranches of the securitization trust, the Company does not have any claim to the assets or exposure to the liabilities of the securitization trust. The original issuer, an unrelated third party, guarantees the interest and principal payments related to the investment grade securitization bonds in the securitization trust, therefore these obligations do not have any recourse to the general credit of the Company as the consolidator of the securitization trust. The Company's maximum exposure to loss would not exceed the carrying value of its retained investment in the securitization trust, or the subordinate tranches of the securitization trust.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of December 31, 2017 (dollars in thousands):

	December 31, 2017
<b>Assets</b>	
Mortgage loans held in a securitization trust, at fair value	\$ 916,017
Receivables, net	3,998
Total assets	<u>\$ 920,015</u>
<b>Liabilities</b>	
Mortgage obligations issued by a securitization trust, at fair value	\$ 863,447
Accounts payable and accrued expenses	3,998
Total liabilities	<u>\$ 867,445</u>

As of December 31, 2017, the mortgage loans and the related mortgage obligations held in the securitization trust had an unpaid principal balance of \$955.9 million and \$853.3 million, respectively.

The Company elected the fair value option to measure the assets and liabilities of the securitization trust, which requires that changes in valuations of the securitization trust be reflected in the Company's consolidated statements of operations.

The difference between the carrying values of the mortgage loans held in a securitization trust and the carrying value of the mortgage obligations issued by a securitization trust was \$52.6 million as of December 31, 2017 and approximates the fair value of the Company's underlying investment in the subordinate tranches of the securitization trust. Refer to Note 12, "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIE.

The following table presents the activity recorded for the year ended December 31, 2017 related to the consolidated securitization trust on the consolidated statement of operations. Approximately, \$4.1 million for the year ended December 31, 2017 relates to net income attributable to the Company's common stockholders generated from the Company's investment in the subordinate tranches of the securitization trust (dollars in thousands):

	Year Ended December 31, 2017
<b>Statement of Operations</b>	
Interest income on mortgage loans held in a securitization trust	\$ 27,646
Interest expense on mortgage obligations issued by a securitization trust	(24,777)
Net interest income	2,869
Other expenses related to securitization trust	(96)
Unrealized gain (loss) on mortgage loans and obligations held in a securitization trust, net	1,336
Net income attributable to NorthStar Real Estate Income Trust, Inc. common stockholders	<u>\$ 4,109</u>

**NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. Borrowings**

The following table presents borrowings as of December 31, 2017 and 2016 (dollars in thousands):

	Capacity (\$)	Recourse vs. Non-Recourse	Final Maturity	Contractual Interest Rate	December 31, 2017		December 31, 2016	
					Principal Amount(1)	Carrying Value(1)	Principal Amount(1)	Carrying Value(1)
<b>Securitization bonds payable, net</b>								
Securitization financing transaction				LIBOR +				
		Non-recourse(2)	Aug-29	5.00%	\$ —	\$ —	\$ 39,762	\$ 39,762
<b>Mortgage notes payable, net</b>								
Multifamily 1		Non-recourse(2)	Dec-23	4.84%	43,500	43,036	43,500	42,967
Multifamily 2		Non-recourse(2)	Dec-23	4.94%	43,000	42,512	43,000	42,440
Office 1		Non-recourse(2)	Oct-24	4.47%	108,850	108,624	108,850	108,595
Office 2		Non-recourse(2)	Jan-25	4.30%	77,700	77,553	77,700	77,535
Student housing 1		Non-recourse(2)	Jan-24	5.15%	16,000	15,801	16,000	15,774
Student housing 2(3)		Non-recourse(2)	Dec-20	5.27%	12,193	12,367	12,411	12,644
Student housing 3		Non-recourse(2)	Nov-26	3.98%	24,714	24,477	24,750	24,485
Industrial 1		Non-recourse(2)	Apr-21	LIBOR + 2.50%	71,890	71,604	70,402	68,970
<b>Subtotal mortgage notes payable, net</b>					<b>397,847</b>	<b>395,974</b>	<b>396,613</b>	<b>393,410</b>
<b>Term loan facilities</b>								
Citibank facility	\$ 150,000	Limited Recourse(4)	Oct-21(5)	LIBOR + 2.63%	(6) 24,150	24,150	21,350	21,350
Deutsche Bank facility(7)	200,000	Limited Recourse(8)	Mar-18(9)	LIBOR + 2.34%	(10) 86,948	86,948	112,919	112,919
Morgan Stanley facility	200,000	Limited Recourse(11)	Oct-18(12)	LIBOR + 2.30%	(13) 55,055	55,055	92,700	92,700
<b>Subtotal term loan facilities</b>	<b>\$ 550,000</b>				<b>166,153</b>	<b>166,153</b>	<b>226,969</b>	<b>226,969</b>
<b>CMBS credit facilities</b>								
UBS facility		Recourse	(14)		—	—	—	—
Morgan Stanley facility		Recourse	(14)		—	—	—	—
Citibank facility		Recourse	(14)	LIBOR + 1.42%	29,044	29,044	11,034	11,034
Merrill Lynch facility		Recourse	(14)	LIBOR + 1.42%	2,667	2,667	2,989	2,989
JP Morgan facility		Recourse	(14)	LIBOR + 1.48%	23,625	23,625	8,164	8,164
<b>Subtotal CMBS credit facilities</b>					<b>55,336</b>	<b>55,336</b>	<b>22,187</b>	<b>22,187</b>
<b>Subtotal credit facilities</b>					<b>221,489</b>	<b>221,489</b>	<b>249,156</b>	<b>249,156</b>
<b>Loan collateral payable, net, related party</b>								
Secured borrowing(15)				LIBOR +				
		Non-recourse	May-19	3.08%	23,729	23,458	23,729	23,261
<b>Total</b>					<b>\$ 643,065</b>	<b>\$ 640,921</b>	<b>\$ 709,260</b>	<b>\$ 705,589</b>

- (1) Difference between principal amount and carrying value of mortgage notes payable, net and loan collateral payable, net, related party is attributable to deferred financing costs, net and premium on a mortgage note payable.
- (2) Subject to customary non-recourse carveouts.
- (3) Represents two separate senior mortgage notes with a weighted average maturity of December 1, 2020 and weighted average interest rate of 5.27%.
- (4) Recourse solely with respect to 25.0% of the repurchase price for purchased assets with a lender debt yield equal to or greater than 10.0% at the time of financing plus 100.0% of the repurchase price for purchased assets with a lender debt yield less than 10.0% at the time of financing.
- (5) The next maturity date is October 18, 2018, with three, one-year extensions available at the option of the Company, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
- (6) The contractual interest rate depends upon asset type and characteristics. As of December 31, 2017 the rate was one-month LIBOR plus 2.63%.
- (7) On January 31, 2018, the Company repaid \$46.9 million on the Deutsche Bank term loan facility pursuant to the Combination Agreement. Refer to Note 3, "Real Estate Debt Investments" for additional information.
- (8) Recourse solely with respect to the greater of: (i) 25.0% of the financed amount of stabilized loans plus the financed amount of transitional loans or (ii) the lesser of \$25.0 million or the aggregate financed amount of all loans.
- (9) In January 2018, the Company extended the maturity date to July 2, 2018.
- (10) Represents the weighted average spread as of December 31, 2017. The contractual interest rate depends upon asset type and characteristics and ranges from one-month LIBOR plus 2.25% to 2.42%.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (11) Recourse solely with respect to 25.0% of the financed amount.
- (12) The initial maturity is October 13, 2018. The Company may, at its option, extend the facility for one-year periods indefinitely, subject to the approval of the global financial institution.
- (13) Represents the weighted average spread as of December 31, 2017. The contractual interest rate depends upon asset type and characteristics and ranges from one-month LIBOR plus 2.25% to 2.50%.
- (14) The terms of the CMBS Credit Facilities depend upon asset type and are typically three months in duration.
- (15) Represents a secured borrowing financing transaction recorded in loan collateral payable, net, related party in connection with three first mortgage loans recorded in real estate debt investments, net. Refer to discussion below for additional detail.

The following table presents scheduled principal on borrowings, based on final maturity as of December 31, 2017 (dollars in thousands):

Years Ending December 31:	Total	Mortgage Notes Payable, Net	Credit Facilities	Loan collateral payable, net, related party
2018	\$197,339	\$ —	\$197,339	\$ —
2019	23,729	—	—	23,729
2020	12,193	12,193	—	—
2021	96,040	71,890	24,150	—
2022	—	—	—	—
Thereafter	313,764	313,764	—	—
Total	<u>\$643,065</u>	<u>\$ 397,847</u>	<u>\$221,489</u>	<u>\$ 23,729</u>

*Securitization Financing Transactions*

The Company entered into two securitization financing transactions collateralized by CRE debt investments. All of the securitization bonds related to the two securitization financing transactions were repaid in January 2015 and January 2017, respectively, and therefore, the Company no longer holds any interest in securitization financing transactions.

*Term Loan Facilities*

The Company, through subsidiaries, has entered into credit facility agreements with multiple global financial institutions to provide an aggregate principal amount of up to \$550.0 million to finance the origination of first mortgage loans and senior loan participations secured by CRE ("Term Loan Facilities"). The Company agreed to guarantee certain obligations under the Term Loan Facilities, which contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The Term Loan Facilities act as revolving loan facilities that can be paid down as assets are repaid or sold and re-drawn upon for new investments. As of December 31, 2017, the Company was in compliance with all of its financial covenants under the Term Loan Facilities.

As of December 31, 2017, the Company had \$338.7 million carrying value of CRE debt investments, including loan collateral receivable, related party, financed with \$166.2 million under the Term Loan Facilities. On January 31, 2018, the Company repaid \$46.9 million on the Deutsche Bank term loan facility pursuant to the Combination Agreement. Refer to Note 3, "Real Estate Debt Investments" for additional information.

*CMBS Credit Facilities*

As of December 31, 2017, the Company has entered into five master repurchase agreements (collectively the "CMBS Credit Facilities") to finance CMBS investments. The CMBS Credit Facilities are on a recourse basis and contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. As of December 31, 2017, the Company had \$77.5 million carrying value of CRE securities, financed with \$55.3 million under its CMBS Credit Facilities.

*Secured Borrowing*

In November 2016, the Company bifurcated three first mortgage loans with an aggregate principal amount of \$44.4 million into senior participations in mortgage loans of \$29.5 million and junior participations in the related mortgage loans of \$14.9 million to facilitate the financing of the mortgage loans through a securitization financing transaction entered into by NorthStar Income II. The Company sold three senior participations at cost into the securitization transaction. The Company did not retain any legal interest in

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the senior participations and retained the junior participations on an unleveraged basis. As a result of U.S. GAAP requirements for transfers of financial assets, the senior participations transferred into the securitization financing transaction are accounted for as a secured borrowing and presented as loan collateral payable, net, related party on the Company's consolidated balance sheets. Refer to Note 2, "Summary of Significant Accounting Policies" for additional information. As of December 31, 2017, the carrying value of CRE debt investments recorded in real estate debt investments, net was \$23.7 million with an offsetting secured borrowing recorded in loan collateral payable, net, related party of \$23.5 million.

**8. Related Party Arrangements***Advisor*

Subject to certain restrictions and limitations, the Advisor is responsible for managing the Company's affairs on a day-to-day basis and for identifying, originating, acquiring and asset managing investments on behalf of the Company. The Advisor may delegate certain of its obligations to affiliated entities, which may be organized under the laws of the United States or foreign jurisdictions. References to the Advisor include the Advisor and any such affiliated entities. For such services, to the extent permitted by law and regulations, the Advisor receives fees and reimbursement from the Company. Pursuant to the advisory agreement, the Advisor may defer or waive fees in its discretion. Below is a description and table of the fees and reimbursements incurred to the Advisor.

In June 2017, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2017 upon terms identical to those in effect through June 30, 2017.

Fees to AdvisorAsset Management Fee

The Advisor receives a monthly asset management fee equal to one-twelfth of 1.25% of the sum of the amount funded or allocated for CRE investments, including expenses and any financing attributable to such investments, less any principal received on debt and securities investments (or the proportionate share thereof in the case of an investment made through a joint venture).

Incentive Fee

The Advisor is entitled to receive distributions equal to 15.0% of net cash flows of the Company, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus an 8.0% cumulative, non-compounded annual pre-tax return on such invested capital.

Acquisition Fee

The Advisor also receives fees for providing structuring, diligence, underwriting advice and related services in connection with real estate acquisitions equal to 1.0% of the amount funded or allocated by the Company to originate or acquire investments, including acquisition costs and any financing attributable to such investments (or the proportionate share thereof in the case of an investment made through a joint venture). A fee paid to the Advisor in connection with the origination or acquisition of CRE debt investments is included in CRE debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method. An acquisition fee incurred related to an equity investment will generally be expensed as incurred. A fee paid to the Advisor in connection with an acquisition of an equity or debt investment in an unconsolidated joint venture is included in investments in unconsolidated ventures on the consolidated balance sheets.

Disposition Fee

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by the Company's independent directors, the Advisor receives a disposition fee up to 1.0% of the contract sales price of each CRE investment sold. The Company does not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a CRE debt investment unless there is a corresponding fee paid by the borrower, in which case the disposition fee is the lesser of: (i) 1.0% of the principal amount of the CRE debt investment prior to such transaction or (ii) the amount of the fee paid by the borrower in connection with such transaction. If the Company takes ownership of a property as a result of a workout or foreclosure of a CRE debt investment, the Company will pay a disposition fee upon the sale of such property. A disposition fee from the sale of a CRE investment is generally expensed and included in asset management and other fees, related party in the Company's consolidated statements of operations. A disposition fee for a CRE debt investment incurred in a transaction other than a sale is included in CRE debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reimbursements to AdvisorOperating Costs

The Advisor is entitled to receive reimbursement for direct and indirect operating costs incurred by the Advisor in connection with administrative services provided to the Company. The Advisor allocates, in good faith, indirect costs to the Company related to the Advisor's and its affiliates' employees, occupancy and other general and administrative costs and expenses in accordance with the terms of, and subject to the limitations contained in, the advisory agreement with the Advisor. The indirect costs include the Company's allocable share of the Advisor's compensation and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. The indirect costs also include rental and occupancy, technology, office supplies, travel and entertainment and other general and administrative costs and expenses. However, there is no reimbursement for personnel costs related to executive officers (although there may be reimbursement for certain executive officers of the Advisor) and other personnel involved in activities for which the Advisor receives an acquisition fee or a disposition fee. The Advisor allocates these costs to the Company relative to its and its affiliates' other managed companies in good faith and has reviewed the allocation with the Company's board of directors, including its independent directors. The Advisor updates the board of directors on a quarterly basis of any material changes to the expense allocation and provides a detailed review to the board of directors, at least annually, and as otherwise requested by the board of directors. The Company reimburses the Advisor quarterly for operating costs (including the asset management fee) based on a calculation for the four preceding fiscal quarters not to exceed the greater of: (i) 2.0% of its average invested assets or (ii) 25.0% of its net income determined without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves and excluding any gain from the sale of assets for that period. Notwithstanding the above, the Company may reimburse the Advisor for expenses in excess of this limitation if a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. The Company calculates the expense reimbursement quarterly based upon the trailing twelve-month period.

Summary of Fees and Reimbursements

The following tables present the fees and reimbursements incurred to the Advisor for the years ended December 31, 2017 and 2016 and the amount due to related party as of December 31, 2017 and 2016 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2016 <sup>(1)</sup>	Year Ended December 31, 2017		Due to Related Party as of December 31, 2017 <sup>(1)</sup>
			Incurred	Paid	
<b>Fees to Advisor Entities</b>					
Asset management	Asset management and other fees, related party	\$ 10	\$17,815	\$(17,807)	\$ 18
Acquisition <sup>(2)</sup>	Real estate debt investments, net / Asset management and other fees, related party	40	1,197	(997)	240
Disposition <sup>(2)</sup>	Real estate debt investments, net / Asset management and other fees, related party	—	2,985	(2,985)	—
<b>Reimbursements to Advisor Entities</b>					
Operating costs <sup>(3)</sup>	General and administrative expenses	18	9,868	(9,839)	47
<b>Total</b>		<b>\$ 68</b>	<b>\$31,865</b>	<b>\$(31,628)</b>	<b>\$ 305</b>

(1) The balance is included in accounts payable and accrued expenses on the Company's consolidated balance sheet.

(2) Acquisition/disposition fees incurred to the Advisor related to CRE debt investments are generally offset by origination/exit fees paid to the Company by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees, related party in the consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on the consolidated balance sheets. From inception through December 31, 2017, the Advisor waived \$2.0 million of acquisition fees and \$0.4 million of disposition fees related to CRE securities.

(3) As of December 31, 2017, the Advisor has incurred unreimbursed operating costs on behalf of the Company of \$10.8 million that remain eligible to allocate to the Company. Pursuant to the Combination Agreement, immediately prior to the closing of the Combination, CLNC agreed, if necessary, to declare a special distribution to an affiliate of the Sponsor in an amount intended to reimburse such affiliate for, among other things, the expected present value of the unreimbursed operating costs incurred by the Advisor on the Company's behalf. On February 1, 2018, CLNC settled an agreed upon amount for the unreimbursed operating costs incurred by the Advisor on the Company's behalf.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2015(t)	Year Ended December 31, 2016		Due to Related Party as of December 31, 2016(t)
			Incurred	Paid	
<b>Fees to Advisor Entities</b>					
Asset management	Asset management and other fees, related party	\$ —	\$ 21,337	\$ (21,327)	\$ 10
Acquisition <sup>(2)</sup>	Real estate debt investments, net / Asset management and other fees, related party	—	3,254	(3,214)	40
Disposition <sup>(2)</sup>	Real estate debt investments, net / Asset management and other fees, related party	—	4,612	(4,612)	—
<b>Reimbursements to Advisor Entities</b>					
Operating costs <sup>(3)</sup>	General and administrative expenses	—	12,747	(12,729)	18
<b>Total</b>		<b>\$ —</b>	<b>\$ 41,950</b>	<b>\$ (41,882)</b>	<b>\$ 68</b>

(1) The balance is included in accounts payable and accrued expenses on the Company's consolidated balance sheet.

(2) Acquisition/disposition fees incurred to the Advisor related to CRE debt investments are generally offset by origination/exit fees paid to the Company by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees—related party in the consolidated statements of operations. Acquisition fees related to investments in unconsolidated joint ventures are included in investments in unconsolidated ventures on the consolidated balance sheets. The Advisor may determine to defer fees or seek reimbursement. From inception through December 31, 2016, the Advisor waived \$0.8 million of acquisition fees and \$0.4 million of disposition fees related to CRE securities.

(3) As of December 31, 2016, the Advisor has incurred unreimbursed operating costs on behalf of the Company of \$9.6 million that remain eligible to allocate to the Company.

**PE Investments**

In connection with PE Investments, the Company guaranteed all of its funding obligations that may be due and owed under the governing documents indirectly through an indemnification agreement with NorthStar Realty, which in turn guaranteed the obligations directly to the PE Investment entities. The Company and NorthStar Realty each agreed to indemnify the other proportionately for any losses that may arise in connection with the funding and other obligations as set forth in the governing documents in the case of a joint default by the Company and NorthStar Realty. The Company and NorthStar Realty further agreed to indemnify each other for all of the losses that may arise as a result of a default that was solely caused by the Company or NorthStar Realty, as the case may be. In connection with the mergers, the Sponsor assumed all of NorthStar Realty's obligations.

**PE Investment I**

In connection with PE Investment I, the Company assumed the rights to subscribe to 29.5% of PE Investment I from NorthStar Realty. The Company and NorthStar Realty contributed cash of \$400.1 million, of which the Company and NorthStar Realty contributed \$118.0 million and \$282.1 million, respectively. In connection with the mergers, NorthStar Realty's interests in PE Investment I and its other obligations were assumed by the Sponsor. At December 31, 2017, three underlying real estate private equity funds owned in PE Investment I, totaling approximately \$0.7 million, were managed by an affiliate of the Company.

**PE Investment IIB**

In February 2016, the Company's board of directors, including all of its independent directors, approved the purchase of an additional 14.0% of the PE Investment IIA transaction ("PE Investment IIB") from NorthStar Realty, which following the mergers became a subsidiary of the Sponsor. The Company purchased PE Investment IIB on the same terms and conditions negotiated by another existing and purchasing unrelated co-investor in the transaction. This increased the Company's total ownership from 15.0% to 29.0%. The Company acquired PE Investment IIB for \$26.5 million, adjusted for distributions and contributions. With this add-on investment, PE Investment IIA and PE Investment IIB are collectively responsible for 29.0% of the deferred amount, or \$55.9 million as of December 31, 2017. In January 2018, PE Investment IIA and PE Investment IIB collectively paid \$46.6 million of the deferred amount.

**Secured Borrowing**

In November 2016, the Company bifurcated three first mortgage loans with an aggregate principal amount of \$44.4 million into senior participations in mortgage loans of \$29.5 million and junior participations in the related mortgage loans of \$14.9 million to facilitate the financing of the mortgage loans through a securitization financing transaction entered into by NorthStar Income II. The Company sold three senior participations at cost into the securitization transaction. The Company did not retain any legal interest in the senior participations and retained the junior participations on an unleveraged basis. As a result of U.S. GAAP requirements for

transfers of financial assets, the senior participations transferred into the securitization financing transaction are accounted for as a secured borrowing and presented as loan collateral payable, net, related party on the Company's consolidated balance sheets. Refer to Note 2, "Summary of Significant Accounting Policies" for additional information. As of December 31, 2017, the carrying value of CRE debt investments recorded in real estate debt investments, net was \$23.7 million with an offsetting secured borrowing recorded in loan collateral payable, net, related party of \$23.5 million.

#### 9. Equity-Based Compensation

The Company adopted a long-term incentive plan, as amended (the "Plan"), which it may use to attract and retain qualified officers, directors, employees and consultants, as well as an independent directors compensation plan, which is a component of the Plan. Pursuant to the Plan, as of December 31, 2017, the Company's independent and non-management directors were granted a total of 121,364 shares of restricted common stock for an aggregate \$1.2 million, based on the share price on the date of each grant. Unvested shares totaled 21,122, 20,462 and 17,687 as of December 31, 2017, 2016, and 2015, respectively. The restricted stock outstanding generally vests quarterly over two years. However, the stock will become fully vested on the earlier occurrence of: (i) the termination of the independent or non-management director's service as a director due to his or her death or disability or (ii) a change in control of the Company. A maximum of 2,000,000 shares of restricted common stock may be granted, of which 1,878,636 shares remain available for future grants as of December 31, 2017. Per the Combination Agreement, all unvested shares of restricted common stock vested on January 31, 2018.

The Company recognized equity-based compensation expense of \$0.2 million, \$0.2 million and \$0.2 million for the years ended December 31, 2017, 2016, and 2015, respectively, related to the issuance of restricted stock to the independent and non-management directors, which was recorded in general and administrative expenses in the consolidated statements of operations.

#### 10. Stockholders' Equity

##### *Common Stock*

The Company's Total Primary Offering was completed on July 1, 2013. From inception through the completion of the Total Primary Offering, the Company issued 107.6 million shares of common stock generating gross proceeds from the Total Primary Offering of \$1.1 billion.

##### *Distribution Reinvestment Plan*

The Company adopted the DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of the Company's common stock in lieu of receiving cash distributions. As a result of an additional registration statement to offer up to 10.0 million shares pursuant to the DRP, and until its suspension as described below, the Company continued to offer DRP shares beyond the Total Primary Offering.

Since April 2017, pursuant to the terms of the DRP, effective on April 14, 2017, the price per share purchased pursuant to the DRP was \$9.92, which is equal to the estimated value per share of the Company's common stock as of December 31, 2016, until such time as the Company establishes a new estimated per share value, at which time the purchase price will adjust to 100% of such estimated value per share.

Prior to April 2017, the price per share purchased pursuant to the DRP was \$9.87, which was equal to the estimated value per share of the Company's common stock as of December 31, 2015. Prior to April 2016, shares issued pursuant to the DRP were priced at 95.0% of the Company's estimated value per share as of October 31, 2014, or \$9.52. Prior to 2015, shares issued pursuant to the DRP were priced at \$9.50 per share.

No selling commissions or dealer manager fees are paid on shares issued pursuant to the DRP. The board of directors of the Company may amend, suspend or terminate the DRP for any reason upon ten-days' notice to participants. On August 25, 2017, in connection with the entry into the Original Combination Agreement, the Company's board of directors voted to suspend the DRP until further notice. Pursuant to the terms of the DRP, the suspension went into effect prior to the monthly distributions to be paid on or about October 1, 2017 and as a result, all stockholders received cash distributions through the completion of the Combination.

For the year ended December 31, 2017, the Company issued 2.7 million shares totaling \$26.8 million of proceeds pursuant to the DRP. For the year ended December 31, 2016, the Company issued 4.5 million shares totaling \$43.5 million of proceeds pursuant to the DRP. From inception through December 31, 2017, the Company issued 21.0 million shares totaling \$201.3 million of proceeds pursuant to the DRP.



*Distributions*

Distributions to stockholders are declared quarterly by the board of directors of the Company and are paid monthly based on a daily amount of \$0.001917808 per share, which is equivalent to an annual distribution of \$0.70 per share of the Company's common stock. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution has accrued.

The following table presents distributions declared for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

<u>Period</u>	<u>Distributions(1)</u>		
	<u>Cash</u>	<u>DRP</u>	<u>Total</u>
<b>2017</b>			
First Quarter	\$11,999	\$ 8,770	\$20,769
Second Quarter	12,247	8,657	20,904
Third Quarter	15,223	5,847	21,070
Fourth Quarter	21,055	—	21,055
Total	<u>\$60,524</u>	<u>\$23,274</u>	<u>\$83,798</u>
<b>2016</b>			
First Quarter	\$13,052	\$ 10,987	\$24,039
Second Quarter	13,184	10,864	24,048
Third Quarter	13,482	10,858	24,340
Fourth Quarter	13,690	10,628	24,318
Total	<u>\$53,408</u>	<u>\$43,337</u>	<u>\$96,745</u>
<b>2015</b>			
First Quarter	\$12,640	\$ 10,720	\$23,360
Second Quarter	12,910	10,882	23,792
Third Quarter	13,107	11,095	24,202
Fourth Quarter	13,169	11,145	24,314
Total	<u>\$51,826</u>	<u>\$43,842</u>	<u>\$95,668</u>

(1) Represents distributions declared for the period, even though such distributions are actually paid to stockholders the month following such period. For the year ended December 31, 2017, approximately 55% of distributions paid was ordinary income, 23% was capital gain distribution and 22% was a return of capital.

*Share Repurchase Program*

The Company adopted a share repurchase program that may enable stockholders to sell their shares to the Company in limited circumstances (as amended, the "Share Repurchase Program"). The Company may not repurchase shares unless a stockholder has held shares for one year. However, the Company may repurchase shares held for less than one year in connection with a stockholder's death or qualifying disability. The Company is not obligated to repurchase shares under the Share Repurchase Program. The Company may amend, suspend or terminate the Share Repurchase Program at its discretion at any time, provided that any amendment that adversely affects the rights or obligations of a participant will take effect upon 10 days' prior written notice (or 10 business days' prior written notice if related to a change in the number of shares that can be repurchased in a calendar year).

On August 25, 2017, in connection with the entry into the Original Combination Agreement, the Company's board of directors voted to suspend the Share Repurchase Program until further notice. The suspension of the Share Repurchase Program was effective as of September 7, 2017 and as a result, no further share repurchases will be processed unless and until the Share Repurchase Program is reinstated.

Prior to the suspension of the Share Repurchase Program's suspension, for the year ended December 31, 2017, the Company repurchased 4.3 million shares of common stock for a total of \$40.7 million or a weighted average price of \$9.47 per share. For the year ended December 31, 2016, the Company repurchased 4.3 million shares of common stock for a total of \$41.5 million or a weighted average price of \$9.53 per share. Prior to the suspension of the Share Repurchase Program, the Company generally funded repurchase requests received during a quarter with proceeds set aside for that purpose, which were not expected to exceed proceeds received from its DRP.

**11. Non-controlling Interests***Operating Partnership*

Non-controlling interests include the aggregate limited partnership interests in the Operating Partnership held by limited partners, other than the Company. Income (loss) attributable to the non-controlling interests is based on the limited partners' ownership percentage of the Operating Partnership and was a de minimis amount for the year ended December 31, 2017, 2016 and 2015.

*Other*

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net income attributable to other non-controlling interests for the year ended December 31, 2017 and 2016 was \$0.6 million and \$0.3 million, respectively, and net loss attributable to other non-controlling interests for the year ended December 31, 2015 was de minimis.

**12. Fair Value***Fair Value Measurement*

The fair value of financial instruments is categorized based on the priority of the inputs to the valuation technique and categorized into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Quoted prices for identical assets or liabilities in an active market.

Level 2. Financial assets and liabilities whose values are based on the following:

- a) Quoted prices for similar assets or liabilities in active markets.
- b) Quoted prices for identical or similar assets or liabilities in non-active markets.
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability.
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability.

Level 3. Prices or valuation techniques based on inputs that are both unobservable and significant to the overall fair value measurement.

*Determination of Fair Value*

The following is a description of the valuation techniques used to measure fair value of assets accounted for at fair value on a recurring basis and the general classification of these instruments pursuant to the fair value hierarchy.

Investments in Private Equity Funds

The Company accounts for PE Investments at fair value which is determined based on a valuation model using assumptions for the timing and amount of expected future cash flow for income and realization events for the underlying assets in the funds and discount rate. This fair value measurement is generally based on unobservable inputs and, as such, is classified as Level 3 of the fair value hierarchy. The Company is not using the NAV (practical expedient) of the underlying funds for purposes of determining fair value.

Real Estate Securities

CRE securities are generally valued using a third-party pricing service or broker quotations. These quotations are not adjusted and are based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy. Certain CRE securities may be valued based on a single broker quote or an internal price which may have less observable pricing, and as such, would be classified as Level 3 of the fair value hierarchy. Management determines the prices are representative of fair value through a review of available data, including observable inputs, recent transactions as well as its knowledge of and experience in the market.

Investing VIEs

As discussed in Note 6, "Real Estate Securities, Available for Sale," the Company has elected the fair value option for the financial assets and liabilities of the consolidated Investing VIE. The Investing VIE is "static," that is no reinvestment is permitted and there is very limited active management of the underlying assets. The Company is required to determine whether the fair value of the financial assets or the fair value of the financial liabilities of the Investing VIE is more observable, but in either case, the methodology results in the fair value of the assets of the securitization trust being equal to the fair value of their liabilities. The Company has determined that the fair value of the liabilities of the securitization trust is more observable, since market prices for the liabilities are available from a third-party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The financial assets of the securitization trust are not readily marketable and their fair value measurement requires information that may be limited in availability.

In determining the fair value of the trusts financial liabilities, the dealers will consider contractual cash payments and yields expected by market participants. Dealers also incorporate common market pricing methods, including a spread measurement to the treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. The Company's collateralized mortgage obligations are classified as Level 2 of the fair value hierarchy, where a third-party pricing service or broker quotations are available, and as Level 3 of the fair value hierarchy, where internal price is utilized which may have less observable pricing. In accordance with ASC 810, Consolidation, the assets of the securitization trust is an aggregate value derived from the fair value of the trust liabilities, and the Company has determined that the valuation of the trust assets in their entirety including its retained interests from the securitization (eliminated in consolidation in accordance with U.S. GAAP) should be classified as Level 3 of the fair value hierarchy.

Derivative Instruments

Derivative instruments include listed derivatives with quoted prices in active markets for identical financial instruments as of the reporting date. The Company does not adjust the quoted price for these instruments, and as such, classifies derivative instruments as Level 1 of the fair value hierarchy. The derivative assets are recorded within deferred costs and other assets, net on the Company's consolidated balance sheets. The derivative liabilities are recorded within other liabilities on the Company's consolidated balance sheets.

Fair Value Hierarchy

Financial assets recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets that were accounted for at fair value on a recurring basis as of December 31, 2017 and 2016 by level within the fair value hierarchy (dollars in thousands):

	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Investments in unconsolidated ventures	\$ —	\$ —	\$ 41,159	\$ 41,159	\$ —	\$ —	\$ 90,579	\$ 90,579
Real estate securities, available for sale	—	158,341	—	158,341	—	93,975	—	93,975
Mortgage loans held in a securitization trust, at fair value	—	—	916,017	916,017	—	—	—	—
<b>Liabilities:</b>								
Mortgage obligations issued by a securitization trust, at fair value	\$ —	\$ 863,447	\$ —	\$ 863,447	\$ —	\$ —	\$ —	\$ —
Derivative liabilities <sup>(1)</sup>	108	—	—	108	—	186	—	186

(1) Presented in other liabilities on the accompanying consolidated balance sheets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the years ended December 31, 2017 and 2016 (dollars in thousands):

	Year Ended December 31,		Year Ended
	2017		December 31,
	PE	CRE	2016
	Investments	Securities <sup>(1)</sup>	Investments
<b>Beginning balance</b>	\$ 90,579	\$ —	\$ 98,754
Contributions <sup>(2)</sup> /purchases	24,844	926,886	59,646
Distributions/paydowns	(66,025)	—	(88,525)
Equity in earnings	5,841	—	24,136
Unrealized gain (loss)	(14,080)	(10,869)	(3,432)
<b>Ending balance</b>	<u>\$ 41,159</u>	<u>\$ 916,017</u>	<u>\$ 90,579</u>

(1) For the year ended December 31, 2017, unrealized loss of \$10.9 million related to mortgage loans held in a securitization trust, at fair value was offset by unrealized gain of \$12.2 million related to mortgage obligations issued by a securitization trust, at fair value.

(2) Includes initial investments, before distribution and contribution closing statement adjustments, and subsequent contributions, including deferred purchase price fundings.

For the years ended December 31, 2017 and 2016, the Company used a discounted cash flow model to quantify Level 3 fair value measurements on a recurring basis. For the years ended December 31, 2017 and 2016, the key unobservable inputs used in the analysis of PE Investments included discount rates with a weighted average of 13.4% and 14.7%, respectively, and timing and amount of expected future cash flow. For the year ended December 31, 2017, the key unobservable inputs used in the analysis of CRE securities included a weighted average yield of 10.3% and a weighted average life of 9.5 years. Significant increases or decreases in any one of the inputs described above in isolation may result in significantly different fair value of the financial assets and liabilities using such Level 3 inputs.

For the year ended December 31, 2017, the Company recorded an unrealized gain of \$1.3 million. These amounts, when incurred, are recorded as unrealized gain (loss) on mortgage loans and obligations held in a securitization trust, net in the consolidated statements of operations.

For the years ended December 31, 2017, 2016 and 2015, the Company recorded an unrealized loss of \$14.1 million, \$3.4 million and \$12.1 million, respectively. These amounts, when incurred, are recorded as unrealized gain (loss) on investments in the consolidated statements of operations.

#### Fair Value Option

The Company may elect to apply the fair value option of accounting for certain of its financial assets or liabilities due to the nature of the instrument at the time of the initial recognition of the investment. The Company elected the fair value option for PE Investments and eligible financial assets and liabilities of its consolidated Investing VIEs because management believes it is a more useful presentation for such investments. The Company determined recording the PE Investments based on the change in fair value of projected future cash flow from one period to another better represents the underlying economics of the respective investment. As of December 31, 2017, the Company has elected not to apply the fair value option for any other eligible financial assets or liabilities.

#### Fair Value of Financial Instruments

In addition to the above disclosures regarding financial assets or liabilities which are recorded at fair value, U.S. GAAP requires disclosure of fair value about all financial instruments. The following disclosure of estimated fair value of financial instruments was determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017			December 31, 2016		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
<b>Financial assets:(1)</b>						
Real estate debt investments, net(2)	\$ 324,074	\$ 324,106	\$ 324,074	\$ 744,297	\$ 745,323	\$ 755,317
Real estate debt investments, held for sale	150,150	150,150	150,150	—	—	—
Real estate securities, available for sale(3)	221,657	158,341	158,341	138,438	93,975	93,975
Loan collateral receivable, related party(4)	50,314	50,314	50,314	52,204	52,204	50,941
<b>Financial liabilities:(1)</b>						
Securitization bonds payable, net	\$ —	\$ —	\$ —	\$ 39,762	\$ 39,762	\$ 39,961
Mortgage notes payable, net	397,847	395,974	397,847	396,613	393,410	356,031
Credit facilities	221,489	221,489	221,489	249,156	249,156	249,156
Loan collateral payable, net, related party(5)	23,729	23,458	23,729	23,729	23,261	23,050

- (1) The fair value of other financial instruments not included in this table is estimated to approximate their carrying value.  
(2) Principal amount excludes future funding commitments of \$22.6 million and \$23.2 million as of December 31, 2017 and 2016, respectively.  
(3) Refer to "Determination of Fair Value" above for disclosure of methodologies used to determine fair value.  
(4) Represents one senior loan participation interest in a first mortgage loan.  
(5) Represents three senior loan participation interests in first mortgage loans (refer to Note 7).

Disclosure about fair value of financial instruments is based on pertinent information available to management as of the reporting date. Although management is not aware of any factors that would significantly affect fair value, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Real Estate Debt Investments, Net / Loan Collateral Receivable, Related Party / Loan Collateral Payable, Net, Related Party

For CRE debt investments, including loan collateral receivable, related party and loan collateral payable, net, related party, fair values were determined: (i) by comparing the current yield to the estimated yield for newly originated loans with similar credit risk or the market yield at which a third party might expect to purchase such investment; or (ii) based on discounted cash flow projections of principal and interest expected to be collected, which includes consideration of the financial standing of the borrower or sponsor as well as operating results of the underlying collateral. As of the reporting date, the Company believes the principal amount approximates fair value. The fair value of CRE debt investments held for sale is determined based on the expected sales price. These fair value measurements of CRE debt, including loan collateral receivable, related party, are generally based on unobservable inputs and, as such, are classified as Level 3 of the fair value hierarchy.

Securitization Bonds Payable, Net

Securitization bonds payable, net are valued using quotations from nationally recognized financial institutions that generally acted as underwriter for the transactions. These quotations are not adjusted and are generally based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy.

Mortgage Notes Payable, Net

For mortgage notes payable, net, the Company primarily uses rates currently available with similar terms and remaining maturities to estimate fair value. These measurements are determined using comparable U.S. Treasury rates as of the end of the reporting period. As of the reporting date, the Company believes the principal amount approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Credit Facilities

The Company has amounts outstanding under five credit facilities. All credit facilities bear floating rates of interest. As of the reporting date, the Company believes the carrying value approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

**13. Quarterly Financial Information (Unaudited)**

The following tables present selected quarterly information for the years ended December 31, 2017 and 2016 (dollars in thousands, except per share data):

	Three Months Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net interest income	\$ 17,312	\$ 13,241	\$12,733	\$ 14,083
Property and other revenues	20,830	22,889	21,973	21,965
Expenses	32,037	38,944	32,240	30,093
Equity in earnings (losses) of unconsolidated ventures	(712)	1,040	2,483	3,030
Net income (loss)	(4,331)	(2,527)	4,768	8,578
Net income (loss) attributable to NorthStar Real Estate Income Trust, Inc. common stockholders	(4,859)	(2,282)	4,617	8,404
Net income (loss) per share of common stock, basic/diluted <sup>(1)</sup>	\$ (0.04)	\$ (0.02)	\$ 0.04	\$ 0.07

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

	Three Months Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Net interest income	\$ 15,126	\$ 14,646	\$15,316	\$ 15,895
Property and other revenues	20,272	21,843	20,116	16,371
Expenses	31,977	33,924	30,322	29,719
Equity in earnings (losses) of unconsolidated ventures	5,316	5,575	6,502	7,570
Net income (loss)	8,035	7,297	9,102	7,773
Net income (loss) attributable to NorthStar Real Estate Income Trust, Inc. common stockholders	7,869	7,491	8,904	7,688
Net income (loss) per share of common stock, basic/diluted <sup>(1)</sup>	\$ 0.06	\$ 0.06	\$ 0.07	\$ 0.06

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

**14. Segment Reporting**

The Company currently conducts its business through the following four segments, which are based on how management reviews and manages its business:

- *Commercial Real Estate Debt*—Focused on originating, acquiring and asset managing CRE debt investments including first mortgage loans, subordinate interests and mezzanine loans and participations in such loans, as well as preferred equity interests.
- *Commercial Real Estate Equity* - Focused on direct ownership in real estate, which may be structurally senior to a third-party partner's equity and indirect interests in real estate through PE Investments since the underlying collateral in the funds is primarily real estate.
- *Commercial Real Estate Securities* - Focused on investing in CMBS, unsecured REIT debt, CDO notes and other securities.
- *Corporate* - The corporate segment includes corporate level asset management and other fees, related party and general and administrative expenses.

The Company may also own investments indirectly through a joint venture.

The Company primarily generates revenue from net interest income on the CRE debt and securities portfolios, equity in earnings of unconsolidated ventures, including from PE Investments, and from rental and other income from its real estate equity investments. CRE securities include the Company's investment in the subordinate tranches of the securitization trust which are eliminated in consolidation. The Company's income is primarily derived through the difference between revenue and the cost at which the Company is able to finance its investments. The Company may also acquire investments which generate attractive returns without any leverage.

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present segment reporting for the years ended December 31, 2017, 2016, and 2015 (dollars in thousands):

Year Ended December 31, 2017	Real Estate Debt	Real Estate Equity	Real Estate Securities	Corporate	Subtotal	Investing VIE(1)	Total
Net interest income	\$ 43,076	\$ —	\$ 13,279	(2) \$ 918	\$ 57,273	\$ 96	(2) \$ 57,369
Rental and other income	—	87,657	—	—	87,657	—	87,657
Asset management and other fees, related party	—	—	—	(17,815)	(17,815)	—	(17,815)
Mortgage notes interest expense	—	(18,895)	—	—	(18,895)	—	(18,895)
Other expenses related to securitization trust	—	—	—	—	—	(96)	(96)
Transaction costs	(115)	—	(216)	(7,124)	(7,455)	—	(7,455)
Property operating expenses	—	(40,028)	—	—	(40,028)	—	(40,028)
General and administrative expenses	(403)	(95)	(12)	(10,107)	(10,617)	—	(10,617)
Depreciation and amortization	—	(38,408)	—	—	(38,408)	—	(38,408)
Unrealized gain (loss) on mortgage loans and obligations held in a securitization trust, net	—	—	1,127	209	1,336	—	1,336
Unrealized gain (loss) on investments	—	(14,080)	—	—	(14,080)	—	(14,080)
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	<b>42,558</b>	<b>(23,849)</b>	<b>14,178</b>	<b>(33,919)</b>	<b>(1,032)</b>	<b>—</b>	<b>(1,032)</b>
Equity in earnings (losses) of unconsolidated ventures	—	5,841	—	—	5,841	—	5,841
Income tax benefit (expense)	—	1,679	—	—	1,679	—	1,679
<b>Net income (loss)</b>	<b>\$ 42,558</b>	<b>\$ (16,329)</b>	<b>\$ 14,178</b>	<b>\$ (33,919)</b>	<b>\$ 6,488</b>	<b>\$ —</b>	<b>\$ 6,488</b>

- (1) Investing VIEs are not considered to be a segment through which the Company conducts its business; however, U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in CRE securities.
- (2) Includes income earned from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2017, \$0.2 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Investing VIE column.

Year Ended December 31, 2016	Real Estate Debt	Real Estate Equity	Real Estate Securities	Corporate	Total
Net interest income	\$ 53,638	\$ —	\$ 7,345	\$ —	\$ 60,983
Rental and other income	—	78,602	—	—	78,602
Asset management and other fees, related party	—	—	—	(23,765)	(23,765)
Mortgage notes interest expense	—	(17,519)	—	—	(17,519)
Transaction costs	—	(1,767)	—	(211)	(1,978)
Property operating expenses	—	(36,950)	—	—	(36,950)
General and administrative expenses	(733)	(194)	—	(13,576)	(14,503)
Depreciation and amortization	—	(31,227)	—	—	(31,227)
Unrealized gain (loss) on investments and other	—	(3,432)	—	—	(3,432)
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	<b>52,905</b>	<b>(12,487)</b>	<b>7,345</b>	<b>(37,552)</b>	<b>10,211</b>
Equity in earnings (losses) of unconsolidated ventures	827	24,136	—	—	24,963
Income tax benefit (expense)	—	(2,967)	—	—	(2,967)
<b>Net income (loss)</b>	<b>\$ 53,732</b>	<b>\$ 8,682</b>	<b>\$ 7,345</b>	<b>\$ (37,552)</b>	<b>\$ 32,207</b>

NORTHSTAR REAL ESTATE INCOME TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2015	Real Estate Debt	Real Estate Equity	Real Estate Securities	Corporate	Total
Net interest income	\$ 70,144	\$ —	\$ 4,959	\$ 29	\$ 75,132
Rental and other income	—	60,394	—	—	60,394
Asset management and other fees, related party	—	—	—	(23,965)	(23,965)
Mortgage notes interest expense	—	(14,832)	—	—	(14,832)
Transaction costs	(446)	(73)	—	(825)	(1,344)
Property operating expenses	—	(31,135)	—	—	(31,135)
General and administrative expenses	(841)	(100)	(51)	(14,483)	(15,475)
Depreciation and amortization	—	(25,982)	—	—	(25,982)
Unrealized gain (loss) on investments and other	—	(12,108)	—	—	(12,108)
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	<b>68,857</b>	<b>(23,836)</b>	<b>4,908</b>	<b>(39,244)</b>	<b>10,685</b>
Equity in earnings (losses) of unconsolidated ventures	5,799	30,218	—	—	36,017
Income tax benefit (expense)	—	(1,111)	—	—	(1,111)
<b>Net income (loss)</b>	<b>\$ 74,656</b>	<b>\$ 5,271</b>	<b>\$ 4,908</b>	<b>\$ (39,244)</b>	<b>\$ 45,591</b>

The following table presents total assets by segment as of December 31, 2017 and 2016 (dollars in thousands):

Total Assets	Real Estate Debt	Real Estate Equity(1)	Real Estate Securities	Corporate(2)	Subtotal	Investing VIE(3)	Total
December 31, 2017	\$ 558,883	\$ 597,619	\$ 218,048	\$ 134,924	\$ 1,509,474	\$ 920,015	\$ 2,429,489
December 31, 2016	871,600	665,643	105,830	125,407	1,768,480	—	1,768,480

(1) Includes investments in PE Investments totaling \$41.2 million and \$90.6 million as of December 31, 2017 and 2016, respectively.

(2) Includes cash, unallocated receivables, deferred costs and other assets, net and the elimination of the subordinate tranches of the securitization trust in consolidation.

(3) Investing VIEs are not considered to be a segment through which the Company conducts its business; however, U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in CRE securities. As such, the Company has presented the statements of operations and balance sheets within this note in a manner consistent with the views of the Company's management and chief decision makers.

## 15. Subsequent Events

### New Investments

In January 2018, the Company originated a \$173.5 million first mortgage CRE debt investment, including \$6.9 million of future funding commitments.

### Distributions

On January 30, 2018, the Company declared and paid to stockholders an aggregate \$7.1 million monthly cash distribution for the month of January. Additionally, pursuant to the Combination Agreement, the Company declared and paid special cash distribution to the Company's stockholders in the aggregate amount of approximately \$1.6 million in order to true-up the agreed contribution values of the Company and NorthStar Income II in relation to each other in connection with the Combination.

### Combination Agreement

On January 31, 2018, the Company closed the transactions contemplated by the Combination Agreement. Pursuant to the terms of the Contribution Agreement, among other things, the Company merged with and into CLNC, with CLNC continuing as the surviving corporation in a stock-for-stock merger, and the Company's stockholders received approximately 42.1 million shares of CLNC's Class A common stock. CLNC's Class A common stock began trading on the New York Stock Exchange on February 1, 2018 under the symbol "CLNC". Upon completion of the Combination, the Company's stockholders, the Sponsor and NorthStar Income II's stockholders owned approximately 32%, 37% and 31%, respectively, of CLNC's Class A common stock on a fully diluted basis.



On January 31, 2018, in connection with the closing of the transactions contemplated by the Combination Agreement, the Company sold to a subsidiary of the Sponsor a \$65 million senior interest in one \$150.2 million first mortgage loan at par. The remaining junior interest of such loan was transferred to a liquidating trust for the benefit of the Company's stockholders. The Company also repaid the term loan facility on the first mortgage loan for a total of \$46.9 million.

**CONSOLIDATED FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**NORTHSTAR REAL ESTATE INCOME II, INC.**  
(Exact Name of Company as Specified in its Charter)

**DECEMBER 31, 2017**

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

**90-0916682**  
(IRS Employer  
Identification No.)

**590 Madison Avenue, 34th Floor, New York, NY 10022**  
(Address of Principal Executive Offices, Including Zip Code)  
**(212) 547-2600**  
(Company's Telephone Number, Including Area Code)

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Board of Directors and Stockholders of  
Colony NorthStar Credit Real Estate, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of NorthStar Real Estate Income II, Inc. (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2012.

New York, New York  
March 23, 2018

NORTHSTAR REAL ESTATE INCOME II, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 58,213	\$ 78,081
Restricted cash	63,830	69,699
Real estate debt investments, net	793,449	806,485
Operating real estate, net	393,276	399,237
Investments in unconsolidated ventures (refer to Note 5)	253,152	299,681
Real estate securities, available for sale	95,756	86,937
Receivables, net	13,111	12,001
Deferred costs and other assets, net	38,965	31,151
Loan collateral receivable, related party	23,728	23,728
<b>Total assets<sup>(1)</sup></b>	<b>\$ 1,733,480</b>	<b>\$ 1,807,000</b>
<b>Liabilities</b>		
Mortgage and other notes payable, net	\$ 384,404	\$ 376,181
Credit facilities	355,407	241,407
Securitization bonds payable, net	79,634	191,315
Due to related party (refer to Note 8)	6,841	5,347
Accounts payable and accrued expenses	5,421	3,727
Escrow deposits payable	38,541	40,720
Distribution payable	6,704	6,618
Deferred purchase price, net	—	19,523
Other liabilities	4,995	10,771
<b>Total liabilities<sup>(1)</sup></b>	<b>881,947</b>	<b>895,609</b>
Commitments and contingencies		
<b>Equity</b>		
<b>NorthStar Real Estate Income II, Inc. Stockholders' Equity</b>		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of December 31, 2017 and 2016	—	—
Class A common stock, \$0.01 par value, 320,000,000 shares authorized, 97,740,433 and 96,892,562 shares issued and outstanding as of December 31, 2017 and 2016, respectively	977	969
Class T common stock, \$0.01 par value, 80,000,000 shares authorized, 17,202,405 and 16,881,086 shares issued and outstanding as of December 31, 2017 and 2016, respectively	172	169
Additional paid-in capital	1,021,851	1,011,599
Retained earnings (accumulated deficit)	(177,213)	(104,649)
Accumulated other comprehensive income (loss)	3,920	1,164
<b>Total NorthStar Real Estate Income II, Inc. stockholders' equity</b>	<b>849,707</b>	<b>909,252</b>
<b>Non-controlling interests</b>	<b>1,826</b>	<b>2,139</b>
Total equity	851,533	911,391
<b>Total liabilities and equity</b>	<b>\$ 1,733,480</b>	<b>\$ 1,807,000</b>

(1) Represents the consolidated assets and liabilities of NorthStar Real Estate Income Operating Partnership II, LP (the "Operating Partnership"). The Operating Partnership is a consolidated variable interest entity ("VIE"), of which the Company is the sole general partner and owns approximately 99.98%. As of December 31, 2017, the Operating Partnership includes \$135.9 million and \$99.4 million of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. Refer to Note 2, "Summary of Significant Accounting Policies."

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME II, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars and Shares in Thousands, Except Per Share Data)

	Year Ended December 31,		
	2017	2016	2015
<b>Net interest income</b>			
Interest income	\$ 70,857	\$ 64,333	\$ 35,555
Interest expense	(21,122)	(15,475)	(10,001)
Net interest income	49,735	48,858	25,554
<b>Property and other revenues</b>			
Rental and other income	43,606	43,121	19,603
Total property and other revenues	43,606	43,121	19,603
<b>Expenses</b>			
Asset management and other fees - related party	21,381	20,222	16,463
Mortgage notes interest expense	14,327	13,612	6,778
Transaction costs	5,609	1,681	7,022
Property operating expenses	12,838	13,557	5,860
General and administrative expenses (refer to Note 8)	14,042	9,964	8,275
Depreciation and amortization	18,772	20,745	11,812
Total expenses	86,969	79,781	56,210
<b>Other income (loss)</b>			
Unrealized gain (loss) on investments	(27,773)	553	—
Realized gain (loss) on investments	(650)	(34)	—
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	(22,051)	12,717	(11,053)
Equity in earnings (losses) of unconsolidated ventures	30,166	11,611	6,021
Income tax benefit (expense)	(1,867)	(1,879)	(359)
<b>Net income (loss)</b>	6,248	22,449	(5,391)
Net (income) loss attributable to non-controlling interests	(119)	(84)	54
<b>Net income (loss) attributable to NorthStar Real Estate Income II, Inc. common stockholders</b>	<u>\$ 6,129</u>	<u>\$ 22,365</u>	<u>\$ (5,337)</u>
Net income (loss) per share of common stock, basic/diluted	<u>\$ 0.05</u>	<u>\$ 0.22</u>	<u>\$ (0.09)</u>
Weighted average number of shares of common stock outstanding, basic/diluted	<u>114,631</u>	<u>102,712</u>	<u>62,370</u>

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME II, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

	Years Ended December 31,		
	2017	2016	2015
<b>Net income (loss)</b>	\$ 6,248	\$ 22,449	\$ (5,391)
<b>Other comprehensive income (loss)</b>			
Unrealized gain (loss) on real estate securities, available for sale	2,756	1,607	(443)
<b>Total other comprehensive income (loss)</b>	2,756	1,607	(443)
<b>Comprehensive income (loss)</b>	9,004	24,056	(5,834)
Comprehensive (income) loss attributable to non-controlling interests	(119)	(84)	54
<b>Comprehensive income (loss) attributable to NorthStar Real Estate Income II, Inc. common stockholders</b>	<u>\$ 8,885</u>	<u>\$ 23,972</u>	<u>\$ (5,780)</u>

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR REAL ESTATE INCOME II, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Dollars and Shares in Thousands)

	Common Stock				Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non-controlling Interests	Total Equity
	Class A		Class T							
	Shares	Amount	Shares	Amount						
<b>Balance as of December 31, 2014</b>	30,965	\$ 310	—	\$ —	\$ 273,151	\$ (7,321)	\$ —	\$ 266,140	\$ 2	\$266,142
Net proceeds from issuance of common stock	51,752	517	1,793	18	478,289	—	—	478,824	—	478,824
Issuance and amortization of equity-based compensation	11	—	—	—	89	—	—	89	—	89
Non-controlling interests - contributions	—	—	—	—	—	—	—	—	2,404	2,404
Non-controlling interests - distributions	—	—	—	—	—	—	—	—	(25)	(25)
Other comprehensive income (loss)	—	—	—	—	—	—	(443)	(443)	—	(443)
Distributions declared	—	—	—	—	—	(43,501)	—	(43,501)	—	(43,501)
Proceeds from distribution reinvestment plan	2,011	20	—	—	19,152	—	—	19,172	—	19,172
Shares redeemed for cash	(222)	(2)	—	—	(2,187)	—	—	(2,189)	—	(2,189)
Net income (loss)	—	—	—	—	—	(5,337)	—	(5,337)	(54)	(5,391)
<b>Balance as of December 31, 2015</b>	84,517	\$ 845	1,793	\$ 18	\$ 768,494	\$ (56,159)	\$ (443)	\$ 712,755	\$ 2,327	\$715,082
Net proceeds from issuance of common stock	10,346	104	14,781	148	220,316	—	—	220,568	—	220,568
Issuance and amortization of equity-based compensation	19	—	—	—	164	—	—	164	—	164
Non-controlling interests - distributions	—	—	—	—	—	—	—	—	(272)	(272)
Other comprehensive income (loss)	—	—	—	—	—	—	1,607	1,607	—	1,607
Distributions declared	—	—	—	—	—	(70,855)	—	(70,855)	—	(70,855)
Proceeds from distribution reinvestment plan	3,007	30	315	3	32,110	—	—	32,143	—	32,143
Shares redeemed for cash	(996)	(10)	(8)	—	(9,485)	—	—	(9,495)	—	(9,495)
Net income (loss)	—	—	—	—	—	22,365	—	22,365	84	22,449
<b>Balance as of December 31, 2016</b>	96,893	\$ 969	16,881	\$ 169	\$1,011,599	\$ (104,649)	\$ 1,164	\$ 909,252	\$ 2,139	\$911,391
Accretion of distribution fees on Class T shares	—	—	—	—	(293)	—	—	(293)	—	(293)
Issuance and amortization of equity-based compensation	30	—	—	—	259	—	—	259	—	259
Non-controlling interests - distributions	—	—	—	—	—	—	—	—	(432)	(432)
Other comprehensive income (loss)	—	—	—	—	—	—	2,756	2,756	—	2,756
Distributions declared	—	—	—	—	—	(78,693)	—	(78,693)	—	(78,693)
Proceeds from distribution reinvestment plan	2,416	24	431	4	26,350	—	—	26,378	—	26,378
Shares redeemed for cash	(1,599)	(16)	(110)	(1)	(16,064)	—	—	(16,081)	—	(16,081)
Net income (loss)	—	—	—	—	—	6,129	—	6,129	119	6,248
<b>Balance as of December 31, 2017</b>	<u>97,740</u>	<u>\$ 977</u>	<u>17,202</u>	<u>\$ 172</u>	<u>\$1,021,851</u>	<u>\$ (177,213)</u>	<u>\$ 3,920</u>	<u>\$ 849,707</u>	<u>\$ 1,826</u>	<u>\$851,533</u>

Refer to accompanying notes to consolidated financial statements.



**NORTHSTAR REAL ESTATE INCOME II, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)

	Years Ended December 31,		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 6,248	\$ 22,449	\$ (5,391)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in (earnings) losses of unconsolidated ventures	(30,166)	(11,611)	(6,021)
Amortization of equity-based compensation	259	164	89
Amortization of deferred financing costs	3,317	1,697	793
Amortization of fees / accretion of discount on investments	(4,029)	(2,136)	949
Amortization of above/below market leases	275	460	152
Depreciation and amortization	18,772	20,745	11,812
Unrealized (gain) loss on investments	27,773	(553)	—
Realized (gain) loss on investments	650	34	—
Distributions of cumulative earnings from unconsolidated ventures (refer to Note 5)	27,375	11,611	6,021
Straight line rental income	(1,327)	(1,357)	(488)
Deferred income tax (benefit) expense	(15,136)	(207)	137
Other non-cash adjustments	—	(128)	—
Changes in assets and liabilities:			
Restricted cash	97	(1,165)	(218)
Receivables, net	217	(473)	(1,846)
Deferred costs and other assets, net	(6,725)	(3,337)	(1,736)
Due to related party	1,201	(440)	(491)
Accounts payable and accrued expenses	1,694	(1,308)	4,743
Other liabilities	184	146	3,473
Net cash provided by (used in) operating activities	<u>30,679</u>	<u>34,591</u>	<u>11,978</u>
<b>Cash flows from investing activities:</b>			
Acquisition of real estate debt investments, net	—	(37,912)	—
Origination and funding of real estate debt investments, net	(193,783)	(211,549)	(420,519)
Proceeds from sale of real estate debt investments	—	212,329	—
Repayment on real estate debt investments	206,341	94,544	52,830
Loan collateral receivable, related party	—	(24,933)	—
Repayment on loan collateral receivable, related party	—	1,205	—
Acquisition of operating real estate	—	—	(405,973)
Improvements to operating real estate	(4,810)	(8,475)	(679)
Investment in unconsolidated ventures (refer to Note 5)	(73,467)	(308,928)	(59,622)
Acquisition of real estate securities, available for sale	(1,556)	(64,180)	(18,310)
Distributions in excess of cumulative earnings from unconsolidated ventures (refer to Note 5)	74,842	70,458	18,453
Deferred costs and other assets, net	—	—	(40,956)
Other liabilities	—	—	2,729
Change in restricted cash	2,347	(1,236)	(12,580)
Net cash provided by (used in) investing activities	<u>9,914</u>	<u>(278,677)</u>	<u>(884,627)</u>
<b>Cash flows from financing activities:</b>			
Borrowings from credit facilities	141,853	138,947	215,357
Repayment on credit facilities	(27,853)	(359,308)	(31,452)
Borrowings from mortgage and other notes payable	7,495	5,670	372,368
Repayment on securitization bonds	(113,155)	—	—
Proceeds from securitization bonds	—	193,980	—
Net proceeds from issuance of common stock	—	225,450	478,289
Net proceeds from issuance of common stock, related party	—	1,890	804
Shares redeemed for cash	(16,081)	(9,495)	(2,189)
Distributions paid on common stock	(78,607)	(69,240)	(40,211)
Proceeds from distribution reinvestment plan	26,378	32,143	19,172
Payment of deferred financing costs	(1,305)	(3,687)	(3,638)
Change in restricted cash	1,246	(13,781)	—
Contributions from non-controlling interests	—	—	2,404
Distributions to non-controlling interests	(432)	(272)	(25)
Net cash provided by (used in) financing activities	<u>(60,461)</u>	<u>142,297</u>	<u>1,010,879</u>
Net increase (decrease) in cash and cash equivalents	(19,868)	(101,789)	138,230
<b>Cash and cash equivalents—beginning of period</b>	<u>78,081</u>	<u>179,870</u>	<u>41,640</u>
Cash and cash equivalents—end of period	<u>\$ 58,213</u>	<u>\$ 78,081</u>	<u>\$ 179,870</u>

Refer to accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands)

	Year Ended December 31,		
	2017	2016	2015
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 31,024	\$ 26,506	\$ 14,530
Cash paid for income taxes	18,876	2,905	38
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Accrued cost of capital	\$ 293	\$ 5,234	677
Subscriptions receivable, gross	—	—	1,685
Distribution payable	6,704	6,618	5,003
Accrual of distribution payable	—	—	19
Escrow deposits payable	2,179	4,889	15,693
Non-cash related to PE Investments (refer to Note 5)	707	24,037	13,696
CRE debt investment payoff due from servicer	—	—	1,937
Reclassification of deferred financing costs to mortgage and other notes payable, net	—	—	2,490

Refer to accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. Business and Organization**

NorthStar Real Estate Income II, Inc. (the “Company”) was formed to originate, acquire and asset manage a diversified portfolio of commercial real estate (“CRE”) debt, equity and securities investments predominantly in the United States. CRE debt investments include first mortgage loans, subordinate mortgage and mezzanine loans and participations in such loans and preferred equity interests. Real estate equity investments include the Company’s direct ownership in properties, which may be structurally senior to a third-party partner’s equity, as well as indirect interests in real estate through real estate private equity funds (“PE Investments”). CRE securities primarily consist of commercial mortgage-backed securities (“CMBS”) and may include unsecured real estate investment trust (“REIT”) debt, collateralized debt obligation (“CDO”) notes and other securities. The Company may also invest internationally. In addition, the Company owns investments through joint ventures. The Company was formed in December 2012 as a Maryland corporation and commenced operations in September 2013. The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), commencing with the taxable year ended December 31, 2013. The Company conducts its operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

As of December 31, 2017, the Company was externally managed and had no employees. Prior to January 11, 2017, the Company was managed by an affiliate of NorthStar Asset Management Group Inc. (NYSE: NSAM) (“NSAM”). Effective January 10, 2017, NSAM completed its previously announced merger with Colony Capital, Inc. (“Colony”), NorthStar Realty Finance Corp. (“NorthStar Realty”), and Colony NorthStar, Inc. (“Colony NorthStar”), a wholly-owned subsidiary of NSAM, which the Company refers to as the mergers, with Colony NorthStar surviving the mergers and succeeding NSAM as the Company’s sponsor (the “Sponsor”). As a result of the mergers, the Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform and publicly-traded on the NYSE under the ticker symbol “CLNS.” In addition, following the mergers, CNI NSII Advisors, LLC (formerly known as NSAM J-NSII Ltd, an affiliate of NSAM), (the “Advisor”), became a subsidiary of Colony NorthStar. The Advisor manages the Company’s day-to-day operations pursuant to an advisory agreement. The mergers had no material impact on the Company’s operations.

Colony NorthStar manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies.

Substantially all of the Company’s business is conducted through NorthStar Real Estate Income Operating Partnership II, LP (the “Operating Partnership”). The Company is the sole general partner and a limited partner of the Operating Partnership. The other limited partners of the Operating Partnership are NS Real Estate Income Advisor II, LLC (the “Prior Advisor”) and NorthStar OP Holdings II, LLC (the “Special Unit Holder”), each an affiliate of the Sponsor. The Prior Advisor invested \$1,000 in the Operating Partnership in exchange for common units and the Special Unit Holder invested \$1,000 in the Operating Partnership and was issued a separate class of limited partnership units (the “Special Units”), which are collectively recorded as non-controlling interests on the consolidated balance sheets as of December 31, 2017 and 2016. As the Company accepted subscriptions for shares in its continuous public offering, which closed in November 2016, it contributed substantially all of the net proceeds to the Operating Partnership as a capital contribution. As of December 31, 2017, the Company’s limited partnership interest in the Operating Partnership was 99.98%.

The Company’s charter authorizes the issuance of up to 400.0 million shares of common stock with a par value of \$0.01 per share, of which 320.0 million are designated as Class A shares and 80.0 million are designated as Class T shares, and up to 50.0 million shares of preferred stock with a par value of \$0.01 per share. The board of directors of the Company is authorized to amend its charter, without the approval of the stockholders, to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

On December 18, 2012, as part of its formation, the Company issued 22,223 shares of Class A common stock to NorthStar Realty for \$0.2 million. On May 6, 2013, the Company’s registration statement on Form S-11 with the U.S. Securities and Exchange Commission (the “SEC”) was declared effective. Pursuant to such registration statement, the Company offered a maximum of \$1.65 billion in any combination of Class A and Class T shares of common stock, excluding the initial shares, in a continuous, public offering, of which up to \$1.5 billion in shares were offered pursuant to its primary offering (the “Primary Offering”) to the public and up to \$150.0 million in shares were offered pursuant to its distribution reinvestment plan (the “DRP”), which are herein collectively referred to as the Offering.

The Company retained NorthStar Securities, LLC (the “Dealer Manager”), formerly a subsidiary of NSAM that became a subsidiary of the Sponsor upon completion of the mergers, to serve as the dealer manager responsible for marketing the shares offered pursuant to the Primary Offering. On September 18, 2013, the Company commenced operations by satisfying the minimum offering requirement in its Primary Offering as a result of NorthStar Realty purchasing 222,223 Class A shares of common stock for \$2.0 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Primary Offering closed effective November 9, 2016. Following the Primary Offering and until its suspension as described below, the Company continued to offer and sell shares pursuant to the DRP at the most recently disclosed estimated value per share of each share class. Prior to the closing of the Primary Offering, \$150.0 million of the unsold shares remaining from the Primary Offering were allocated to the DRP, for a total of \$300.0 million in shares offered pursuant to the DRP. The Company may amend, suspend or terminate the DRP for any reason, except to eliminate a participant's ability to withdraw from the DRP, upon ten days written notice. On August 25, 2017, in connection with the entry into the Original Combination Agreement (defined below), the Company's board of directors, including all of its independent directors, voted to suspend the DRP until further notice. Pursuant to the terms of the DRP, the suspension went into effect prior to the monthly distributions paid on or about October 1, 2017 and as a result, all stockholders will receive only cash distributions through the completion of the Combination (defined below) unless and until the DRP is reinstated.

From inception through January 31, 2018, the Company raised total gross proceeds of \$1.2 billion pursuant to the Offering, including gross proceeds of \$81.7 million pursuant to the DRP.

On August 25, 2017, the Company entered into a master combination agreement (the "Original Combination Agreement") with, among others, Colony Capital Operating Company, LLC, ("CLNS OP"), the operating company of the Sponsor, and NorthStar Real Estate Income I, Inc. ("NorthStar Income"), a company managed by an affiliate of the Sponsor, pursuant to which a select portfolio of the assets and liabilities of the Sponsor would be combined with all of the assets and liabilities of the Company and substantially all of the assets and liabilities of NorthStar Income in an all-stock combination transaction to create an externally managed commercial real estate credit REIT (the transactions collectively referred to as the "Combination"). On November 20, 2017, the parties amended and restated the Original Combination Agreement (the "Combination Agreement"). The Combination, which had been unanimously approved by the special committees and the boards of directors of both the Company and NorthStar Income and approved by the board of directors of the Sponsor, closed on January 31, 2018, at which time the Company merged with and into Colony NorthStar Credit Real Estate, Inc. ("CLNC"), with CLNC continuing as the surviving corporation.

## 2. Summary of Significant Accounting Policies

### *Basis of Accounting*

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company, the Operating Partnership and their consolidated subsidiaries. The Company consolidates variable interest entities ("VIEs"), if any, where the Company is the primary beneficiary and voting interest entities which are generally majority owned or otherwise controlled by the Company. All significant intercompany balances are eliminated in consolidation.

### *Variable Interest Entities*

A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The determination of whether an entity is a VIE includes both a qualitative and quantitative analysis. The Company bases its qualitative analysis on its review of the design of the entity, its organizational structure including decision-making ability and relevant financial agreements and the quantitative analysis on the forecasted cash flow of the entity. The Company reassesses its initial evaluation of an entity as a VIE upon the occurrence of certain reconsideration events.

A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents has both the: (i) power to direct the activities that most significantly impact the VIE's economic performance; and (ii) obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. The Company determines whether it is the primary beneficiary of a VIE by considering qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE's economic performance and which party controls such activities; the amount and characteristics of its investment; the obligation or likelihood for the Company or other interests to provide financial support; consideration of the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders and the similarity with and significance to the business activities of the Company and the other interests. The Company reassesses its determination of whether it is the primary beneficiary of a VIE each reporting period. Significant judgments related to these determinations include estimates about the current and future fair value and performance of investments held by these VIEs and general market conditions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company evaluates its investments and financings, including investments in unconsolidated ventures and securitization financing transactions, if any, to determine whether each investment or financing is a VIE. The Company analyzes new investments and financings, as well as reconsideration events for existing investments and financings, which vary depending on type of investment or financing.

The most significant consolidated VIEs are the Operating Partnership and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights. The Company consolidates these entities because it controls all significant business activities.

The Operating Partnership consolidates certain properties that have non-controlling interests. Included in operating real estate, net on the Company's consolidated balance sheet as of December 31, 2017 is \$119.5 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of December 31, 2017 is \$95.2 million, collateralized by the real estate assets of the related consolidated VIEs.

As of December 31, 2017, the Company identified unconsolidated VIEs related to its CRE debt investments, an investment in a mezzanine loan through a joint venture, PE Investments and CRE securities. Assets of each of the VIEs may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

The following table presents the Company's classification, carrying value and maximum exposure of unconsolidated VIEs as of December 31, 2017 (dollars in thousands):

	<u>Carrying Value</u>	<u>Maximum Exposure to Loss<sup>(1)</sup></u>
Real estate debt investments, net	\$ 160,455	\$165,731
Investments in unconsolidated ventures	253,152	259,317
Real estate securities, available for sale	95,756	95,756
Total assets of unconsolidated VIEs	<u>\$ 509,363</u>	<u>\$520,804</u>

(1) As of December 31, 2017, maximum exposure to loss includes future funding commitments of \$5.3 million for real estate debt investments, net and \$6.2 million for an investment in a mezzanine loan through a joint venture.

Based on management's analysis, the Company determined that it is not the primary beneficiary of the above VIEs. Accordingly, the VIEs are not consolidated in the Company's financial statements as of December 31, 2017. The Company did not provide financial support to the unconsolidated VIEs during the year ended December 31, 2017. As of December 31, 2017, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to the unconsolidated VIEs outside of the future funding commitments disclosed above.

#### Voting Interest Entities

A voting interest entity is an entity in which the total equity investment at risk is sufficient to enable it to finance its activities independently and the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity will generally be consolidated. The Company does not consolidate a voting interest entity if there are substantive participating rights by other parties and/or kick-out rights by a single party or a simple majority vote.

The Company performs on-going reassessments of whether entities previously evaluated under the voting interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Investments in Unconsolidated Ventures*

A non-controlling, unconsolidated ownership interest in an entity may be accounted for using the equity method or the cost method, and for either method, the Company may elect the fair value option. The Company will account for an investment in an unconsolidated entity that does not qualify for equity method accounting or for which the fair value option was not elected using the cost method if the Company determines that it does not have significant influence. Under the cost method, equity in earnings is recorded as dividends are received to the extent they are not considered a return of capital, which is recorded as a reduction of cost of the investment.

Under the equity method, the investment is adjusted each period for capital contributions and distributions and its share of the entity's net income (loss). Capital contributions, distributions and net income (loss) of such entities are recorded in accordance with the terms of the governing documents. An allocation of net income (loss) may differ from the stated ownership percentage interest in such entity as a result of preferred returns and allocation formulas, if any, as described in such governing documents. Equity method investments are recognized using a cost accumulation model in which the investment is recognized based on the cost to the investor, which includes acquisition fees. The Company records as an expense certain acquisition costs and fees associated with consolidated investments deemed to be business combinations and capitalizes these costs for investments deemed to be acquisitions of an asset, including an equity method investment.

The Company may account for an investment in an unconsolidated entity at fair value by electing the fair value option. The Company elected the fair value option for PE Investments. The Company records the change in fair value for its share of the projected future cash flow of such investments from one period to another in equity in earnings (losses) of unconsolidated ventures in the consolidated statements of operations. Any change in fair value attributed to market related assumptions is considered unrealized gain (loss).

*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 the Company. A non-controlling interest is required to be presented as a separate component of equity on the consolidated balance sheets and presented separately as net income (loss) and comprehensive income (loss) attributable to non-controlling interests. An allocation to a non-controlling interest may differ from the stated ownership percentage interest in such entity as a result of a preferred return and allocation formula, if any, as described in such governing documents.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that could affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates and assumptions.

Comprehensive Income (Loss)

The Company reports consolidated comprehensive income (loss) in separate statements following the consolidated statements of operations. Comprehensive income (loss) is defined as the change in equity resulting from net income (loss) and other comprehensive income (loss) ("OCI"). The only component of OCI is unrealized gain (loss) on CRE securities available for sale for which the fair value option was not elected.

Fair Value Option

The fair value option provides an election that allows a company to irrevocably elect to record certain financial assets and liabilities at fair value on an instrument-by-instrument basis at initial recognition. The Company has elected the fair value option for PE Investments. Any change in fair value for assets and liabilities for which the election is made is recognized in earnings.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with an original maturity date of three months or less to be cash equivalents. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of \$250,000 per institution. The Company mitigates credit risk by placing cash and cash equivalents with major financial institutions. To date, the Company has not experienced any losses on cash and cash equivalents.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Cash

Restricted cash consists of amounts related to loan origination (escrow deposits) and operating real estate (escrows for taxes, insurance, capital expenditures and payments required under certain lease agreements).

Real Estate Debt Investments

CRE debt investments are generally intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan fees, premium and discount. CRE debt investments that are deemed to be impaired are carried at amortized cost less a loan loss reserve, if deemed appropriate, which approximates fair value. CRE debt investments where the Company does not have the intent to hold the loan for the foreseeable future or until its expected payoff are classified as held for sale and recorded at the lower of cost or estimated fair value.

The Company may syndicate a portion of the CRE debt investments that it originates or sell the CRE debt investments individually. When a transaction meets the criteria for sale accounting, the Company will no longer recognize the CRE debt investment sold as an asset and will recognize gain or loss based on the difference between the sales price and the carrying value of the CRE debt investment sold. Any related unamortized deferred origination fees, original issue discounts, loan origination costs, discounts or premiums at the time of sale are recognized as an adjustment to the gain or loss on sale, which is included in interest income on the consolidated statement of operations. Any fees received at the time of sale or syndication are recognized as part of interest income.

Operating Real Estate

Operating real estate is carried at historical cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their useful life. The Company accounts for purchases of operating real estate that qualify as business combinations using the acquisition method, where the purchase price is allocated to tangible assets such as land, building, improvements and other identified intangibles. Costs directly related to an acquisition deemed to be a business combination are expensed and included in transaction costs in the consolidated statements of operations.

Operating real estate is depreciated using the straight-line method over the estimated useful lives of the assets, summarized as follows:

Category:	Term:
Building	40 years
Building improvements	Lesser of the useful life or remaining life of the building
Land improvements	10 to 30 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture, fixtures and equipment	3 to 10 years

Real Estate Securities

The Company classifies its CRE securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated OCI in the consolidated statements of equity.

Deferred Costs

Deferred costs primarily include deferred financing costs and deferred lease costs. Deferred financing costs represent commitment fees, legal and other third-party costs associated with obtaining financing. Costs related to revolving credit facilities are recorded in deferred costs and other assets, net and are amortized to interest expense using the straight-line basis over the term of the facility. Costs related to other borrowings are recorded net against the carrying value of such borrowings and are amortized to interest expense using the effective interest method. Unamortized deferred financing costs are expensed to realized gain (loss) when the associated facility is repaid before maturity. Costs incurred in seeking financing transactions, which do not close, are expensed in the period in which it is determined that the financing will not occur. Deferred lease costs consist of fees incurred to initiate and renew operating leases, which are amortized on a straight-line basis over the remaining lease term and are recorded to depreciation and amortization in the consolidated statements of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Identified Intangibles

The Company records acquired identified intangibles, which includes intangible assets (such as the value of the above-market leases, in-place leases, and other intangibles) and intangible liabilities (such as the value of below market leases), based on estimated fair value. The value allocated to the identified intangibles are amortized over the remaining lease term. Above/below-market leases are amortized into rental income, below-market ground leases are amortized into real estate properties-operating expense and in-place leases are amortized into depreciation and amortization expense. Identified intangible assets are recorded in deferred costs and other assets, net, and identified intangible liabilities are recorded in other liabilities on the accompanying consolidated balance sheets. As of December 31, 2017, the weighted average amortization period for above-market leases, below-market leases and in-place lease costs is 6.7 years, 2.7 years and 4.0 years, respectively.

The following table presents a summary of intangible assets and intangible liabilities, presented in deferred costs and other assets, net and other liabilities, respectively, on the consolidated balance sheets, as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017				December 31, 2016			
	Intangible Assets			Intangible Liabilities	Intangible Assets			Intangible Liabilities
	In-place Leases	Above-market Leases	Total	Below-market Leases	In-place Leases	Above-market Leases	Total	Below-market Leases
Gross amount	\$ 35,701	\$ 5,255	\$ 40,956	\$ 2,729	\$ 35,701	\$ 5,255	\$ 40,956	\$ 2,729
Accumulated amortization	(23,602)	(2,422)	(26,024)	(1,536)	(16,298)	(1,541)	(17,839)	(930)
Total	\$ 12,099	\$ 2,833	\$ 14,932	\$ 1,193	\$ 19,403	\$ 3,714	\$ 23,117	\$ 1,799

The Company recorded amortization of acquired above-market leases, net of acquired below-market leases of \$0.3 million, \$0.5 million, and \$0.2 million for the years ended December 31, 2017, 2016, and 2015, respectively. Amortization of acquired in-place leases intangible assets was \$7.3 million, \$9.7 million, and \$6.6 million for the years ended December 31, 2017, 2016, and 2015, respectively.

The following table presents annual amortization of intangible assets and liabilities (dollars in thousands):

Years Ending December 31:	Intangible Assets			Intangible Liabilities
	In-place Leases, net <sup>(1)</sup>	Above-market Leases, net <sup>(1)</sup>	Total	Below-market Leases, net <sup>(1)</sup>
2018	\$ 4,777	\$ 820	\$ 5,597	\$ 549
2019	2,890	522	3,412	337
2020	1,646	315	1,961	203
2021	1,018	202	1,220	73
2022	723	165	888	31
Thereafter	1,045	809	1,854	—
Total	\$ 12,099	\$ 2,833	\$14,932	\$ 1,193

(1) Identified intangibles will be amortized through periods ending May 2028.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Costs and Other Assets, Net and Other Liabilities

The following table presents a summary of deferred costs and other assets, net and other liabilities as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017	December 31, 2016
<b>Deferred costs and other assets, net</b>		
Intangible assets, net <sup>(1)</sup>	\$ 14,932	\$ 23,117
Deferred financing costs, net - credit facilities	2,101	1,911
Deferred commissions and leasing costs	5,254	3,446
Prepaid expenses	5,751	1,527
Deferred tax asset	10,858	1,077
Other	69	73
Total	<u>\$ 38,965</u>	<u>\$ 31,151</u>
<b>Other liabilities:</b>		
Intangible liabilities, net <sup>(2)</sup>	1,193	1,799
Tenant security deposits	1,462	1,439
Tenant prepaid rent	2,081	1,797
Deferred tax liability <sup>(3)</sup>	—	5,355
Other	259	381
Total	<u>\$ 4,995</u>	<u>\$ 10,771</u>

(1) Represents in-place leases and above-market leases, net.

(2) Represents below-market leases, net.

(3) Includes \$4.3 million of tax related liabilities assumed upon the purchase of PE Investment III. Refer to Note 5, "Investments in Unconsolidated Ventures," for additional information on PE Investment III.

Acquisition Fees and Expenses

The total of all acquisition fees and expenses for an investment, including acquisition fees to the Advisor, cannot exceed, in the aggregate, 6.0% of the contract purchase price of such investment unless such excess is approved by a majority of the Company's directors, including a majority of its independent directors. For the year ended December 31, 2017, total acquisition fees and expenses did not exceed the allowed limit for any investment. An acquisition fee incurred related to an equity investment will generally be expensed as incurred. An acquisition fee paid to the Advisor related to the acquisition of an equity or debt investment in an unconsolidated joint venture is included in investments in unconsolidated ventures on the consolidated balance sheets. An acquisition fee paid to the Advisor related to the origination or acquisition of debt investments is included in debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method. The Company records as an expense certain acquisition costs and fees associated with transactions deemed to be business combinations in which it consolidates the asset and capitalizes these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

Revenue RecognitionReal Estate Debt Investments

Interest income is recognized on an accrual basis and any related premium, discount, origination costs and fees are amortized over the life of the investment using the effective interest method. The amortization is reflected as an adjustment to interest income in the consolidated statements of operations. The amortization of a premium or accretion of a discount is discontinued if such loan is reclassified to held for sale.

Operating Real Estate

Rental and other income from operating real estate is derived from the leasing of space to various types of tenants. Rental revenue recognition commences when the tenant takes legal possession of the leased space and the leased space is substantially ready for its intended use. The leases are for fixed terms of varying length and generally provide for annual rentals and expense reimbursements to be paid in monthly installments. Rental income from leases is recognized on a straight-line basis over the term of the respective

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

leases. The excess of rent recognized over the amount contractually due pursuant to the underlying leases is included in receivables on the consolidated balance sheets. The Company amortizes any tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the lease. Other income represents revenue from tenant/operator leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes paid by the Company on behalf of the respective property. This revenue is recognized in the same period as the expenses are incurred.

In a situation in which a lease(s) associated with a significant tenant have been, or are expected to be, terminated early, the Company evaluates the remaining useful life of depreciable or amortizable assets in the asset group related to the lease that will be terminated (i.e., tenant improvements, above- and below-market lease intangibles, in-place lease value and deferred leasing costs). Based upon consideration of the facts and circumstances surrounding the termination, the Company may write-off or accelerate the depreciation and amortization associated with the asset group. Such amounts are included within rental and other income for above- and below-market lease intangibles and depreciation and amortization for the remaining lease related asset groups in the consolidated statements of operations.

*Real Estate Securities*

Interest income is recognized using the effective interest method with any premium or discount amortized or accreted through earnings based on expected cash flow through the expected maturity date of the security. Changes to expected cash flow may result in a change to the yield which is then applied retrospectively for high-credit quality securities that cannot be prepaid or otherwise settled in such a way that the holder would not recover substantially all of the investment or prospectively for all other securities to recognize interest income.

Credit Losses and Impairment on Investments*Real Estate Debt Investments*

Loans are considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all principal and interest amounts due according to the contractual terms. The Company assesses the credit quality of the portfolio and adequacy of loan loss reserves on a quarterly basis or more frequently as necessary. Significant judgment of the Company is required in this analysis. The Company considers the estimated net recoverable value of the loan as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the quality and financial condition of the borrower and the competitive situation of the area where the underlying collateral is located. Because this determination is based on projections of future economic events, which are inherently subjective, the amount ultimately realized may differ materially from the carrying value as of the balance sheet date. If upon completion of the assessment, the estimated fair value of the underlying collateral is less than the net carrying value of the loan, a loan loss reserve is recorded with a corresponding charge to provision for loan losses. The loan loss reserve for each loan is maintained at a level that is determined to be adequate by management to absorb probable losses.

Income recognition is suspended for a loan at the earlier of the date at which payments become 90-days past due or when, in the opinion of the Company, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. Interest accrued and not collected will be reversed against interest income. A loan is written off when it is no longer realizable and/or legally discharged. As of December 31, 2017, the Company did not have any impaired CRE debt investments.

*Operating Real Estate*

The Company's real estate portfolio is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if the Company's estimate of the aggregate expected future undiscounted cash flow generated by the property is less than the carrying value. In conducting this review, the Company considers U.S. macroeconomic factors, real estate sector conditions and asset specific and other factors. To the extent an impairment has occurred, the loss is measured as the excess of the carrying value of the property over the estimated fair value and recorded in impairment on operating real estate in the consolidated statements of operations. As of December 31, 2017, the Company did not have any impaired operating real estate.

An allowance for a doubtful account for a tenant receivable is established based on a periodic review of aged receivables resulting from estimated losses due to the inability of tenants to make required rent and other payments contractually due. Additionally, the Company establishes, on a current basis, an allowance for future tenant credit losses on unbilled rent receivable based on an evaluation of the collectability of such amounts.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Real Estate Securities

CRE securities for which the fair value option is elected are not evaluated for other-than-temporary impairment ("OTTI") as any change in fair value is recorded in the consolidated statements of operations. Realized losses on such securities are reclassified to realized gain (loss) on investments as losses occur.

CRE securities for which the fair value option is not elected are evaluated for OTTI quarterly. Impairment of a security is considered to be other-than-temporary when: (i) the holder has the intent to sell the impaired security; (ii) it is more likely than not the holder will be required to sell the security; or (iii) the holder does not expect to recover the entire amortized cost of the security. When a CRE security has been deemed to be other-than-temporarily impaired due to (i) or (ii), the security is written down to its fair value and an OTTI is recognized in the consolidated statements of operations. In the case of (iii), the security is written down to its fair value and the amount of OTTI is then bifurcated into: (a) the amount related to expected credit losses; and (b) the amount related to fair value adjustments in excess of expected credit losses. The portion of OTTI related to expected credit losses is recognized in the consolidated statements of operations. The remaining OTTI related to the valuation adjustment is recognized as a component of accumulated OCI in the consolidated statements of equity. CRE securities which are not high-credit quality are considered to have an OTTI if the security has an unrealized loss and there has been an adverse change in expected cash flow. The amount of OTTI is then bifurcated as discussed above. As of December 31, 2017, the Company did not have any OTTI recorded on its CRE securities.

Foreign Currency

Assets and liabilities denominated in a foreign currency for which the functional currency is a foreign currency are translated using the currency exchange rate in effect at the end of the period presented and the results of operations for such entities are translated into U.S. dollars using the average currency exchange rate in effect during the period. The resulting foreign currency translation adjustment is recorded as a component of accumulated OCI in the consolidated statements of equity.

Assets and liabilities denominated in a foreign currency for which the functional currency is the U.S. dollar are remeasured using the currency exchange rate in effect at the end of the period presented and the results of operations for such entities are remeasured into U.S. dollars using the average currency exchange rate in effect during the period. The resulting foreign currency remeasurement adjustment is recorded in unrealized gain (loss) on investments and other in the consolidated statements of operations.

As of December 31, 2017, the Company had no deferred purchase price obligations denominated in foreign currency related to its PE Investments. As of December 31, 2016, the Company had \$5.2 million of deferred purchase price obligations denominated in foreign currency related to its PE Investments.

Equity-Based Compensation

The Company accounts for equity-based compensation awards using the fair value method, which requires an estimate of fair value of the award at the time of grant. All fixed equity-based awards to directors, which have no vesting conditions other than time of service, are amortized to compensation expense over the awards' vesting period on a straight-line basis. Equity-based compensation is classified within general and administrative expense in the consolidated statements of operations.

Income Taxes

The Company elected to be taxed as a REIT and to comply with the related provisions of the Internal Revenue Code beginning in its taxable year ended December 31, 2013. Accordingly, the Company will generally not be subject to U.S. federal income tax to the extent of its distributions to stockholders as long as certain asset, income and share ownership tests are met. To maintain its qualification as a REIT, the Company must annually distribute at least 90.0% of its REIT taxable income to its stockholders and meet certain other requirements. The Company believes that all of the criteria to maintain the Company's REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax and potential interest and penalties, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. The Company's accounting policy with respect to interest and penalties is to classify these amounts as a component of income tax expense, where applicable. The Company has not recognized any such amounts related to uncertain tax positions for the years ended December 31, 2017, 2016, and 2015.

The Company may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on its undistributed taxable income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company made joint elections to treat certain subsidiaries as taxable REIT subsidiaries (“TRS”) which may be subject to U.S. federal, state and local income taxes. In general, a TRS of the Company may perform non-customary services for tenants, hold assets that the REIT cannot hold directly and may engage in most real estate or non-real estate-related business.

Certain subsidiaries of the Company are subject to taxation by federal, state and local authorities for the periods presented. Income taxes are accounted for by the asset/liability approach in accordance with U.S. GAAP. Deferred taxes, if any, represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. Such amounts arise from differences between the financial reporting and tax bases of assets and liabilities and are adjusted for changes in tax laws and tax rates in the period which such changes are enacted. A provision for income tax represents the total of income taxes paid or payable for the current period, plus the change in deferred taxes. Current and deferred taxes are recorded on the portion of earnings (losses) recognized by the Company with respect to its interest in TRSs. Deferred income tax assets and liabilities are calculated based on temporary differences between the Company’s U.S. GAAP consolidated financial statements and the federal, state and local tax basis of assets and liabilities as of the consolidated balance sheet date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, 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 estimates of expected future taxable income, 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. Changes in estimate of deferred tax asset realizability, if any, are included in income tax benefit (expense) in the consolidated statements of operations.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted, which provides for a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The Company is still analyzing certain aspects of the TCJA and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

For the years ended December 31, 2017, 2016, and 2015, the Company recorded income tax expense of \$1.9 million, \$1.9 million, and \$0.4 million, respectively. Additionally, as of December 31, 2017 the Company recorded a deferred tax asset of \$10.9 million. As of December 31, 2016, the Company recorded a deferred tax asset of \$1.1 million and a deferred tax liability of \$5.4 million.

#### Transfers of Financial Assets

Sale accounting for transfers of financial assets requires the transfer of an entire financial asset, a group of financial assets in its entirety or if a component of the financial asset is transferred, that component meets the definition of a participating interest by having characteristics that mirror the original financial asset.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Company has any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting would require that the transfer meets the following sale conditions: (1) the transferred asset has been legally isolated; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (3) the Company does not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Company to repurchase or redeem the asset before its maturity, or (b) the unilateral ability by the Company to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Company to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If sale accounting is met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions, or secured borrowings.

As a result of the requirements of sale accounting, senior participations in first mortgage loans purchased in connection with a securitization financing transaction are recorded as Loan collateral receivable, related party, on the Company’s consolidated balance sheets. Refer to Note 7, “Borrowings,” for additional information.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

**Revenue Recognition**—In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, requiring a company to recognize as revenue the amount of consideration it expects to be entitled to in connection with the transfer of promised goods or services to customers. The Company has adopted the Revenue Recognition standard on its required effective date of January 1, 2018 using the modified retrospective approach, and has applied the guidance to contracts not yet completed as of the date of adoption. The new revenue standard specifically excludes revenue streams for which specific guidance is stipulated in other sections of the codification, therefore it will not impact rental income or interest income generated on financial instruments such as preferred equity investments. The Company is the lessor for triple net and gross leases classified as operating leases in which rental income and tenant reimbursements are recorded. The revenue from these leases are scoped out of the new revenue recognition guidance. All leases are accounted for under ASC 840 until the adoption of the new leasing guidance within ASC 842.

**Financial Instruments**—In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses certain aspects of accounting and disclosure requirements of financial instruments, including the requirement that equity investments with readily determinable fair value be measured at fair value with changes in fair value recognized in results of operations. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company does not have any equity investments with readily determinable fair value recorded as available-for-sale. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

**Leases**—In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The update will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. The new guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Company expects to adopt the package of practical expedients under the guidance and the Company will not need to reassess whether any expired or expiring contracts contain leases; will not need to revisit lease classification for any expired or expiring leases; and will not need to reassess initial direct costs for any existing leases. In addition, the Company expects to adopt the practical expedient which allows lessors to consider lease and non-lease components as a single performance obligation to the extent that the timing and pattern of revenue recognition is the same and the lease is classified an operating lease. The Company continues to assess the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

**Equity Method of Accounting**—In March 2016, the FASB issued ASU No. 2016-07, *Investments- Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. The update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The update should be applied prospectively upon its effective date to increases in the level of ownership interests or degree of influence that results in the adoption of the equity method. The guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Company adopted the new guidance prospectively on January 1, 2017 and the adoption of this standard did not have a material impact on its consolidated financial statements and related disclosures.

**Equity-Based Compensation**—In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Share-Based Payment Accounting*, which amends several aspects of the accounting for equity-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statements of cash flows. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The Company adopted the new guidance prospectively on January 1, 2017 and the adoption of this standard did not have a material impact on its consolidated financial statements and related disclosures.

**Credit Losses**—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments- Credit Losses*, which changes the impairment model for certain financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the incurred loss approach. The guidance will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures (e.g., loan commitments). The new guidance is effective for reporting periods beginning after December 15, 2019 and will be applied as a cumulative adjustment to retained earnings as of the effective date. The Company is currently assessing the potential effect the adoption of this guidance will have on its consolidated financial statements and related disclosures.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Cash Flow Classifications*—In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The new guidance requires adoption on a retrospective basis unless it is impracticable to apply, in which case the company would be required to apply the amendments prospectively as of the earliest date practicable. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

*Restricted Cash*—In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires entities to show the changes in the total of cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. Entities will no longer be permitted to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for reporting periods beginning after December 15, 2017 and will be applied retrospectively to all periods presented. The Company expects the new guidance will result in a change in presentation of restricted cash on the face of the consolidated statement of cash flows; otherwise this guidance will not have a significant impact on the consolidated statements of cash flows and disclosures.

*Business Combinations*—In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*, which amends the guidance for determining whether a transaction involves the purchase or disposal of a business or an asset. The amendments clarify that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendments in this update will be applied on a prospective basis. The Company expects that most acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e. land, buildings, and related intangible assets). A significant difference between the accounting for an asset acquisition and a business combination is that transaction costs are capitalized for an asset acquisition, rather than expensed for a business combination. The Company plans to adopt the standard on its required effective date of January 1, 2018. The Company does not believe that this guidance will have a material impact on its consolidated financial statements and related disclosures.

*Derecognition and Partial Sales of Nonfinancial Assets*- In February 2017, the FASB issued ASU No. 2017-05, *Clarifying the Scope of Asset Derecognition and Accounting for Partial Sales of Nonfinancial Assets*, which clarifies the scope and application of recently established guidance on recognition of gains and losses from derecognition of non-financial assets, and defines in-substance non-financial assets. In addition, the guidance clarifies the accounting for partial sales of non-financial assets to be more consistent with the accounting for sale of a business. Specifically, in a partial sale to a non-customer, when a non-controlling interest is received or retained, the latter is considered a non-cash consideration and measured at fair value, which would result in full gain or loss recognized upon sale. This guidance has the same effective date as the new revenue guidance, which is January 1, 2018, with early adoption permitted beginning January 1, 2017. Both the revenue guidance and this update must be adopted concurrently. While the transition method is similar to the new revenue guidance, either full retrospective or modified retrospective, the transition approach need not be aligned between both updates. The Company plans to adopt this standard on January 1, 2018, consistent with its adoption of the new revenue standard, using the modified retrospective approach. Under the new standard, if the Company sells a partial interest in its real estate assets to noncustomers or contributes real estate assets to unconsolidated ventures, and the Company retains a noncontrolling interest in the asset, such transactions could result in a larger gain on sale. The adoption of this standard could have a material impact to the Company's results of operations in a period if the Company sells a significant partial interest in a real estate asset. There were no such sales for the year ended December 31, 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Real Estate Debt Investments

The following table presents CRE debt investments as of December 31, 2017 (dollars in thousands):

Asset type:	Count	Principal Amount(1)(2)	Carrying Value(3)	Weighted Average			Total Unleveraged Current Yield	Floating Rate as % of Principal Amount
				Allocation by Investment Type(4)	Fixed Rate	Spread over LIBOR(5)		
First mortgage loans(5) (6)	20	\$ 659,327	\$632,994	80.0%		5.20%	6.37%	100.0%
Subordinate interests(5)	3	164,877	160,455	20.0%	12.81%	12.75%	13.03%	17.4%
<b>Total/ Weighted average</b>	<b>23</b>	<b>\$ 824,204</b>	<b>\$793,449</b>	<b>100.0%</b>	<b>12.81%</b>	<b>5.49%</b>	<b>7.72%</b>	<b>83.5%</b>

- (1) Includes future funding commitments of \$26.8 million for first mortgage loans and \$5.3 million for subordinate interests.
- (2) During the year ended December 31, 2017, the Company originated six first mortgage loans with an aggregate committed principal balance of \$199.9 million, including future funding commitments. During the year ended December 31, 2017, the Company received repayments on five first mortgage loans, one mezzanine loan, and one subordinate interest with aggregate committed principal balances of \$161.0 million, \$20.5 million, and \$24.9 million, respectively.
- (3) Certain CRE debt investments serve as collateral for financing transactions, including carrying value of \$498.3 million for Term Loan Facilities, as defined in Note 7, "Borrowings," and other notes payable as well as \$134.7 million for a securitization financing transaction executed in November 2016, Securitization 2016-1, as defined in Note 7. The remainder is unleveraged.
- (4) Based on principal amount.
- (5) Includes a fixed minimum LIBOR rate ("LIBOR floor"), as applicable. As of December 31, 2017, the Company had \$480.1 million principal amount of floating-rate loans subject to a LIBOR floor with the weighted average LIBOR floor of 0.45%.
- (6) Excludes three senior participation interests in first mortgage loans, which are recorded as "Loan collateral receivable, related party" on the Company's consolidated balance sheets, totaling \$28.3 million, including future funding commitments of \$4.6 million. Refer to Note 7, "Borrowings," for additional information.

The following table presents CRE debt investments as of December 31, 2016 (dollars in thousands):

Asset type:	Count	Principal Amount(1)	Carrying Value(2)	Weighted Average			Total Unleveraged Current Yield	Floating Rate as % of Principal Amount
				Allocation by Investment Type(3)	Fixed Rate	Spread over LIBOR(4)		
First mortgage loans	19	\$620,389	\$604,510	74.7%	—	5.26%	5.74%	100.0%
Mezzanine loan	1	20,528	20,631	2.5%	14.00%	—	14.00%	—
Subordinate interests	4	189,740	181,344	22.8%	12.69%	12.75%	12.81%	15.1%
<b>Total/Weighted average</b>	<b>24</b>	<b>\$830,657</b>	<b>\$806,485</b>	<b>100.0%</b>	<b>12.84%</b>	<b>5.53%</b>	<b>7.54%</b>	<b>78.1%</b>

- (1) Includes future funding commitments of \$15.9 million for first mortgage loans and \$9.3 million for subordinate interests.
- (2) Certain CRE debt investments serve as collateral for financing transactions, including carrying value of \$359.3 million for Term Loan Facilities, as defined in Note 7, "Borrowings," and other notes payable and \$245.2 million for a securitization financing transaction executed in November 2016, Securitization 2016-1, as defined in Note 7. The remainder is unleveraged.
- (3) Based on principal amount.
- (4) Includes a fixed minimum LIBOR floor, as applicable. As of December 31, 2016, the Company had \$493.9 million principal amount of floating-rate loans subject to a LIBOR floor with the weighted average LIBOR floor of 0.29%.

The following table presents maturities of CRE debt investments based on principal amount, which includes future funding commitments, as of December 31, 2017 (dollars in thousands):

Years Ending December 31:	Current Maturity	Maturity Including Extensions(1)
2018	\$ 341,017	\$ —
2019	291,637	160,917
2020	71,850	235,950
2021	21,314	179,063
2022	—	128,574
Thereafter	98,386	119,700
<b>Total</b>	<b>\$ 824,204</b>	<b>\$ 824,204</b>

- (1) Assumes that all debt with extension options will qualify for extension at such maturity according to the conditions set forth in the governing documents.

As of December 31, 2017, the weighted average maturity, including extensions, of CRE debt investments was 3.7 years.

## Credit Quality Monitoring

CRE debt investments are typically loans secured by direct senior priority liens on real estate properties or by interests in entities that directly own real estate properties, which serve as the primary source of cash for the payment of principal and interest. The Company evaluates its debt investments at least quarterly and differentiates the relative credit quality principally based on: (i) whether the borrower is currently paying contractual debt service in accordance with its contractual terms; and (ii) whether the Company believes the borrower will be able to perform under its contractual terms in the future, as well as the Company's expectations as to the ultimate recovery of principal at maturity. The Company categorizes a debt investment for which it expects to receive full payment of contractual principal and interest payments as "performing." The Company will categorize a weaker credit quality debt investment that is currently performing, but for which it believes future collection of all or some portion of principal and

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interest is in doubt, into a category called “performing with a loan loss reserve.” The Company will categorize a weaker credit quality debt investment that is not performing, which the Company defines as a loan in maturity default and/or past due at least 90 days on its contractual debt service payments, as a non-performing loan (“NPL”). The Company’s definition of an NPL may differ from that of other companies that track NPLs.

As of December 31, 2017, all CRE debt investments were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans. There were no real estate debt investments with contractual payments past due as of December 31, 2017 and 2016. For the year ended December 31, 2017, one debt investment contributed more than 10.0% of interest income.

**4. Operating Real Estate**

The following table presents operating real estate, net as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017	December 31, 2016
<b>Land and improvements</b>	<b>\$ 93,956</b>	<b>\$ 93,707</b>
Buildings and improvements <sup>(1)</sup>	325,981	321,420
<b>Subtotal</b>	<b>419,937</b>	<b>415,127</b>
Less: Accumulated depreciation	(26,661)	(15,890)
<b>Operating real estate, net</b>	<b>\$ 393,276</b>	<b>\$ 399,237</b>

(1) Includes tenant improvements as well as furniture, fixtures, and equipment.

For the years ended December 31, 2017, 2016, and 2015, depreciation expense was \$10.8 million, \$10.7 million, and \$5.2 million, respectively.

**Minimum Future Rents**

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under non-cancellable operating leases to be received over the next five years and thereafter as of December 31, 2017 (dollars in thousands):

Years Ending December 31:	
2018	\$ 31,530
2019	26,887
2020	24,386
2021	19,266
2022	15,268
Thereafter	31,870
<b>Total</b>	<b>\$ 149,207</b>

The rental properties owned at December 31, 2017 are leased under non-cancellable operating leases with current expirations ranging from 2018 to 2028, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

For the years ended December 31, 2017 and 2016, the Company had one single property with rental and other income equal to or greater than 10.0% of total revenue.

**5. Investments in Unconsolidated Ventures***Investments in Private Equity Funds*

The following is a description of investments in private equity funds that own PE Investments either through unconsolidated ventures or direct investments which are recorded as investments in unconsolidated ventures on the consolidated balance sheets. The Company elected the fair value option for PE Investments, which include both cost method and equity method investments. As a result, the Company records equity in earnings (losses) based on the change in fair value for its share of the projected future cash flow from one period to another. All PE Investments are considered VIEs. Refer to Note 2, “Summary of Significant Accounting Policies,” for additional information.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Company's PE Investment acquisitions (dollars in thousands):

PE Investment(1)	Initial Closing Date	NAV Reference Date(2)	Number of Funds(3)	Purchase Price
PE Investment I	March 20, 2015	September 30, 2014	6	\$ 45,045
PE Investment II	August 4, 2015	December 31, 2014	3	27,788
PE Investment III(4)	September 20, 2016	March 31, 2016	41	317,587
Total			50	\$ 390,420

- (1) At December 31, 2017, the Company's contractual unfunded commitments for PE Investments totaled \$63.2 million. As of December 31, 2017, the Company does not expect any additional future contributions related to such unfunded commitments.
- (2) Represents the net asset value ("NAV") date that served as the basis for the purchase price on which the Company agreed to acquire the PE Investment.
- (3) Represents number of underlying fund investments at initial closing date.
- (4) At the time of closing in September 2016, the Company paid \$33.9 million to acquire PE Investment III and paid an additional \$204.7 million in December 2016. In addition, the Company assumed \$44.7 million of deferred purchase price obligations to third parties from the seller, which includes the proportionate share of an obligation owed through a joint investment within PE Investment III, totaling \$5.6 million. As of December 31, 2017, all deferred purchase price obligations have been paid. Refer to Note 8, "Related Party Arrangements," for additional information.

The following tables present PE Investments as of December 31, 2017 and 2016 and activity for the (dollars in thousands):

PE Investment	Carrying Value(1)		Year Ended December 31, 2017			Year Ended December 31, 2016		
	December 31, 2017	December 31, 2016	Equity in Earnings	Distributions	Contributions(2)	Equity in Earnings	Distributions	Contributions(2)
PE Investment I	\$ 21,143	\$ 26,949	\$ 2,201	\$ 4,495	\$ 80	\$ 3,459	\$ 14,198	\$ 255
PE Investment II	7,159	11,964	1,519	6,413	—	2,821	8,729	13,894
PE Investment III	169,611	260,768	23,655	91,309	24,210	5,331	59,142	294,779
Total	\$ 197,913	\$ 299,681	\$ 27,375	\$ 102,217	\$ 24,290	\$ 11,611	\$ 82,069	\$ 308,928

- (1) Includes a cumulative unrealized loss of \$5.8 million, an unrealized gain of \$2.5 million and an unrealized loss of \$24.3 million for PE Investment I, II and III, respectively, as of December 31, 2017. Includes a cumulative unrealized loss of \$2.2 million and an unrealized gain of \$2.5 million for PE Investment I and II, respectively, as of December 31, 2016.
- (2) Includes initial investments, before closing statement adjustments for distributions and contributions, and subsequent contributions, including deferred purchase price fundings.

The Company's ownership interest in PE Investments represents capital contributed to date and may not be reflective of the Company's economic interest in the entity because of provisions in operating agreements governing various matters. As of December 31, 2017, the Company's ownership interest in investments range from 0.3% to 34.4%.

#### Other

In July 2017, the Company entered into a joint venture with an affiliate of the Sponsor to invest \$60.0 million, on a pari passu basis, in a \$180.0 million mezzanine loan which was originated by such affiliate of the Sponsor. Pursuant to the joint venture, the Company and the affiliate of the Sponsor have equal decision making rights with respect to the venture. The transaction was approved by the Company's board of directors, including all of its independent directors.

As of December 31, 2017, the Company has \$6.2 million in unfunded commitments remaining out of its total \$60.0 million commitment. For the year ended December 31, 2017, the Company recognized equity in earnings of \$2.8 million. As of December 31, 2017, the carrying value of the investment was \$55.2 million. Refer to Note 8, "Related Party Arrangements," for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized Financial Information

The combined balance sheets for the unconsolidated ventures, including PE Investments and excluding unconsolidated ventures accounted for under the cost method, as of December 31, 2017, and 2016 are as follows (dollars in thousands):

	As of December 31,	
	2017	2016
<b>Assets</b>		
Total assets	\$ 1,466,102	\$ 2,098,093
<b>Liabilities and equity</b>		
Total liabilities	\$ 121,507	\$ 143,763
Total equity	1,344,595	1,954,330
Total liabilities and equity	\$ 1,466,102	\$ 2,098,093

The combined statements of operations for the unconsolidated ventures, including PE Investments and excluding unconsolidated ventures accounted for under the cost method, for the years ended December 31, 2017 and 2016 are as follows (dollars in thousands):

	Years Ended December 31, (1)		
	2017	2016	2015
Total revenues(2)	\$ 30,837	\$23,876	\$ 1,857
Net income (loss)	(45,830)	15,965	23,710

- (1) Includes summarized annual financial information for PE Investments on a one quarter lag, which is the most recent financial information available from the underlying funds.  
 (2) Includes net investment income and unrealized and realized gains and losses for PE Investments.

6. Real Estate Securities, Available for Sale

CRE securities are comprised of CMBS backed by a pool of CRE loans which are typically well-diversified by type and geography. The following table presents CMBS investments as of December 31, 2017 and 2016 (dollars in thousands):

As of Date:	Count	Principal Amount(1)	Amortized Cost	Cumulative Unrealized on Investments		Fair Value	Weighted Average	
				Gain	(Loss)		Coupon	Unleveraged Current Yield
December 31, 2017(1)(2)	14	\$130,191	\$ 91,836	\$ 4,371	\$ (451)	\$95,756	3.42%	9.73%
December 31, 2016(2)	11	128,181	85,773	2,042	(878)	86,937	3.42%	9.73%

- (1) As of December 31, 2017, certain CRE securities serve as collateral for financing transactions including carrying value of \$62.9 million for the CMBS Credit Facilities, as defined in Note 7, "Borrowings." The remainder is unleveraged.  
 (2) Includes a CRE security with an underlying loan that was non-performing at acquisition. The CRE security was purchased for \$26.9 million, net of a \$21.3 million discount. As of December 31, 2017, the non-accretable amount of total cash flows was \$5.7 million.

The Company recorded net unrealized gains in OCI of \$2.8 million and \$1.6 million for the years ended December 31, 2017 and 2016, respectively. The Company recorded a net unrealized loss in OCI of \$0.4 million for the year ended December 31, 2015.

As of December 31, 2017, the Company held three securities with an aggregate carrying value of \$37.3 million with a cumulative unrealized loss of \$0.5 million, one of which was in an unrealized loss position for a period of greater than 12 months. Based on management's quarterly evaluation, no OTTI was identified related to these securities. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery of its amortized cost basis, which may be at maturity.

As of December 31, 2017, the weighted average contractual maturity of CRE securities was 29.8 years with an expected maturity of 6.4 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. Borrowings

The following table presents borrowings as of December 31, 2017 and 2016 (dollars in thousands):

	Capacity	Recourse vs. Non-Recourse	Final Maturity	Contractual Interest Rate	December 31, 2017		December 31, 2016	
					Principal Amount(1)	Carrying Value(1)	Principal Amount(1)	Carrying Value(1)
<b>Securitization bonds payable, net</b>								
Securitization 2016-1			Sep-31	LIBOR + 2.74%	\$ 80,825	\$ 79,634	\$ 193,980	\$ 191,315
<b>Mortgage and other notes payable, net</b>								
Industrial		Non-recourse (2)	Jul-25	4.31%	250,000	249,307	250,000	249,215
Multi-tenant office		Non-recourse (2)	Aug-20 (3)	LIBOR + 1.90%	95,504	95,229	88,170	87,426
Other notes payable(4)		Limited Recourse (4)	Dec-20 (5)	LIBOR + 2.65%	40,029	39,868	39,868	39,540
<b>Subtotal mortgage and other notes payable, net</b>					385,533	384,404	378,038	376,181
<b>Term loan facilities</b>								
Citibank facility	\$ 150,000	Limited Recourse (6)	Oct-19 (7)	LIBOR + 2.50% (8)	48,750	48,750	54,750	54,750
Deutsche Bank facility	200,000	Limited Recourse (9)	Jul-19 (10)	LIBOR + 2.42% (8)	26,742	26,742	47,242	47,242
Morgan Stanley facility	300,000	Limited Recourse (4)	(11)	LIBOR + 2.49% (8)	234,434	234,434	101,000	101,000
<b>Subtotal term loan facilities</b>	<b>\$ 650,000</b>				309,926	309,926	202,992	202,992
<b>CMBS credit facilities</b>								
Citibank facility		Recourse	Various (12)	LIBOR + 1.47% (8)	10,661	10,661	9,887	9,887
JP Morgan facility		Recourse	Various (12)	LIBOR + 1.50% (8)	34,820	34,820	28,528	28,528
<b>Subtotal CMBS credit facilities</b>					45,481	45,481	38,415	38,415
<b>Subtotal</b>					355,407	355,407	241,407	241,407
<b>Total(13)</b>					<b>\$ 821,765</b>	<b>\$ 819,445</b>	<b>\$ 813,425</b>	<b>\$ 808,903</b>

- (1) Difference between principal amount and carrying value of securitization bonds payable and mortgage and other notes payable is attributable to deferred financing costs, net.
- (2) Subject to customary non-recourse carveouts.
- (3) The initial maturity of the mortgage payable is August 2018, with a two-year extension available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (4) Recourse solely with respect to 25.0% of the financed amount. Relates to financing obtained for a CRE debt investment.
- (5) The initial maturity of the note payable is December 2018, with two one-year extensions available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (6) Recourse solely with respect to 25.0% of the financed amount for assets with a lender debt yield equal to or greater than 10.0% at the time of financing plus 100.0% of the financed amount for assets with a lender debt yield less than 10.0% at the time of financing.
- (7) The initial maturity of the Citibank Facility is October 2018, with a one-year extension available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (8) Represents the weighted average spread as of December 31, 2017. The contractual interest rate depends upon asset type and characteristics and ranges from one-month to three-month LIBOR plus 1.45% to 2.75%.
- (9) Recourse solely with respect to the greater of: (i) 25.0% of the financed amount of stabilized loans plus the financed amount of transitional loans, as further defined in the governing documents; or (ii) the lesser of \$25.0 million or the aggregate financed amount of all loans.
- (10) The Company has exercised the third of four, one-year extensions available at the Company's option, respectively. These extensions may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (11) The initial maturity of the Morgan Stanley Facility is June 2019. The Company may, at its option, extend the facility for one-year periods indefinitely, subject to the approval of Morgan Stanley.
- (12) The maturity dates on the CMBS Credit Facilities are typically three months.
- (13) Secured by collateral comprised of certain CRE debt, securities, equity investments and loan collateral receivable with a carrying value of \$1.1 billion as of December 31, 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents scheduled principal on borrowings, based on final maturity as of December 31, 2017 (dollars in thousands):

Years Ending December 31:	Total	Securitization Bonds Payable	Mortgage and Other Notes Payable	Credit Facilities
2018	\$ 45,481	\$ —	\$ —	\$ 45,481 <sup>(1)</sup>
2019	75,492	—	—	75,492
2020	369,967	—	135,533	234,434
2021	—	—	—	—
2022	—	—	—	—
Thereafter	330,825	80,825	250,000	—
Total	<u>\$821,765</u>	<u>\$ 80,825</u>	<u>\$ 385,533</u>	<u>\$355,407</u>

(1) Represents CMBS Credit Facilities borrowings, which have maturities typically ranging and renewing on a continuous three month basis.

#### Securitization Financing Transactions

In November 2016, the Company entered into a \$284.2 million securitization financing transaction (“Securitization 2016-1”). Securitization 2016-1 was collateralized by a pool of 10 CRE debt investments with a committed aggregate principal balance of \$254.7 million primarily originated by the Company and three senior participations with a committed aggregate principal balance of \$29.5 million originated by NorthStar Income, a company managed by an affiliate of the Sponsor. A total of \$194.0 million of permanent, non-recourse, non-mark-to-market investment-grade securitization bonds were issued, representing an advance rate of 68.3%.

An affiliate of NorthStar Income retained \$14.9 million of junior participations in the collateral it contributed. As a result of U.S. GAAP requirements for transfers of financial assets, the senior participations are recorded as loan collateral receivable, related party, on the Company’s consolidated balance sheets. Refer to Note 2, “Summary of Significant Accounting Policies” for additional information.

Securitization 2016-1 is considered a voting interest entity as the Company has all of the controlling financial interest in the entity and as such, is consolidated by the Company. An affiliate of the Sponsor was appointed special servicer of Securitization 2016-1.

In the event of breaches of certain representations and warranties or a defect in the document of any of the contributed assets to Securitization 2016-1 provided at the time the Company entered into Securitization 2016-1 and contributed the loans that serve as collateral for Securitization 2016-1, the Company may be required to repurchase certain of those loans or replace the affected contributed asset or make a loss of value payment. These obligations do not relate to the credit performance of the loans contributed to Securitization 2016-1, but only to breaches of specific representations and warranties or a defect in the document of any of the contributed assets to Securitization 2016-1. Since inception, the Company has not been required to make any repurchases or replace the affected contributed asset or make a loss of value payment nor has the Company received any notice of assertion of a potential breach of representation and warranty or a defect in the document of any of the contributed assets to Securitization 2016-1. Any payment to repurchase a loan or replace the affected contributed asset or make a loss of value payment would impact the Company’s liquidity. Dependent upon the size of any such payment, the impact to liquidity could be material.

#### Term Loan Facilities

The Company, through subsidiaries, has entered into credit facility agreements with multiple global financial institutions to provide an aggregate principal amount of up to \$650.0 million to finance the origination of first mortgage loans and senior loan participations secured by CRE (“Term Loan Facilities”). The Company agreed to guarantee certain obligations under the Term Loan Facilities, which contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The Term Loan Facilities act as revolving loan facilities that can be paid down as assets are repaid or sold and re-drawn upon for new investments. As of December 31, 2017, the Company was in compliance with all of its financial covenants under the Term Loan Facilities.

As of December 31, 2017, the Company had \$498.3 million carrying value of CRE debt investments financed with \$309.9 million under the Term Loan Facilities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*CMBS Credit Facilities*

In October 2015, January 2016, and April 2016, the Company entered into master repurchase agreements (“Merrill Lynch Facility,” “Citibank Facility,” and “JP Morgan Facility,” respectively, and collectively the “CMBS Credit Facilities”) to finance CMBS investments. The CMBS Credit Facilities are on a recourse basis and contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type.

As of December 31, 2017, the Company had \$62.9 million carrying value of CRE securities financed with \$45.5 million under its CMBS Credit Facilities. As of December 31, 2017, the Company has not utilized the Merrill Lynch Facility.

**8. Related Party Arrangements***Advisor*

Subject to certain restrictions and limitations, the Advisor is responsible for managing the Company’s affairs on a day-to-day basis and for identifying, originating, acquiring and asset managing investments on behalf of the Company. The Advisor may delegate certain of its obligations to affiliated entities, which may be organized under the laws of the United States or foreign jurisdictions. References to the Advisor include the Advisor and any such affiliated entities. For such services, to the extent permitted by law and regulations, the Advisor receives fees and reimbursement from the Company. Pursuant to the advisory agreement, the Advisor may defer or waive fees in its discretion. Below is a description and table of the fees and reimbursements incurred to the Advisor.

In June 2017, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2017, with terms identical to those in effect through June 30, 2017.

Fees to AdvisorAsset Management Fee

The Advisor receives a monthly asset management fee equal to one-twelfth of 1.25% of the sum of the amount funded or allocated for CRE investments, including expenses and any financing attributable to such investments, less any principal received on debt and securities investments (or the proportionate share thereof in the case of an investment made through a joint venture).

Incentive Fee

The Advisor is entitled to receive distributions equal to 15.0% of net cash flows of the Company, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 7.0% cumulative, non-compounded annual pre-tax return on such invested capital.

Acquisition Fee

The Advisor also receives fees for providing structuring, diligence, underwriting advice and related services in connection with real estate acquisitions equal to 1.0% of the amount funded or allocated by the Company to originate or acquire investments, including acquisition costs and any financing attributable to such investments (or the proportionate share thereof in the case of an investment made through a joint venture). A fee paid to the Advisor in connection with or related to the origination or acquisition of CRE debt investments is included in CRE debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method. An acquisition fee incurred related to an equity investment will generally be expensed as incurred. A fee paid to the Advisor in connection with an acquisition of an equity or debt investment in an unconsolidated joint venture is included in investments in unconsolidated ventures on the consolidated balance sheets.

Disposition Fee

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by the Company’s independent directors, the Advisor receives a disposition fee up to 1.0% of the contract sales price of each CRE investment sold. The Company does not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a CRE debt investment unless there is a corresponding fee paid by the borrower, in which case the disposition fee is the lesser of: (i) 1.0% of the principal amount of the CRE debt investment prior to such transaction; or (ii) the amount of the fee paid by the borrower in connection with such transaction. If the Company takes ownership of a property as a result of a workout or foreclosure of a CRE debt investment, the Company will pay a disposition fee upon the sale of such property. A disposition fee from the sale of a CRE investment is generally expensed and included in asset management and other fees—related party in the Company’s consolidated statements of operations. A disposition fee for a CRE debt investment incurred in a transaction other than a sale is included in CRE debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reimbursements to AdvisorOperating Costs

The Advisor is entitled to receive reimbursement for direct and indirect operating costs incurred by the Advisor in connection with administrative services provided to the Company. The Advisor allocates, in good faith, indirect costs to the Company related to the Advisor's and its affiliates' employees, occupancy and other general and administrative costs and expenses in accordance with the terms of, and subject to the limitations contained in, the advisory agreement with the Advisor. The indirect costs include the Company's allocable share of the Advisor's compensation and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. The indirect costs also include rental and occupancy, technology, office supplies, travel and entertainment and other general and administrative costs and expenses. However, there is no reimbursement for personnel costs related to executive officers (although there may be reimbursement for certain executive officers of the Advisor) and other personnel involved in activities for which the Advisor receives an acquisition fee or a disposition fee. The Advisor allocates these costs to the Company relative to its and its affiliates' other managed companies in good faith and has reviewed the allocation with the Company's board of directors, including its independent directors. The Advisor will update the board of directors on a quarterly basis of any material changes to the expense allocation and will provide a detailed review to the board of directors, at least annually, and as otherwise requested by the board of directors. The Company reimburses the Advisor quarterly for operating costs (including the asset management fee) based on a calculation for the four preceding fiscal quarters not to exceed the greater of: (i) 2.0% of its average invested assets; or (ii) 25.0% of its net income determined without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves and excluding any gain from the sale of assets for that period. Notwithstanding the above, the Company may reimburse the Advisor for expenses in excess of this limitation if a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. The Company calculates the expense reimbursement quarterly based upon the trailing twelve-month period.

Organization and Offering Costs

The Advisor was entitled to receive reimbursement for organization and offering costs paid on behalf of the Company in connection with the Offering. The Company was obligated to reimburse the Advisor for organization and offering costs to the extent the aggregate of selling commissions, dealer manager fees, distribution fees and other organization and offering costs did not exceed 15.0% of gross proceeds from the Offering. The Advisor initially expected cumulative organization and offering costs, excluding selling commissions and dealer manager fees, would not exceed \$15.0 million, or 1.0% of the total proceeds available to be raised from the Primary Offering. The Company incurred reimbursable organization and offering costs, excluding selling commissions and dealer manager fees, of \$13.0 million, or 1.2% of the gross proceeds of \$1.1 billion from the Primary Offering. The Company's independent directors did not determine that any of the organization and offering costs were unfair or commercially unreasonable.

Dealer ManagerSelling Commissions, Dealer Manager Fees, and Distribution Fees

As a result of the Primary Offering closing, effective November 9, 2016, the Company no longer pays the Dealer Manager selling commissions and dealer manager fees under a dealer manager agreement.

Pursuant to a dealer manager agreement, the Company pays the Dealer Manager an ongoing distribution fee of up to 1.0% annually of gross proceeds from the sale of Class T shares sold in the Primary Offering, all of which is available to be reallocated to participating broker-dealers. The Dealer Manager will cease receiving distribution fees with respect to each Class T share upon the earliest to occur of the following: (i) a listing of the Company's shares of common stock on a national securities exchange; (ii) such Class T share is no longer outstanding; (iii) the Dealer Manager's determination that total underwriting compensation, with respect to all Class A shares and Class T shares would be in excess of 10.0% of the gross proceeds of the Primary Offering; or (iv) the end of the month in which total underwriting compensation, with respect to the Class T shares held by a stockholder within his or her particular account, would be in excess of 10.0% of the stockholder's total gross investment amount at the time of purchase of the primary Class T shares held in such account.

During the year ended December 31, 2017, the Company recorded a present value adjustment to the estimated liability of distribution fees totaling \$0.3 million. As of December 31, 2017, the estimated liability for the present value of the expected future distribution fees payable to the Dealer Manager, which is included in due to related party on the Company's consolidated balance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sheets, with an offset to additional paid-in capital, was \$3.8 million. The Company began issuing Class T shares in October 2015 and during the second quarter of 2016, commenced recording the estimated liability for future distribution fees payable related to all outstanding Class T shares. As of December 31, 2016, the estimated liability was \$5.0 million.

No selling commissions, dealer manager fees, or distribution fees are paid for sales pursuant to the DRP or for shares that were sold pursuant to the Company's distribution support agreement ("Distribution Support Agreement").

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred and paid to the Advisor and the Dealer Manager for the years ended December 31, 2017, 2016 and 2015 and the amounts due to (from) related party as of December 31, 2017, 2016 and 2015 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to (from) Related Party as of December 31, 2016	Year Ended December 31, 2017		Due to (from) Related Party as of December 31, 2017
			Incurred	Paid	
<b>Fees to Advisor Entities</b>					
Asset management	Asset management and other fees-related party	\$ 17	\$21,381	\$(21,422)	\$ (24)
Acquisition <sup>(1)</sup>	Real estate debt investments, net / Investments in unconsolidated ventures / Asset management and other fees-related party	—	2,599	(2,599)	—
Disposition <sup>(1)</sup>	Real estate debt investments, net / Asset management and other fees-related party	85	1,946	(2,031)	—
<b>Reimbursements to Advisor Entities</b>					
Operating costs <sup>(2)</sup>	General and administrative expenses	11	12,441	(9,337)	3,115
Offering	Cost of capital <sup>(3)</sup>	272	—	(272)	—
Distribution Fees	Cost of capital <sup>(3)</sup>	4,962	293	(1,505)	3,750
<b>Total</b>		<b>\$ 5,347</b>	<b>\$38,660</b>	<b>\$(37,166)</b>	<b>\$ 6,841</b>

- Acquisition/disposition fees incurred to the Advisor related to CRE debt investments are generally offset by origination/exit fees paid to the Company by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees—related party in the consolidated statements of operations. From inception through December 31, 2017, the Advisor waived \$3.7 million of acquisition fees related to CRE securities and PE Investments.
- As of December 31, 2017, the Advisor has incurred unreimbursed operating costs on behalf of the Company of \$14.1 million, that remain eligible to allocate to the Company. Pursuant to the Combination Agreement, immediately prior to the closing of the Combination, CLNC agreed, if necessary, to declare a special distribution to an affiliate of the Sponsor in an amount intended to reimburse such affiliate for, among other things, the expected present value of the unreimbursed operating costs incurred by the Advisor on the Company's behalf. On February 1, 2018, CLNC settled an agreed upon amount for the unreimbursed operating costs incurred by the Advisor on the Company's behalf.
- Cost of capital is included in net proceeds from issuance of common stock in the Company's consolidated statements of equity.

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2015	Year Ended December 31, 2016		Due to Related Party as of December 31, 2016
			Incurred	Paid	
<b>Fees to Advisor Entities</b>					
Asset management	Asset management and other fees-related party	\$ 1	\$18,098	\$(18,082)	\$ 17
Acquisition <sup>(1)</sup>	Real estate debt investments, net / Asset management and other fees-related party	—	2,515	(2,515)	—
Disposition <sup>(1)</sup>	Real estate debt investments, net / Asset management and other fees-related party	19	2,944	(2,878)	85
<b>Reimbursements to Advisor Entities</b>					
Operating costs <sup>(2)</sup>	General and administrative expenses	1	8,976	(8,966)	11
Offering	Cost of capital <sup>(3)</sup>	524	3,508	(3,760)	272
Selling Commissions	Cost of capital <sup>(3)</sup>	—	9,349	(9,349)	—
Dealer Manager Fees	Cost of capital <sup>(3)</sup>	—	6,851	(6,851)	—
Distribution Fees	Cost of capital <sup>(3)</sup>	8	5,797	(843)	4,962
<b>Total</b>		<b>\$ 553</b>	<b>\$58,038</b>	<b>\$(53,244)</b>	<b>\$ 5,347</b>

- Acquisition/disposition fees incurred to the Advisor related to CRE debt investments are generally offset by origination/exit fees paid to the Company by borrowers if such fees are required from the borrower. Acquisition fees related to equity investments are included in asset management and other fees—related party in the consolidated statements of operations. The Advisor may determine to defer fees or seek reimbursement. From inception through December 31, 2016, the Advisor waived \$3.7 million of acquisition fees related to CRE securities and PE Investments.
- As of December 31, 2016, the Advisor has incurred unreimbursed operating costs on behalf of the Company of \$15.5 million, that remain eligible to allocate to the Company.
- Cost of capital is included in net proceeds from issuance of common stock in the Company's consolidated statements of equity.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Investment Activity*

In September 2016, the Company completed the acquisition of a diversified portfolio of limited partnership or similar equity interests in real estate private equity funds, from NorthStar Realty ("PE Investment III"). At acquisition, PE Investment III was comprised of interests in 41 funds managed by 20 institutional-quality sponsors and had an aggregate reported NAV of approximately \$344.3 million as of March 31, 2016 (the "Record Date"). The funds hold interests in assets that are diversified geographically across 24 states and internationally and diversified by investment type, including mixed-use, multifamily, office and hotel properties.

The Company acquired PE Investment III at a price equal to 92.25% of the NAV as of the Record Date with \$33.9 million paid at the closing (reflecting \$34.3 million of net distributions due to the Company as of the closing date) and \$204.7 million paid in December 2016. In addition, the Company assumed approximately \$44.7 million of deferred purchase price obligations to third parties from whom NorthStar Realty had originally acquired certain of the fund interests within PE Investment III, which includes the proportionate share of an obligation owed through a joint investment within PE Investment III, totaling \$5.6 million. As of December 31, 2017, all deferred purchase price obligations have been paid. The Company additionally recorded a receivable of \$4.0 million in connection with deferred tax liabilities assumed in the acquisition of PE Investment III. The transaction was approved by the Company's board of directors, including all of its independent directors, and supported by an independent third-party valuation of PE Investment III. At December 31, 2017, one underlying real estate private equity fund owned in PE Investment III, totaling approximately \$0.7 million, was managed by an affiliate of the Company.

In September 2016, the Company originated a \$98.4 million subordinate interest in an industrial portfolio (the "Industrial Portfolio"), sponsored and owned by an unaffiliated third party. In connection with the transaction, the third-party sponsor redeemed an interest in an industrial portfolio historically held by NorthStar Realty.

In November 2016, the Company entered into a \$284.2 million securitization financing transaction. Securitization 2016-1 was collateralized by a pool of 10 CRE debt investments with a committed aggregate principal balance of \$254.7 million primarily originated by the Company and three senior participations with a committed aggregate principal balance of \$29.5 million originated by NorthStar Income, a company managed by an affiliate of the Sponsor. An affiliate of the Sponsor was appointed special servicer of Securitization 2016-1. The transaction was approved by the Company's board of directors, including all of its independent directors.

In July 2017, the Company entered into a joint venture with an affiliate of the Sponsor to make a \$60.0 million investment in a \$180.0 million mezzanine loan which was originated by such affiliate of the Sponsor. The Company's interest in the joint venture is 50.0% and its interest in the underlying mezzanine loan is 33.3%. The Company's total commitment is \$60.0 million. The transaction was approved by the Company's board of directors, including all of its independent directors. Refer to Note 5, "Investments in Unconsolidated Ventures," for additional information.

**9. Equity-Based Compensation**

The Company adopted a long-term incentive plan, as amended (the "Plan"), which it may use to attract and retain qualified officers, directors, employees and consultants, as well as an independent directors compensation plan, which is a component of the Plan. Pursuant to the Plan, as of December 31, 2017, the Company's independent and non-management directors were granted a total of 81,385 Class A shares of restricted common stock for an aggregate \$0.8 million, based on the share price on the date of each grant. Unvested shares totaled 25,084, 21,651 and 19,126 as of December 31, 2017, 2016 and 2015, respectively. The restricted stock granted prior to 2015 generally vests quarterly over four years and the restricted stock granted in and subsequent to 2015 generally vests quarterly over two years. However, the stock will become fully vested on the earlier occurrence of: (i) the termination of the independent or non-management director's service as a director due to his or her death or disability; or (ii) a change in control of the Company. A maximum of 2,000,000 shares of restricted common stock may be granted, of which 1,918,615 remain available for future grants as of December 31, 2017. Per the Combination Agreement, all unvested shares of restricted common stock vested on January 31, 2018.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company recognized equity-based compensation expense of \$0.3 million, \$0.2 million and \$0.1 million for the years ended December 31, 2017, 2016 and 2015, respectively, related to the issuance of restricted stock to the independent and non-management directors, which was recorded in general and administrative expenses in the consolidated statements of operations.

**10. Stockholders' Equity***Common Stock from Primary Offering*

The Company's Primary Offering closed effective November 9, 2016. From inception through the close of the Primary Offering, the Company issued 109.2 million shares of common stock, generating gross proceeds of \$1.1 billion.

*Distribution Reinvestment Plan*

The Company adopted a DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of the Company's common stock in lieu of receiving cash distributions. As a result of a reallocation of \$150.0 million in unsold shares from the Primary Offering to the DRP, the Company may offer up to \$300.0 million in shares pursuant to the DRP.

Effective on December 28, 2016, the purchase price for shares in the DRP was \$9.26, which is equal to the estimated value per share of the Company's common stock as of September 30, 2016 (the "Valuation Date") until such time as the Company establishes a new estimated per share value, at which time the purchase price will adjust to 100.0% of such estimated value per share.

Previously, following the close of the Primary Offering effective November 9, 2016, the purchase price for shares in the DRP was equal to \$9.05, which was equal to the estimated value per share of the Company's common stock as of September 30, 2015. During the Primary Offering from November 16, 2015 to November 9, 2016, the purchase price for shares in the DRP was \$9.79 for Class A shares and \$9.25 for Class T shares. Until November 16, 2015, the initial purchase price per share in the DRP was \$9.50.

No selling commissions or dealer manager fees are paid on shares issued pursuant to the DRP. The board of directors of the Company may amend, suspend or terminate the DRP for any reason upon ten-days' notice to participants, except that the Company may not amend the DRP to eliminate a participant's ability to withdraw from the DRP. On August 25, 2017, in connection with the entry into the Original Combination Agreement, the Company's board of directors voted to suspend the DRP until further notice. Pursuant to the terms of the DRP, the suspension went into effect prior to the monthly distributions paid on or about October 1, 2017 and as a result, all stockholders received cash distributions through the completion of the Combination.

For the year ended December 31, 2017, the Company issued 2.8 million shares of common stock totaling \$26.4 million of gross offering proceeds pursuant to the DRP. For the year ended December 31, 2016, the Company issued 3.3 million shares of common stock totaling \$32.1 million of gross offering proceeds pursuant to the DRP. From inception through December 31, 2017, the Company issued 8.6 million shares of common stock totaling \$81.7 million of gross offering proceeds pursuant to the DRP.

*Distributions*

Distributions to stockholders are declared quarterly by the board of directors of the Company and are paid monthly based on a daily amount of \$0.001917808 per share of Class A common stock and \$0.001917808 per share of Class T common stock less the distribution fees that are payable with respect to such Class T shares, which is equivalent to an annualized distribution amount of \$0.70 per share of the Company's common stock, less the distribution fee on Class T shares. Distributions are generally paid to stockholders on the first business day of the month following the month for which the distribution has accrued.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Distributions**

The following table summarizes distributions declared for the years ended December 31, 2017, 2016, and 2015 (dollars in thousands):

Period	Distributions <sup>(1)(2)</sup>		
	Cash	DRP	Total
<b>2017</b>			
First Quarter	\$10,650	\$ 8,721	\$19,371
Second Quarter	10,831	8,719	19,550
Third Quarter	13,940	5,937	19,877
Fourth Quarter	19,895	—	19,895
<b>Total</b>	<b>\$55,316</b>	<b>\$23,377</b>	<b>\$78,693</b>
<b>2016</b>			
First Quarter	\$ 8,379	\$ 7,378	\$15,757
Second Quarter	9,170	8,006	17,176
Third Quarter	9,939	8,533	18,472
Fourth Quarter	10,593	8,857	19,450
<b>Total</b>	<b>\$38,081</b>	<b>\$32,774</b>	<b>\$70,855</b>
<b>2015</b>			
First Quarter	\$ 3,500	\$ 3,024	\$ 6,524
Second Quarter	5,209	4,791	10,000
Third Quarter	6,542	6,048	12,590
Fourth Quarter	7,506	6,881	14,387
<b>Total</b>	<b>\$22,757</b>	<b>\$20,744</b>	<b>\$43,501</b>

(1) Represents distributions declared for such period, even though such distributions are actually paid to stockholders the month following such period.

(2) On November 8, 2017, the board of directors of the Company approved a daily cash distribution of \$0.001917808 per share of Class A common stock and \$0.001917808 per share of Class T common stock less the distribution fees that are payable with respect to such Class T common stock, for each of the three months ending March 31, 2018.

*Share Repurchase Program*

The Company adopted a share repurchase program that may enable stockholders to sell their shares to the Company in limited circumstances (the "Share Repurchase Program"). The Company may not repurchase shares unless a stockholder has held shares for one year. However, the Company may repurchase shares held less than one year in connection with a stockholder's death or qualifying disability. The Company is not obligated to repurchase shares under the Share Repurchase Program. The Company may amend, suspend or terminate the Share Repurchase Program at its discretion at any time, subject to certain notice requirements.

On August 25, 2017, in connection with the entry into the Original Combination Agreement, the Company's board of directors voted to suspend the Share Repurchase Program until further notice. The suspension of the Share Repurchase Program was effective as of September 7, 2017 and as a result, pursuant to the terms of the Share Repurchase Program, no further share repurchases will be processed unless and until the Share Repurchase Program is reinstated.

Prior to the suspension of the Share Repurchase Program in connection with the Combination, for the year ended December 31, 2017, the Company repurchased 1.7 million shares totaling \$16.1 million pursuant to the Share Repurchase Program. For the year ended December 31, 2016, the Company repurchased 1.0 million shares totaling \$9.5 million pursuant to the Share Repurchase Program. Prior to its suspension, the Company generally funded repurchase requests received during a quarter with proceeds set aside for that purpose which were not expected to exceed proceeds received from its DRP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**11. Non-controlling Interests***Operating Partnership*

Non-controlling interests include the aggregate limited partnership interests in the Operating Partnership held by limited partners, other than the Company. Income (loss) attributable to the non-controlling interests is based on the limited partners' ownership percentage of the Operating Partnership and was de minimis for the years ended December 31, 2017, 2016 and 2015.

*Other*

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to other non-controlling interests for the years ended December 31, 2017 and 2016 was \$0.1 million. Net income attributable to other non-controlling interests for the year ended December 31, 2015 was \$0.1 million.

**12. Fair Value***Fair Value Measurement*

The fair value of financial instruments is categorized based on the priority of the inputs to the valuation technique and categorized into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

- |          |   |
|----------|---|
| Level 1. | Quoted prices for identical assets or liabilities in an active market.  |
| Level 2. | Financial assets and liabilities whose values are based on the following: <ol style="list-style-type: none"> <li>a) Quoted prices for similar assets or liabilities in active markets.</li> <li>b) Quoted prices for identical or similar assets or liabilities in non-active markets.</li> <li>c) Pricing models whose inputs are observable for substantially the full term of the asset or liability.</li> <li>d) Pricing models whose inputs are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability.</li> </ol> |
| Level 3. | Prices or valuation techniques based on inputs that are both unobservable and significant to the overall fair value measurement.  |

*Determination of Fair Value*

The following is a description of the valuation techniques used to measure fair value of assets accounted for at fair value on a recurring basis and the general classification of these instruments pursuant to the fair value hierarchy.

PE Investments

The Company accounts for PE Investments at fair value which is determined based on a valuation model using assumptions for the timing and amount of expected future cash flow for income and realization events for the underlying assets in the funds and discount rate. This fair value measurement is generally based on unobservable inputs and, as such, is classified as Level 3 of the fair value hierarchy. The Company is not using the NAV (practical expedient) of the underlying funds for purposes of determining fair value.

Real Estate Securities

CRE securities are generally valued using a third-party pricing service or broker quotations. These quotations are not adjusted and are based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy. Certain CRE securities may be valued based on a single broker quote or an internal price which may have less observable pricing, and as such, would be classified as Level 3 of the fair value hierarchy. Management determines the prices are representative of fair value through a review of available data, including observable inputs, recent transactions as well as its knowledge of and experience in the market.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Instruments

Derivative instruments include listed derivatives with quoted prices in active markets for identical financial instruments as of the reporting date. The Company does not adjust the quoted price for these instruments, and as such, classifies derivative instruments as Level 1 of the fair value hierarchy. The derivative assets are recorded within deferred costs and other assets, net on the Company's consolidated balance sheets. The derivative liabilities are recorded within other liabilities on the Company's consolidated balance sheets.

Fair Value Hierarchy

Financial assets recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets that were accounted for at fair value on a recurring basis as of December 31, 2017 and 2016 by level within the fair value hierarchy (dollars in thousands):

	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
PE Investments, at fair value <sup>(1)</sup>	\$ —	\$ —	\$ 197,913	\$ 197,913	\$ —	\$ —	\$ 299,681	\$ 299,681
Real estate securities, available for sale	—	95,756	—	95,756	—	86,937	—	86,937
<b>Liabilities:</b>								
Derivative liabilities <sup>(2)</sup>	\$ 88	\$ —	\$ —	\$ 88	\$ —	\$ 381	\$ —	\$ 381

(1) Presented in investments in unconsolidated ventures on the accompanying consolidated balance sheets.

(2) Presented in other liabilities on the accompanying consolidated balance sheets.

The following table presents additional information about PE Investments which are measured at fair value on a recurring basis for the years ended December 31, 2017 and 2016 for which the Company has used Level 3 inputs to determine fair value (dollars in thousands):

	Years Ended December 31,	
	2017	2016
<b>Beginning balance</b>	\$ 299,681	\$ 54,865
Purchases/contributions, net <sup>(1)</sup>	849	315,033
Distributions	(102,217)	(82,069)
Equity in earnings	27,375	11,611
Unrealized gains included in earnings	87	2,455
Unrealized losses included in earnings	(27,862)	(2,214)
<b>Ending balance</b>	<b>\$ 197,913</b>	<b>\$ 299,681</b>

(1) Includes contributions subsequent to closing and accretion of discount on deferred purchase price obligations. In the period of acquisition, includes initial investment, gross of adjustments and deferred purchase price obligations, net of discount. For the year ended December 31, 2016, includes \$19.5 million of outstanding deferred purchase price obligations, net.

For the years ended December 31, 2017 and 2016, the Company used a discounted cash flow model to quantify Level 3 fair value measurements on a recurring basis. For the years ended December 31, 2017 and 2016, the key unobservable inputs used in this analysis included discount rates with a weighted average of 14.0% and 13.1%, respectively, and timing and amount of expected future cash flow.

Significant increases (decreases) in any one of the inputs described above in isolation may result in a significantly different fair value for the financial assets using such Level 3 inputs.

Fair Value Option

The Company elected the fair value option for PE Investments because management believes it is a more useful presentation for such investments. The Company determined recording the PE Investments based on the change in fair value of projected future cash flow from one period to another better represents the underlying economics of the respective investment. As of December 31, 2017, the Company has elected not to apply the fair value option for any other eligible financial assets or liabilities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Fair Value of Financial Instruments*

In addition to the above disclosures regarding financial assets or liabilities which are recorded at fair value, U.S. GAAP requires disclosure of fair value about all financial instruments. The following disclosure of estimated fair value of financial instruments was determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value.

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017			December 31, 2016		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
<b>Financial assets:(1)</b>						
Real estate debt investments, net (2)	\$ 792,116	\$ 793,449	\$ 792,116	\$ 805,489	\$ 806,485	\$ 835,589
Real estate securities, available for sale	130,191	95,756	95,756	128,181	86,937	86,937
Loan collateral receivable, related party (3)	23,728	23,728	23,728	23,728	23,728	23,051
<b>Financial liabilities:(1)</b>						
Mortgage and other notes payable, net	\$ 385,533	\$ 384,404	\$ 385,533	\$ 378,038	\$ 376,181	\$ 357,397
Credit facilities	355,407	355,407	355,407	241,407	241,407	241,407
Securitization bonds payable, net	80,825	79,634	80,825	193,980	191,315	193,980

(1) The fair value of other financial instruments not included in this table is estimated to approximate their carrying value.

(2) Principal amount excludes future funding commitments of \$32.1 million and \$25.2 million as of December 31, 2017 and 2016, respectively.

(3) Represents three senior loan participation interests in first mortgage loans. Principal amount excludes future funding commitments of \$4.6 million as of December 31, 2017 and 2016, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of the reporting date. Although management is not aware of any factors that would significantly affect fair value, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Real Estate Debt Investments, net / Loan Collateral Receivable, Related Party

For CRE debt investments, including loan collateral receivable, related party, fair values were determined: (i) by comparing the current yield to the estimated yield for newly originated loans with similar credit risk or the market yield at which a third party might expect to purchase such investment; or (ii) based on discounted cash flow projections of principal and interest expected to be collected, which includes consideration of the financial standing of the borrower or sponsor as well as operating results of the underlying collateral. As of the reporting date, the Company believes the principal amount approximates fair value. These fair value measurements of CRE debt, including loan collateral receivable, related party, are generally based on unobservable inputs, and as such, are classified as Level 3 of the fair value hierarchy.

Securitization Bonds Payable, net

Securitization bonds payable, net are valued using quotations from nationally recognized financial institutions that generally acted as underwriter for the transactions. These quotations are not adjusted and are generally based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy.

Credit Facilities

The Company has amounts outstanding under Term Loan Facilities. The Term Loan Facilities bear floating rates of interest. As of the reporting date, the Company believes the carrying value approximates fair value. This fair value measurement is based on observable inputs, and as such, is classified as Level 2 of the fair value hierarchy.

Mortgage and Other Notes Payable, net

For mortgage and other notes payable, the Company primarily uses rates currently available with similar terms and remaining maturities to estimate fair value. These measurements are determined using comparable U.S. Treasury rates as of the end of the reporting period. As of the reporting date, the Company believes the principal amount approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**13. Quarterly Financial Information (Unaudited)**

The following tables present selected quarterly information for the years ended December 31, 2017 and 2016 (dollars in thousands, except per share data):

	Three Months Ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net interest income	\$ 12,765	\$ 12,474	\$ 11,872	\$ 12,624
Property and other revenues	10,982	11,093	10,871	10,660
Expenses	21,331	24,119	21,108	20,411
Equity in earnings (losses) of unconsolidated ventures	4,893	7,326	8,337	9,610
Net income (loss)	(17,528)	5,320	7,956	10,500
Net income (loss) attributable to NorthStar Real Estate Income Trust, Inc. common stockholders	(17,546)	5,288	7,920	10,467
Net income (loss) per share of common stock, basic/diluted <sup>(1)</sup>	\$ (0.15)	\$ 0.05	\$ 0.07	\$ 0.09

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

	Three Months Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Net interest income	\$ 14,074	\$ 11,306	\$ 8,748	\$ 14,730
Property and other revenues	10,892	10,973	10,843	10,413
Expenses	20,459	19,492	20,121	19,709
Equity in earnings (losses) of unconsolidated ventures	6,618	2,438	1,262	1,293
Net income (loss)	10,284	4,928	614	6,623
Net income (loss) attributable to NorthStar Real Estate Income Trust, Inc. common stockholders	10,277	4,895	571	6,622
Net income (loss) per share of common stock, basic/diluted <sup>(1)</sup>	\$ 0.09	\$ 0.05	\$ 0.01	\$ 0.07

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

**14. Segment Reporting**

The Company currently conducts its business through the following four segments, which are based on how management reviews and manages its business:

- *Commercial Real Estate Debt*—Focused on originating, acquiring and asset managing CRE debt investments including first mortgage loans, subordinate interests and mezzanine loans and participations in such loans, as well as preferred equity interests.
- *Commercial Real Estate Equity* - Focused on direct and indirect ownership in real estate and real estate assets that may be structurally senior to a third-party partner's equity and indirect interests in real estate through PE Investments since the underlying collateral in the funds is primarily real estate.
- *Commercial Real Estate Securities* - Focused on investing in CMBS, unsecured REIT debt, CDO notes and other securities.
- *Corporate* - The corporate segment includes corporate level asset management and other fees—related party and general and administrative expenses.

The Company may also invest in CRE debt investments and equity investments indirectly through joint ventures.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company primarily generates revenue from net interest income on its CRE debt and securities investments and rental and other income from its real estate properties. Additionally, the Company records equity in earnings of unconsolidated ventures, including PE Investments and an investment in a joint venture. The Company's income is primarily derived through the difference between revenue and the cost at which the Company is able to finance its investments. The Company may also acquire investments which generate attractive returns without any leverage.

The following tables present segment reporting for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	Real Estate Debt	Real Estate Equity	Real Estate Securities	Corporate	Total
<b>Year Ended December 31, 2017</b>					
Net interest income	\$ 42,042	\$ 4	\$ 7,207	\$ 482	\$ 49,735
Rental and other income	—	43,606	—	—	43,606
Asset management and other fees - related party	—	—	—	(21,381)	(21,381)
Mortgage notes interest expense	—	(14,327)	—	—	(14,327)
Transaction costs	—	—	—	(5,609)	(5,609)
Property operating expenses	—	(12,838)	—	—	(12,838)
General and administrative expenses	(666)	(27)	(39)	(13,310)	(14,042)
Depreciation and amortization	—	(18,772)	—	—	(18,772)
Unrealized gain (loss) on investments	—	(27,773)	—	—	(27,773)
Realized gain (loss) on investments	—	(650)	—	—	(650)
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	<b>41,376</b>	<b>(30,777)</b>	<b>7,168</b>	<b>(39,818)</b>	<b>(22,051)</b>
Equity in earnings (losses) of unconsolidated ventures	2,791	27,375	—	—	30,166
Income tax benefit (expense)	—	(1,867)	—	—	(1,867)
<b>Net income (loss)</b>	<b>\$ 44,167</b>	<b>\$ (5,269)</b>	<b>\$ 7,168</b>	<b>\$ (39,818)</b>	<b>\$ 6,248</b>
<b>Year Ended December 31, 2016</b>					
Net interest income	\$ 42,548	\$ 6	\$ 6,076	\$ 228	\$ 48,858
Rental and other income	—	43,121	—	—	43,121
Asset management and other fees - related party	—	—	—	(20,222)	(20,222)
Mortgage notes interest expense	—	(13,612)	—	—	(13,612)
Transaction costs	(1,384)	(297)	—	—	(1,681)
Property operating expenses	—	(13,557)	—	—	(13,557)
General and administrative expenses	(391)	(34)	(26)	(9,513)	(9,964)
Depreciation and amortization	—	(20,745)	—	—	(20,745)
Unrealized gain (loss) on investments	—	553	—	—	553
Realized gain (loss) on investments	—	(34)	—	—	(34)
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	<b>40,773</b>	<b>(4,599)</b>	<b>6,050</b>	<b>(29,507)</b>	<b>12,717</b>
Equity in earnings (losses) of unconsolidated ventures	—	11,611	—	—	11,611
Income tax benefit (expense)	—	(1,879)	—	—	(1,879)
<b>Net income (loss)</b>	<b>\$ 40,773</b>	<b>\$ 5,133</b>	<b>\$ 6,050</b>	<b>\$ (29,507)</b>	<b>\$ 22,449</b>

NORTHSTAR REAL ESTATE INCOME II, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year Ended December 31, 2015	Real Estate Debt	Real Estate Equity	Real Estate Securities	Corporate	Total
Net interest income	\$ 25,340	\$ 4	\$ 202	\$ 8	\$ 25,554
Rental and other income	—	19,603	—	—	19,603
Asset management and other fees—related party	—	—	—	(16,463)	(16,463)
Mortgage notes interest expense	—	(6,778)	—	—	(6,778)
Transaction costs	(1,457)	(5,565)	—	—	(7,022)
Property operating expenses	—	(5,860)	—	—	(5,860)
General and administrative expenses	(336)	—	(4)	(7,935)	(8,275)
Depreciation and amortization	—	(11,812)	—	—	(11,812)
<b>Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)</b>	<b>23,547</b>	<b>(10,408)</b>	<b>198</b>	<b>(24,390)</b>	<b>(11,053)</b>
Equity in earnings (losses) of unconsolidated ventures	—	6,021	—	—	6,021
Income tax benefit (expense)	—	(359)	—	—	(359)
<b>Net income (loss)</b>	<b>\$ 23,547</b>	<b>\$ (4,746)</b>	<b>\$ 198</b>	<b>\$(24,390)</b>	<b>\$ (5,391)</b>

The following table presents total assets by segment as of December 31, 2017 and 2016 (dollars in thousands):

Total Assets	Real Estate Debt	Real Estate Equity(1)	Real Estate Securities	Corporate(2)	Total
December 31, 2017	\$ 945,992	\$ 659,879	\$ 105,896	\$ 21,713	\$ 1,733,480
December 31, 2016	909,240	753,690	92,451	51,619	1,807,000

- (1) Includes investments in private equity funds totaling \$197.9 million and \$299.7 million as of December 31, 2017 and 2016, respectively.  
(2) Includes cash and cash equivalents, unallocated receivables and deferred costs and other assets, net.

15. Subsequent Events

Distributions

On January 30, 2018, the Company declared and paid to stockholders an aggregate \$6.7 million monthly cash distribution for the month of January.

Combination Agreement

On January 31, 2018, the Company closed the transactions contemplated by the Combination Agreement. Pursuant to the terms of the Contribution Agreement, among other things, the Company merged with and into CLNC, with CLNC continuing as the surviving corporation in a stock-for-stock merger, and the Company's stockholders received approximately 40.4 million shares of CLNC's Class A common stock. CLNC's Class A common stock began trading on the New York Stock Exchange on February 1, 2018 under the symbol "CLNC". Upon completion of the Combination, the Company's stockholders, the Sponsor and NorthStar Income's stockholders owned approximately 31%, 37% and 32%, respectively, of CLNC's Class A common stock on a fully diluted basis.



**COLONY NORTHSTAR CREDIT REAL ESTATE, INC.**  
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

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**COLONY NORTHSTAR CREDIT REAL ESTATE, INC.**  
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

On January 31, 2018 (the "Closing Date"), Colony NorthStar Credit Real Estate, Inc. (the "Company") completed the transactions contemplated by that certain Master Combination Agreement, dated as of August 25, 2017, as amended and restated on November 20, 2017 (the "Combination Agreement"), by and among certain subsidiaries of Colony NorthStar, Inc. ("CLNS"), and NorthStar Real Estate Income Trust, Inc. ("NorthStar I") and NorthStar Real Estate Income II, Inc. ("NorthStar II"), publicly registered non-traded real estate investment trusts sponsored and managed by a subsidiary of CLNS. Pursuant to the Combination Agreement, certain subsidiaries of CLNS contributed their respective ownership interests (which interests represent the "CLNS Contributed Portfolio") in certain investment entities (the "CLNS Investment Entities") to the Company and its operating company, Credit RE Operating Company, LLC (the "Company OP"), and NorthStar I and NorthStar II merged in all-stock mergers into the Company with the Company surviving the mergers (collectively, the "Combination").

The following unaudited pro forma condensed combined financial statements and notes thereto are based on the historical financial condition and results of operations of the CLNS Investment Entities and give effect to: (i) the contribution to the Company (the "CLNS Contribution") of the interests held by subsidiaries of CLNS in the underlying assets and liabilities of the CLNS Investment Entities ranging from approximately 38% to 100% (remaining interests in the CLNS Investment Entities not owned by subsidiaries of CLNS were not contributed) in exchange for shares of the Company's Class B-3 common stock ("Class B-3 common stock") and common membership interests in the Company OP that are redeemable for cash or, at the option of the Company, Class A common stock on a one-for-one basis ("OP Units"); (ii) exclusion of a loan receivable held by NorthStar I, which was not acquired by the Company and repayment of corresponding debt financing the loan receivable; (iii) completion of the mergers of each of NorthStar I and NorthStar II with and into the Company (collectively, the "Mergers") through the exchange of all outstanding shares of common stock of each of NorthStar I and NorthStar II for shares of the Company's Class A common stock ("Class A common stock"); (iv) cancellation of the existing advisory agreements between each of NorthStar I and NorthStar II with a subsidiary of CLNS; and (v) establishment of a new management agreement between the Company and a subsidiary of CLNS. The CLNS Investment Entities are subsidiaries of the entities that were directly contributed to the Company in connection with the Combination (such directly contributed entities, the "Contributed Entities").

The unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and are not necessarily indicative of the financial position or results of operations of the Company had the Combination and related transactions been completed as of the beginning of the earliest period presented, nor are they necessarily indicative of future results of operations or future financial position of the Company.

The selected unaudited pro forma condensed combined financial data should be read in conjunction with (1) the historical consolidated financial statements and notes thereto of NorthStar I as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015, a copy of which is included as Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "Form 10-K"), (2) the historical consolidated financial statements and notes thereto of NorthStar II as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015, copy of which is included as Exhibit 99.2 to the Form 10-K and (3) the historical combined financial statements and notes thereto of the CLNS Investment Entities as of December 31, 2017 and 2016 and for the years ended December 31, 2017 and 2016, and management's discussion and analysis of financial condition and results of operations of the CLNS Investment Entities (including quantitative and qualitative disclosures about market risk), included in the Form 10-K.

The unaudited pro forma condensed combined financial statements reflect a preliminary purchase price allocation and management's best estimates based upon available information and may be revised as additional information becomes available and as additional analyses are performed upon finalization of acquisition accounting, no later than one year following the Closing Date of the Combination.

**COLONY NORTHSTAR CREDIT REAL ESTATE, INC.**  
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**  
As of December 31, 2017  
(In thousands)

	Historical			Pro Forma Adjustments				Pro Forma Colony NorthStar Credit Real Estate, Inc.
	CLNS Investment Entities	NorthStar I	NorthStar II	Fair Value (a)	Consolidation (b)	Other		
<b>Assets</b>								
Cash and cash equivalents	\$ 25,204	\$ 208,757	\$ 58,213	\$ —	\$ (5,716)	\$ 74,092	(c)	\$ 360,550
Restricted cash	41,901	40,585	63,830	—	(11,045)	—		135,271
Loans receivable, net	1,300,784	1,390,273	793,449	54,206	1,761,003	(150,150)	(d)	5,149,565
Real estate, net	219,740	475,711	393,276	417,682	—	—		1,506,409
Investments in unconsolidated ventures	203,720	41,159	253,152	—	126,301	—		624,332
Securities, at fair value	—	158,341	95,756	—	(89,129)	—		164,968
Deferred leasing costs and intangible assets, net	11,014	36,107	20,185	55,041	—	—		122,347
Other assets	37,039	28,242	31,891	(11,272)	4,710	(733)	(d)	89,877
Due from affiliates	—	50,314	23,728	—	—	(74,042)	(e)	—
<b>Total assets</b>	<b>\$ 1,839,402</b>	<b>\$ 2,429,489</b>	<b>\$ 1,733,480</b>	<b>\$ 515,657</b>	<b>\$ 1,786,124</b>	<b>\$ (150,833)</b>		<b>\$ 8,153,319</b>
<b>Liabilities</b>								
Debt, net	\$ 339,347	\$ 1,480,910	\$ 819,445	\$ 4,193	\$ 2,097,994	(46,948)	(d)	\$ 4,694,941
Accrued and other liabilities	42,135	51,323	54,468	(265)	(1,130)	(66)	(f)	146,465
Intangible liabilities, net	36	6,372	1,193	12,172	—	—		19,773
Due to affiliates	50,314	24,033	6,841	—	—	(74,042)	(e)	7,146
<b>Total liabilities</b>	<b>431,832</b>	<b>1,562,638</b>	<b>881,947</b>	<b>16,100</b>	<b>2,096,864</b>	<b>(121,056)</b>		<b>4,868,325</b>
Commitments and contingencies								
<b>Equity</b>								
Owners'/stockholders' equity	1,397,950	859,335	849,707	437,033	(318,142)	(105,403)	(g)	3,120,480
Noncontrolling interests in investment entities	9,620	7,516	1,826	62,524	7,402	—		88,888
Noncontrolling interests in Company OP	—	—	—	—	—	75,626	(h)	75,626
<b>Total equity</b>	<b>1,407,570</b>	<b>866,851</b>	<b>851,533</b>	<b>499,557</b>	<b>(310,740)</b>	<b>(29,777)</b>		<b>3,284,994</b>
<b>Total liabilities and equity</b>	<b>\$ 1,839,402</b>	<b>\$ 2,429,489</b>	<b>\$ 1,733,480</b>	<b>\$ 515,657</b>	<b>\$ 1,786,124</b>	<b>\$ (150,833)</b>		<b>\$ 8,153,319</b>

See accompanying notes to unaudited pro forma condensed combined financial statements.

**COLONY NORTHSTAR CREDIT REAL ESTATE, INC.**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**  
**For the Year Ended December 31, 2017**  
(In thousands, except per share data)

	Historical			Pro Forma Adjustments				Pro Forma Colony NorthStar Credit Real Estate, Inc.
	GLNS Investment Entities	NorthStar I	NorthStar II	Fair Value (aa)	Consolidation (ab)	Other		
<b>Revenues</b>								
Interest income	\$ 140,214	\$ 94,073	\$ 70,857	\$ 1,475	\$ 58,446	\$ (13,451)	(ac)	\$ 351,614
Property operating income	23,750	87,657	43,606	920	—	—		155,933
Other income	791	—	—	—	(377)	—		414
<b>Total revenues</b>	<b>164,755</b>	<b>181,730</b>	<b>114,463</b>	<b>2,395</b>	<b>58,069</b>	<b>(13,451)</b>		<b>507,961</b>
<b>Expenses</b>								
Fee expense	—	17,815	21,381	—	—	8,746	(ad)	47,942
Interest expense—loans receivable	21,019	36,704	21,122	(5,950)	115,126	(4,749)	(ac)	183,272
Interest expense—real estate	5,095	18,895	14,327	(1,892)	—	—		36,425
Property operating expense	7,978	40,028	12,838	—	—	—		60,844
Transaction, investment and servicing expense	2,570	8,054	6,457	—	3,910	(13,140)	(ae)	7,851
Depreciation and amortization	9,137	38,408	18,772	25,213	—	—		91,530
Provision for loan loss	518	—	—	—	—	—		518
Administrative expense	12,669	10,114	13,194	—	(234)	(4,595)	(af)	31,148
<b>Total expenses</b>	<b>58,986</b>	<b>170,018</b>	<b>108,091</b>	<b>17,371</b>	<b>118,802</b>	<b>(13,738)</b>		<b>459,530</b>
<b>Other income (loss)</b>								
Other gain (loss), net	(390)	(12,744)	(28,423)	—	5,295	—		(36,262)
Earnings from investments in unconsolidated ventures	24,709	5,841	30,166	—	17,469	—		78,185
<b>Net income (loss) before income tax</b>	<b>130,088</b>	<b>4,809</b>	<b>8,115</b>	<b>(14,976)</b>	<b>(37,969)</b>	<b>287</b>		<b>90,354</b>
Income tax (expense) benefit	(2,208)	1,679	(1,867)	—	—	—		(2,396)
<b>Net income (loss)</b>	<b>127,880</b>	<b>6,488</b>	<b>6,248</b>	<b>(14,976)</b>	<b>(37,969)</b>	<b>287</b>		<b>87,958</b>
Net income (loss) attributable to noncontrolling interests:								
Investment entities	689	608	119	(1,685)	718	—		449
Company OP	—	—	—	—	—	2,071	(ag)	2,071
<b>Net income (loss) attributable to Colony NorthStar Credit Real Estate, Inc.</b>	<b>\$ 127,191</b>	<b>\$ 5,880</b>	<b>\$ 6,129</b>	<b>\$ (13,291)</b>	<b>\$ (38,687)</b>	<b>\$ (1,784)</b>		<b>\$ 85,438</b>
<b>Earnings per share:</b>								
Basic	NA	\$ 0.05	\$ 0.05					\$ 0.67
Diluted	NA	\$ 0.05	\$ 0.05					\$ 0.67
<b>Weighted average number of shares:</b>								
Basic	NA	119,757	114,631					126,945
Diluted	NA	119,757	114,631					126,945

See accompanying notes to unaudited pro forma condensed combined financial statements.

## **1. Description of the Combination**

As of the Closing Date of the Combination, Colony Capital Operating Company, LLC (“CLNS OP”) and its affiliates, NorthStar I stockholders and NorthStar II stockholders each owned approximately 37%, 32% and 31%, respectively, of the Company on a fully-diluted basis.

Pursuant to terms and conditions of the Combination Agreement, the Company issued to subsidiaries of CLNS: (i) 44,399,444 shares of Class B-3 common stock; and (ii) 3,075,623 OP Units. Each share of NorthStar I and NorthStar II common stock issued and outstanding immediately prior to the effective time of their mergers with and into the Company was converted into the right to receive 0.3532 shares (the “NorthStar I Exchange Ratio”) and 0.3511 shares (the “NorthStar II Exchange Ratio”), respectively, of Class A common stock, plus cash in lieu of fractional shares. Approximately 21,000 shares of NorthStar I restricted common stock and 25,000 shares of NorthStar II restricted common stock automatically vested in connection with their respective mergers with and into the Company and the holders thereof were entitled to receive the same equity exchange as the other holders of NorthStar I and NorthStar II common stock, respectively.

NorthStar I did not transfer to the Company a certain loan receivable in the original principal amount of \$150.2 million (the “NorthStar I Excluded Asset”). On January 31, 2018, in connection with the closing of the transactions contemplated by the Combination Agreement, NorthStar I sold to an affiliate of CLNS a \$65 million senior participation interest in the NorthStar I Excluded Asset at par. The remaining junior participation interest in the NorthStar I Excluded Asset (also referred to as the “NorthStar I Retained Asset”) was transferred to a liquidating trust in exchange for 100% of the outstanding units of beneficial interest in the liquidating trust. The beneficial interests of the liquidating trust were distributed pro rata to NorthStar I stockholders.

Prior to the closing of the Combination, a special dividend was declared by NorthStar I, which generated the lesser amount of cash leakage, in order to true up the agreed contribution values of NorthStar I and NorthStar II in relation to each other (the “NorthStar special dividend”). In addition, following the CLNS Contribution, but prior to the effective time of the Mergers, there was a cash settlement between the Company and CLNS for the difference between (i) the sum of (a) the loss in value of NorthStar I and NorthStar II as a result of the distributions made by NorthStar I and NorthStar II in excess of FFO (as such term is defined in the Combination Agreement) from July 1, 2017 through the day immediately preceding the Closing Date (excluding the dividend payment made by each of NorthStar I and NorthStar II on July 1, 2017), (b) FFO for the Contributed Entities from July 1, 2017 through the day immediately preceding the closing date, (c) cash contributions or contributions of certain intercompany receivables made to the Contributed Entities from July 1, 2017 through the day immediately preceding the Closing Date, and (d) the expected present value of certain unreimbursed operating expenses of NorthStar I and NorthStar II paid on each company’s behalf by their respective advisors, and (ii) cash distributions made by the Contributed Entities from July 1, 2017 through the day immediately preceding the Closing Date, excluding that certain distribution made by the Contributed Entities in July 2017 relating to the partial repayment of a certain investment (collectively, “CLNS true-up adjustments”). These unaudited pro forma condensed combined financial statements reflect the CLNS true-up adjustments measured for the period from July 1, 2017 through the day immediately preceding the Closing Date.

## **2. Basis of Presentation**

The unaudited pro forma condensed combined financial statements are prepared as of and for the year ended December 31, 2017 in accordance with Article 11 of Regulation S-X and, in the opinion of management, reflect all significant adjustments. The historical financial information of the CLNS Investment Entities, NorthStar I and NorthStar II have been adjusted to give pro forma effect to all significant events (except as disclosed above) that are: (i) directly attributable to the Combination and related transactions; (ii) factually supportable; and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the results of the Company.

The unaudited pro forma condensed combined balance sheet as of December 31, 2017 is presented as if the Combination and related transactions had been completed on December 31, 2017. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2017 is presented as if the Combination and related transactions had been completed on January 1, 2017, the beginning of the earliest period presented.

Certain amounts in the historical combined financial statements of the CLNS Investment Entities, and in the historical consolidated financial statements of NorthStar I and NorthStar II, have been reclassified to conform to the presentation of the Company in the unaudited pro forma condensed combined financial statements.

Significant transactions among the CLNS Investment Entities, NorthStar I and NorthStar II have been eliminated in the unaudited pro forma condensed combined financial statements as if these entities had been combined for all periods presented. Such amounts that are outstanding as of December 31, 2017 are presented as due from and/or due to affiliates within the historical balances in the unaudited pro forma condensed combined balance sheet.

Since the Company did not have material assets or substantial operations prior to the contribution of assets and liabilities from CLNS, and succeeded to substantially all of the operations of the CLNS Investment Entities, the CLNS Investment Entities have been deemed to be the Company's predecessor for accounting purposes. Accordingly, the assets and liabilities of the CLNS Investment Entities received by the Company were recorded in the Company's books at their carryover basis as of the contribution date.

The Combination is accounted for under the acquisition method for business combinations pursuant to Accounting Standards Codification Topic 805, *Business Combinations*. In the Combination, the Company is considered to be the accounting acquirer and all of its assets and liabilities are reflected at their historical carrying values. The consideration transferred by the Company established a new accounting basis for the assets acquired, liabilities assumed and noncontrolling interests of NorthStar I and NorthStar II, measured at their respective fair values on the Closing Date of the Combination. Accordingly, the unaudited pro forma condensed combined financial statements include adjustments to record the assets, liabilities and noncontrolling interests of NorthStar I and NorthStar II at their estimated fair values, which are preliminary and subject to revision. To the extent fair value of the consideration exceeds fair value of net assets acquired, any such excess will represent goodwill. Alternatively, if fair value of net assets acquired exceeds fair value of the consideration, the transaction could result in a bargain purchase gain that is recognized immediately in earnings. Adjustments to estimated fair value of identifiable assets and liabilities of NorthStar I and NorthStar II, as well as adjustments to consideration, may change the determination and amount of goodwill and/or bargain purchase gain and may impact depreciation, amortization and accretion based on revised fair value of assets acquired and liabilities assumed. The actual value of the consideration is dependent upon the price of the Company's common stock at the time of closing of the Combination. The final fair value and allocation of consideration will be determined upon completion of the Combination, with the allocation to be finalized as soon as practicable within the measurement period of no later than one year following the Closing Date of the Combination. The final acquisition accounting may vary significantly from that reflected in the unaudited pro forma condensed combined financial statements.

### 3. Consideration and Purchase Price Allocation

The Company acquired all of the common stock of NorthStar I and NorthStar II through the exchange of all such outstanding shares into shares of Class A common stock based on the pre-determined NorthStar I Exchange Ratio and NorthStar II Exchange Ratio, respectively. As the Combination is a stock-for-stock exchange (except for cash consideration for fractional shares), fair value of the consideration to be transferred depends upon the fair value of the Company at the Closing Date of the Combination.

All outstanding NorthStar I and NorthStar II equity awards vested in connection with the consummation of the Combination. The vested equity awards were settled in shares of NorthStar I and NorthStar II common stock, respectively, and converted into shares of Class A common stock based on the pre-determined NorthStar I Exchange Ratio and NorthStar II Exchange Ratio, respectively. As these equity awards relate to pre-Combination services, these shares are included in the number of outstanding NorthStar I and NorthStar II common stock used to determine consideration.

Consideration and purchase price allocation for the acquisition of NorthStar I and NorthStar II are calculated as follows:

<u>(In thousands, except exchange ratio and price per share)</u>	<u>NorthStar I</u>	<u>NorthStar II</u>	<u>Total</u>
Outstanding shares of common stock at December 31, 2017 <sup>(i)</sup>	119,333	114,943	
Exchange ratio	0.3532	0.3511	
Shares of Class A common stock issued in the mergers <sup>(ii)</sup>	42,149	40,356	82,505
Fair value consideration per share <sup>(iii)</sup>	\$ 24.74	\$ 24.74	\$ 24.74
Fair value of NorthStar I and NorthStar II consideration	<u>\$ 1,042,766</u>	<u>\$ 998,407</u>	<u>\$ 2,041,173</u>

(i) Includes 21,000 and 25,000 shares of common stock of NorthStar I and NorthStar II equity awards, respectively, that vested in connection with the consummation of the Combination.

(ii) Includes the issuance of fractional shares, aggregating to approximately 21,000 shares, for which holders received cash in lieu of the fractional shares.

(iii) Represents the estimated per share fair value of the Company at the Closing Date of the Combination.

<u>(In thousands)</u>	<u>NorthStar I</u>	<u>NorthStar II</u>	<u>Total</u>
Fair value of net assets acquired (i)	\$ 1,051,584	\$ 1,009,341	\$ 2,060,925
Adjustments (ii)	(8,818)	(10,934)	(19,752)
Fair value of net assets acquired, adjusted	<u>\$ 1,042,766</u>	<u>\$ 998,407</u>	<u>\$ 2,041,173</u>
Excess (deficit) (iii)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(i) Fair value of net assets acquired is calculated as follows:

<u>(In thousands)</u>	<u>NorthStar I</u>	<u>NorthStar II</u>	<u>Total</u>
<b>Preliminary allocation of the Combination consideration:</b>			
Assets acquired	\$ 2,642,458	\$ 1,904,004	\$ 4,546,462
Liabilities assumed	(1,528,789)	(884,882)	(2,413,671)
Noncontrolling interests in investment entities	(62,085)	(9,781)	(71,866)
Fair value of net assets acquired (Note 4(a))	<u>\$ 1,051,584</u>	<u>\$ 1,009,341</u>	<u>\$ 2,060,925</u>

(ii) Represents the CLNS true-up adjustments relating to NorthStar I and NorthStar II measured for the period from July 1, 2017 through the day immediately preceding the Closing Date, including the NorthStar special dividend based on NorthStar I and NorthStar II cash leakage for the period from July 1, 2017 through the day immediately preceding the Closing Date, as described in Note 1.

(iii) Calculated as the difference between fair value of consideration and fair value of net assets acquired, net of true-up adjustments.

A final determination of the fair value and allocation of the Combination consideration is in process as of the date of this Annual Report on Form 10-K. The estimated fair value and preliminary allocation of the Combination consideration may be subject to adjustments during the measurement period, not to exceed one year from the Closing Date, based upon new information obtained about facts and circumstances that existed as of the Closing Date.

#### 4. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

##### Fair Value Adjustments

- (a) Pro forma fair value adjustments are based on estimated fair values and preliminary purchase price allocation of assets acquired, liabilities assumed and noncontrolling interests of NorthStar I and NorthStar II, as follows:

(In thousands)	NorthStar I (i)		NorthStar II		Fair Value Adjustment
	Fair Value (ii)	Historical	Fair Value (ii)	Historical	
<b>Assets</b>					
Cash and cash equivalents	\$ 227,476	\$ 227,476	\$ 58,213	\$ 58,213	\$ —
Restricted cash	40,585	40,585	63,830	63,830	—
Loans receivable	1,242,983	1,240,123	844,795	793,449	54,206
Real estate, net	785,846	475,711	500,823	393,276	417,682
Investments in unconsolidated ventures	41,159	41,159	253,152	253,152	—
Securities, at fair value	158,341	158,341	95,756	95,756	—
Deferred leasing costs and intangible assets	74,243	36,107	37,090	20,185	55,041
<b>Other assets (iii)</b>	<b>21,511</b>	<b>27,509</b>	<b>26,617</b>	<b>31,891</b>	<b>(11,272)</b>
Due from affiliates	50,314	50,314	23,728	23,728	—
<b>Total assets</b>	<b>\$ 2,642,458</b>	<b>\$ 2,297,325</b>	<b>\$ 1,904,004</b>	<b>\$ 1,733,480</b>	<b>\$ 515,657</b>
<b>Liabilities</b>					
Debt, net	\$ 1,435,835	\$ 1,433,962	\$ 821,765	\$ 819,445	\$ 4,193
Accrued and other liabilities (iv)	50,992	51,257	54,468	54,468	(265)
Intangible liabilities	17,929	6,372	1,808	1,193	12,172
Due to affiliates	24,033	24,033	6,841	6,841	—
<b>Total liabilities</b>	<b>1,528,789</b>	<b>1,515,624</b>	<b>884,882</b>	<b>881,947</b>	<b>16,100</b>
<b>Equity</b>					
Total owners'/stockholders' equity	1,051,584	774,185	1,009,341	849,707	437,033
Noncontrolling interests in investment entities	62,085	7,516	9,781	1,826	62,524
<b>Total equity</b>	<b>1,113,669</b>	<b>781,701</b>	<b>1,019,122</b>	<b>851,533</b>	<b>499,557</b>
<b>Total liabilities and equity</b>	<b>\$ 2,642,458</b>	<b>\$ 2,297,325</b>	<b>\$ 1,904,004</b>	<b>\$ 1,733,480</b>	<b>\$ 515,657</b>

(i) NorthStar I fair value and historical balances are presented net of amounts associated with the NorthStar I Excluded Asset.

(ii) Pro forma fair values of NorthStar I and NorthStar II were estimated as follows:

- Real estate and related intangibles*—The fair value of real estate and related intangibles (“CRE Properties”) was determined using, in the case of NorthStar I, either a direct capitalization approach or a discounted cash flow (“DCF”) methodology, depending on the asset type, and in the case of NorthStar II, a DCF methodology, which we believe are appropriate for valuing assets similar to the properties owned by NorthStar I and NorthStar II. Direct capitalization rates, discount rates, and terminal capitalization rates were selected by taking into account, among other factors, prevailing discount and capitalization rates in the commercial property sector, as deemed appropriate for each property. In determining each appraised value, other relevant information was also considered, including trends in capitalization rates, discount rates, interest rates, leasing rates and other economic factors. The weighted average capitalization rate used to determine the value of (x) NorthStar I’s CRE Properties was approximately 7.0%, and (y) NorthStar II’s CRE Properties was approximately 6.9%. The weighted average discount rate used to determine the value of (x) NorthStar I’s CRE Properties was approximately 7.5%, and (y) NorthStar II’s CRE Properties was approximately 7.8%. For investments with similar occupancy, income levels and collateral quality, the discount and capitalization rates used to value NorthStar I’s CRE Properties and NorthStar II’s CRE Properties, as the case may be, are estimated to be generally comparable to those that would be achievable in the current market environment. NorthStar I’s CRE Properties with an aggregate estimated value of \$272.5 million were valued using a direct capitalization approach and NorthStar I’s CRE Properties with an aggregate estimated value of \$569.7 million were valued using a DCF approach. The fair value of NorthStar I’s and NorthStar II’s CRE Properties is allocated to tangible assets such as land, building, site and tenant improvements and identifiable intangibles, such as above- and below-market leases, leasing commissions, and in-place lease value. The value allocable to the above- or below-market component of an acquired in-place lease is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be received pursuant to the lease over its remaining term and (ii) management’s estimate of the amounts that would be received using fair market rates over the remaining term of the lease. Factors considered in determining the value allocable to in-place leases include estimates, during hypothetical lease-up periods, related to space that is actually leased at the time of acquisition. These estimates include (i) lost rent at market rates, (ii) fixed operating costs that will be recovered from tenants and (iii) theoretical leasing commissions required to execute similar leases.



- *Loans receivable*—The fair value of loans receivable was determined by comparing the current yield to the estimated yield for newly originated loans with similar credit risk or the market yield at which a third party might expect to purchase such investment or based on DCF projections of principal and interest expected to be collected, which include consideration of borrower or sponsor credit, as well as operating results of the underlying collateral. It was determined that the current yields for NorthStar I's and NorthStar II's loans receivable approximated current market yields, and therefore fair value for the loans receivable was deemed to equal each loan's outstanding principal amount, plus the undiscounted value of any contractual exit fees associated with the loan. The weighted average current yield for (x) NorthStar I's loans receivable was approximately 8.0%, and (y) NorthStar II's loans receivable was approximately 7.7%, excluding mortgage loans held in securitization trusts.

In addition, for certain loans receivable, NorthStar II, has a contractual right to equity-like participations or other ownership interests in the underlying collateral and, as appropriate, these equity-like interests were considered in calculating the aggregate value of NorthStar II's loans receivable. To value these interests, the value of the underlying collateral was estimated using a direct capitalization approach. These valuation estimates were then applied through the associated waterfall structure of the investment, resulting in NorthStar II's estimated contractual share of the residual equity value in the property. The weighted average capitalization rate used to determine the value of NorthStar II's equity-like interests was approximately 6.8%.

For investments with similar credit characteristics and collateral quality, these rates are estimated to be generally comparable to those that would be achievable in today's market environment.

- *Investments in unconsolidated ventures*—Investments in unconsolidated ventures primarily consist of limited partnership interests in private equity funds for which the fair value option was elected; and fair value was determined based on the timing and amount of expected future cash flows for income and realization events of the underlying assets of the funds. The assumptions regarding the amount and timing of future distributions from the underlying funds are developed by management based on its analysis of each fund's portfolio and past performance, including management's discussions with the fund general partners, as well as overall commercial real estate market analyses relevant to each fund's portfolio. Based on the estimated fair value of the private equity real estate funds, the weighted average effective yield for the future cash flows (x) with respect to NorthStar I, is approximately 13.4%, and (y) with respect to NorthStar II, is approximately 14.0%. For investments with similar credit characteristics, remaining life, fund sponsorship, investment structure and portfolio quality, these rates are estimated to be generally comparable to those that would be achievable in today's market environment. Additionally, investments in unconsolidated ventures include NorthStar II's investment in a joint venture which holds a mezzanine loan. The fair value for the investment in the joint venture was determined based on the outstanding principal amount of the mezzanine loan plus the undiscounted value of the contractual exit fee associated with the investment.
- *Securities*—CRE securities are generally valued using a third-party pricing service or broker quotations. These quotations are not adjusted and are based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy. Certain CRE securities may be valued based on a single broker quote or an internal price which may have less observable pricing, and as such, would be classified as Level 3 of the fair value hierarchy. Management determines the prices are representative of fair value through a review of available data, including observable inputs, recent transactions as well as its knowledge of and experience in the market. For the purpose of the Pro Forma Condensed Combined Balance Sheet, (x) the fair value of NorthStar I's commercial real estate securities is \$158.3 million, and of this amount, \$104.2 million was valued using a third-party valuation service, \$44.7 million was valued using broker quotations and \$9.4 million was internally valued by comparing the current yield on the security to the estimated yield for similar securities that a market participant would require in the current market environment (and the implied weighted average yield for securities valued internally on this basis was 28.2%), and (y) the fair value of NorthStar II's commercial real estate securities is \$95.8 million, and of this amount, \$64.5 million was valued using a third-party valuation service and \$31.3 million was valued using broker quotations.
- *Secured debt*—The fair value of secured debt was determined by either comparing the contractual interest rate to the interest rate for newly originated debt with similar credit risk or the market rate at which a third party might expect to assume such debt or based on DCF projections of principal and interest expected to be collected, which include consideration of borrower or sponsor credit, as well as operating results of the underlying collateral. All of the secured debt was priced consistent with current interest rates attainable for similarly situated investments, and therefore was attributed a value equal to each debt's outstanding principal amount. As the principal amount of the debt equates to fair value, there is no amortization of premium or discount related to the secured debt.
- *Securitization bonds payable*—The fair value of securitization bonds payable is based on quotations from brokers or financial institutions that act as underwriters of the securitized bonds.
- *Noncontrolling interests in investment entities*—NorthStar I's noncontrolling interests are attributable to the minority ownership interests of its operating partners in its CRE Properties. The estimated value of NorthStar I's noncontrolling interests represents the minority owner's pro rata share of the estimated net book value of the CRE Properties, as determined in accordance with the above description of the valuation process for real estate and related intangibles. NorthStar II's noncontrolling interest is attributable to the minority ownership interest of its operating partner in its Bothell, Washington office portfolio. The estimated value of NorthStar II's noncontrolling interest represents the operating partner's pro rata share of the estimated net book value of the portfolio, as determined in accordance with the above description of the valuation process for real estate and related intangibles. The major classes of intangible assets and liabilities include leasing commissions, above- and below-market lease values and in-place lease values.

(iii) Adjustment to other assets reflects elimination of historical deferred financing costs on credit facilities and historical straight-line rent balances.

(iv) Adjustment to accrued and other liabilities reflects unearned income on real estate and deferred financing costs related to amount due to affiliate.

## Consolidation Adjustments

- (b) The contribution of the CLNS Investment Entities to the Company and the subsequent mergers of each of NorthStar I and NorthStar II into the Company triggered consolidation reassessments, as described below:

*Deconsolidation of the CLNS Investment Entities*—Certain CLNS Investment Entities were joint ventures between CLNS and private funds or other investment vehicles managed by CLNS (the “Co-Investment Funds”). CLNS consolidated such CLNS Investment Entities as it was deemed to have a controlling financial interest in these CLNS Investment Entities, considering the following factors: (i) CLNS’s equity interests in these entities; (ii) CLNS’s role as investment manager of the Co-Investment Funds; and (iii) CLNS senior executives and employees acting as directors and officers of these entities. As a result, it was determined that (i) for such CLNS Investment Entities that are voting interest entities, CLNS had the ability to direct the significant financial and operating decisions made by directors of these entities and carried out by the appointed officers of these entities, and (ii) for such CLNS Investment Entities that are variable interest entities, CLNS was the primary beneficiary as it is the related party that was more closely associated with these entities. The Company, after assuming CLNS’s ownership interests in these CLNS Investment Entities, will not have a controlling financial interest in these CLNS Investment Entities. The Company does not have the ability to direct key decisions made by the directors of these entities nor is it the primary beneficiary of these entities as CLNS continues to be the investment manager of the Co-Investment Funds and the directors and officers of these entities continue to be employees of CLNS. The Company itself is managed by CLNS and does not have any employees of its own. Therefore, upon contribution by CLNS, the Company deconsolidated the CLNS Investment Entities that are joint ventures with Co-Investment Funds.

*Consolidation of NorthStar Securitization Trusts*—Through the Combination, the Company acquired from NorthStar I and NorthStar II, respectively, the subordinate securities in two securitization trusts. The two securitization trusts are structured as pass through entities that receive principal and interest payments from the underlying debt collateral assets and distribute those payments to the certificate holders of the securitization trusts. The assets held by the two securitization trusts are restricted and can only be used to fulfill their own obligations.

The Combination triggered a consolidation reassessment, in which it was determined that the Company will be the primary beneficiary of the two securitization trusts. The subordinate securities represent the first loss tranche in each trust, and act as the controlling class, which will provide the Company, as holder of the securities, the right, under certain circumstances, to unilaterally remove the special servicer of the trusts. As a result, the Company is deemed to be the primary beneficiary of the two securitization trusts as (i) it will have the ability, as the controlling class, to direct the activities that most significantly impact the economic performance of the trusts, and (ii) its interest will absorb the first loss in each trust, which will represent more than an insignificant amount of the expected losses of the trusts. Therefore, the Company will consolidate the two securitization trusts.

The Company will elect the fair value option for the initial recognition of the assets and liabilities of the two securitization trusts. Additionally, the Company will adopt the guidance issued by the FASB, allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity (“CFE”), such as these securitization trusts, using the fair value of either the CFE’s financial assets or financial liabilities, whichever is more observable. As the liabilities of the two securitization trusts are marketable securities with observable trade data, their fair value is more observable and will be referenced to determine the fair value of the assets.

Pro forma adjustments are made to reflect the following:

- deconsolidation of the assets and liabilities of certain of the CLNS Investment Entities, and accounting for the Company’s interests in these CLNS Investment Entities as equity method investments; and
- consolidation of the assets and liabilities of the two securitization trusts, and elimination of the securities held by the Company in these trusts.

<u>(In thousands)</u>	<u>Deconsolidation of CLNS Investment Entities</u>	<u>Consolidation of NorthStar Securitization Trusts</u>	<u>Consolidation Adjustments, Net</u>
<b>Assets</b>			
Cash and cash equivalents	\$ (5,716)	\$ —	\$ (5,716)
Restricted cash	(11,045)	—	(11,045)
Loans receivable, net	(554,769)	2,315,772	1,761,003
Investments in unconsolidated ventures	126,301	—	126,301
Securities, at fair value	—	(89,129)	(89,129)
Other assets	(5,751)	10,461	4,710
<b>Total assets</b>	<u>\$ (450,980)</u>	<u>\$ 2,237,104</u>	<u>\$ 1,786,124</u>
<b>Liabilities</b>			
Debt, net	\$ (128,649)	\$ 2,226,643	\$ 2,097,994
Accrued and other liabilities	(11,591)	10,461	(1,130)
<b>Total liabilities</b>	<u>(140,240)</u>	<u>2,237,104</u>	<u>2,096,864</u>
<b>Equity</b>			
Total owners'/stockholders' equity	(318,142)	—	(318,142)
Noncontrolling interests in investment entities	7,402	(i) —	7,402
<b>Total equity</b>	<u>(310,740)</u>	<u>(ii) —</u>	<u>(310,740)</u>
<b>Total liabilities and equity</b>	<u>\$ (450,980)</u>	<u>\$ 2,237,104</u>	<u>\$ 1,786,124</u>

(i) Represents presentation of interests not held by the Company in remaining consolidated CLNS Investment Entities as noncontrolling interests in investment entities.

(ii) The adjustments result in an overall decrease in net assets to reflect only the Company's interests in the deconsolidated CLNS Investment Entities that are being contributed to the Company. The decrease represents interests in the deconsolidated CLNS Investment Entities held by Co-Investment Funds that will not be contributed to the Company.

#### **Other Pro Forma Adjustments**

(c) Adjustments to cash and cash equivalents are as follows:

*NorthStar special dividend*—As described in Note 1, a special dividend of \$1.6 million payable by NorthStar I (which generated a lesser amount of cash leakage for the period from July 1, 2017 through the day immediately preceding the Closing Date) to its shareholders, in order to true up the agreed upon contribution values between NorthStar I and NorthStar II in relation to each other.

*CLNS true-up adjustment*—As described in Note 1, the CLNS true-up adjustment represents the settlement of \$57.0 million payable to the Company by CLNS, calculated as follows:

The sum of:

- Special distribution to CLNS from NorthStar II (which had greater cash leakage than NorthStar I of cash distributions, excluding distributions in shares, in excess of its FFO, as described in Note 1) of \$7.4 million for the period from July 1, 2017 through the day immediately preceding the Closing Date;
- FFO of the Contributed Entities of \$67.1 million for the period from July 1, 2017 through the day immediately preceding the Closing Date;
- Cash contributions by CLNS to the CLNS Investment Entities totaling \$25.4 million for the period from July 1, 2017 through the day immediately preceding the Closing Date;
- Contribution of intercompany notes receivable and distribution receivable by CLNS to the Company of \$38.5 million; and
- Certain unreimbursed operating expenses of NorthStar I and NorthStar II paid on each company's behalf by subsidiaries of CLNS, as their respective advisors, totaling \$18.1 million;

Less:

- Distributions made by the Contributed Entities to CLNS of \$213.5 million for the period from July 1, 2017 through the day immediately preceding the Closing Date.

*NorthStar I Excluded Asset*—net cash inflow of \$18.7 million resulting from: (i) the sale of a senior interest in the NorthStar I Excluded Asset to CLNS for \$65.0 million and related interest receivable of \$0.7 million; and (ii) repayment of outstanding principal on corresponding third party debt financing the NorthStar I Excluded Asset of \$46.9 million and outstanding interest of \$0.1 million (see Notes (d) and (f)).

(d) Adjustments are related to the NorthStar I Excluded Asset, as follows:

*Loan receivable*—the sale of a senior interest in the NorthStar I Excluded Asset to CLNS for \$65.0 million and transfer of the NorthStar I Retained Asset (consisting of the remaining junior interest in the NorthStar I Excluded Asset of \$85.2 million) into a liquidating trust prior to closing of the Combination;

*Other assets*—elimination of interest receivable of \$0.7 million on the NorthStar I Excluded Asset; and

*Debt*—repayment of \$46.9 million of debt financing on the NorthStar I Excluded Asset.

(e) Adjustments to due from and due to affiliates are as follows:

*Secured financing transaction by the CLNS Investment Entities*—elimination of due to affiliates in CLNS Investment Entities and corresponding due from affiliates in NorthStar I of \$50.3 million, which resulted from a previous sale of a loan receivable by the CLNS Investment Entities to NorthStar I that was treated as a secured financing by the CLNS Investment Entities; and

*Secured financing transaction by NorthStar I*—elimination of due to affiliates in NorthStar I and corresponding due from affiliates in NorthStar II of \$23.7 million, which resulted from a previous sale of a loan receivable by NorthStar I to NorthStar II that was treated as a secured financing by NorthStar I.

<u>(In thousands)</u>	<u>CLNS Investment Entities</u>	<u>NorthStar I</u>	<u>NorthStar II</u>	<u>Total</u>
Due from affiliates	\$ —	\$ (50,314)	\$ (23,728)	\$ (74,042)
Due to affiliates	(50,314)	(23,728)	—	(74,042)

(f) Accrued and other liabilities is adjusted to reflect the repayment of \$0.1 million outstanding interest on the debt financing on the NorthStar I Excluded Asset.

(g) Adjustments to stockholders' equity are as follows:

<u>(In thousands)</u>	<u>CLNS Investment Entities</u>	<u>NorthStar I</u>	<u>NorthStar II</u>	<u>Total</u>
NorthStar I Retained Asset to be transferred to liquidating trust	\$ —	\$ (85,150)	\$ —	\$ (85,150)
NorthStar special dividend	—	(1,644)	—	(1,644)
CLNS true-up adjustment	75,125	(7,174)	(10,934)	57,017
Adjustment for noncontrolling interests in the Company OP	—	—	—	(75,626)
	—	—	—	<u>\$ (105,403)</u>

(h) Adjustment reflects an allocation of pro forma equity to noncontrolling interests in the Company OP based on pro forma noncontrolling ownership of 2.4%, determined as follows:

<u>(In thousands, except percentage)</u>	<u>CLNS Contributed Portfolio</u>	<u>NorthStar I</u>	<u>NorthStar II</u>	<u>Pro Forma Colony NorthStar Credit Real Estate, Inc.</u>
Class B-3 common stock	44,399	—	—	44,399
Class A common stock (Note 3) (i)	—	42,149	40,356	82,505
Total common stock outstanding	—	—	—	126,904
OP Units	3,076	—	—	3,076
Total common stock and OP Units outstanding	—	—	—	129,980
Noncontrolling interest in the Company OP	—	—	—	2.4%

(i) Includes the issuance of fractional shares, aggregating to approximately 21,000 shares, for which holders received cash in lieu of the fractional shares.

## 5. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations

### Fair Value Adjustments

(aa) The following table presents adjustments to reflect:

- elimination of historical amortization of loan origination costs and fees;
- revised amortization of above- and below-market leases based on fair value of real estate related intangibles as a (decrease) increase to property operating income based on remaining lease terms of 1 to 10 years (refer to the description of how pro forma fair values of NorthStar I and NorthStar II were estimated with respect to real estate and related intangibles in Note 4(a) above);
- elimination of historical amortization of deferred financing costs;
- revised depreciation based on fair value of real estate with useful lives of 30 to 40 years (refer to the description of how pro forma fair values of NorthStar I and NorthStar II were estimated with respect to real estate and related intangibles in Note 4(a) above);
- revised amortization of in place leases and deferred leasing costs based on fair value of real estate related intangibles with remaining lease terms of 1 to 10 years (refer to the description of how pro forma fair values of NorthStar I and NorthStar II were estimated with respect to real estate and related intangibles in Note 4(a) above); and
- fair value adjustments to net income that are attributable to noncontrolling interests in investment entities (refer to the description of how pro forma fair values of NorthStar I and NorthStar II were estimated with respect to noncontrolling interests in investment entities in Note 4(a) above).

(In thousands)	Year Ended December 31, 2017		
	NorthStar I	NorthStar II	Total
<b>Revenues</b>			
Interest income	\$ 997	\$ 478	\$ 1,475
Property operating income	1,636	(716)	920
Total revenues	2,633	(238)	2,395
<b>Expenses</b>			
Interest expense—loans receivable	(2,626)	(3,324)	(5,950)
Interest expense—real estate	(1,329)	(563)	(1,892)
Depreciation and amortization	14,629	10,584	25,213
Total expenses	10,674	6,697	17,371
<b>Net income (loss)</b>	(8,041)	(6,935)	(14,976)
Net loss attributable to noncontrolling interests in investment entities	(1,393)	(292)	(1,685)
<b>Net income (loss) attributable to Colony NorthStar Credit Real Estate, Inc.</b>	<u>\$ (6,648)</u>	<u>\$ (6,643)</u>	<u>\$ (13,291)</u>

### Consolidation Adjustments

(ab) The contribution of the CLNS Investment Entities to the Company and the subsequent mergers of NorthStar I and NorthStar II into the Company trigger consolidation reassessments, which are expected to result in the deconsolidation of certain CLNS Investment Entities and the consolidation of two NorthStar securitization trusts, as described in Note 4(b).

Accordingly, pro forma adjustments are made to reflect the following:

- deconsolidation of the revenues and expenses of certain of the CLNS Investment Entities, and accounting for the Company's share of net income from these CLNS Investment Entities as earnings from investments in unconsolidated ventures; and
- consolidation of the revenues and expenses of the two securitization trusts, and elimination of interest income from the securities held by the Company in these trusts.

(In thousands)	Year Ended December 31, 2017		
	Deconsolidation of CLNS Investment Entities	Consolidation of NorthStar Securitized Trusts	Consolidation Adjustments, Net
<b>Revenues</b>			
Interest income	\$ (60,787)	\$ 119,233	\$ 58,446
Other income	(377)	—	(377)
Total revenues	(61,164)	119,233	58,069
<b>Expenses</b>			
Interest expense—loans receivable	(4,945)	120,071	115,126
Transaction, investment and servicing expense	(175)	4,085	3,910
Administrative expense	(234)	—	(234)
Total expenses	(5,354)	124,156	118,802
<b>Other income</b>			
Other loss/gain, net	372	4,923	5,295
Earnings from investments in unconsolidated ventures	17,469	—	17,469
<b>Net income (loss)</b>	\$ (37,969) <sup>(i)</sup>	\$ —	\$ (37,969)
Net income attributable to noncontrolling interests in investment entities	718 <sup>(ii)</sup>	—	718
<b>Net income (loss) attributable to Colony NorthStar Credit Real Estate, Inc.</b>	\$ (38,687)	\$ —	\$ (38,687)

- (i) The adjustments result in an overall decrease in net income to reflect only the Company's share of net income of the deconsolidated CLNS Investment Entities. The decrease represents the remaining share of net income in the deconsolidated CLNS Investment Entities attributable to the Co-Investment Funds.
- (ii) Net income in remaining consolidated CLNS Investment Entities that is allocated to third party owners is presented as net income attributable to noncontrolling interests in investment entities.

#### Other Pro Forma Adjustments

- (ac) Adjustments to interest income and interest expense—loans receivable are as follows:

*NorthStar I Excluded Asset*—removal of (i) interest income on the NorthStar I Excluded Asset; and (ii) interest expense on the debt financing of the NorthStar I Excluded Asset for the year ended December 31, 2017; and

*Secured financing transactions*—elimination of interest income and interest expense related to (i) a loan receivable previously acquired by NorthStar I from the CLNS Investment Entities that was treated as a secured financing by the CLNS Investment Entities for the year ended December 31, 2017; and (ii) a loan receivable previously acquired by NorthStar II from NorthStar I that was treated as a secured financing by NorthStar I for the year ended December 31, 2017.

(In thousands)	Year Ended December 31, 2017			
	CLNS Investment Entities	NorthStar I	NorthStar II	Total
<b>Interest income:</b>				
NorthStar I Excluded Asset	\$ —	\$ (11,081)	\$ —	\$ (11,081)
Secured financing transactions	—	(1,390)	(980)	(2,370)
				\$ (13,451)
<b>Interest expense—loans receivable:</b>				
NorthStar I Excluded Asset	\$ —	\$ (2,379)	\$ —	\$ (2,379)
Secured financing transactions	(1,390)	(980)	—	(2,370)
				\$ (4,749)

- (ad) Reflects (i) removal of historical management fee expense of NorthStar I and NorthStar II relating to their existing ongoing advisory agreements; and (ii) recognition of management fee expense for the Company of \$47.9 million for the year ended December 31, 2017 based on 1.5% per annum of pro forma stockholders' equity, as defined in the new management agreement between the Company and CLNC Manager, LLC, a wholly owned subsidiary of CLNS OP (the "Manager"). No incentive fee was deemed earned based on pro forma results for the year ended December 31, 2017.

- (ae) Reflects the elimination of (i) non-recurring transaction costs incurred in the year ended December 31, 2017 by NorthStar I and NorthStar II in connection with the Combination of approximately \$13.1 million; and (ii) servicing fee expense for the year ended December 31, 2017 related to the NorthStar I Excluded Asset.
- (af) Adjustment reflects a decrease in allocated administrative expenses under the terms of the new management agreement between the Company and the Manager, which allows for a time-based allocation of certain of the Manager's compensation and overhead costs, excluding primarily executive management and investment personnel costs (other than the Company's chief financial officer). The historical financial statements of the CLNS Investment Entities reflect an allocation of all compensation and overhead costs based upon a relative assets under management calculation.
- (ag) Adjustment reflects the attribution of net income to noncontrolling interests in the Company OP based on its pro forma ownership of 2.4% (see Note 4(h)).

#### 6. Pro Forma Earnings Per Share

Pro forma basic and diluted weighted average shares outstanding are calculated as follows:

<u>(In thousands except exchange ratio)</u> <u>Year Ended December 31, 2017</u>	<u>CLNS Contributed</u> <u>Portfolio</u>	<u>NorthStar I</u>	<u>NorthStar II</u>	<u>Pro Forma Colony</u> <u>NorthStar Credit</u> <u>Real Estate Inc.</u>
Historical weighted average common shares—basic and diluted	NA	119,757	114,631	
Exchange ratio	NA	0.3532	0.3511	
Average outstanding shares of common stock to be issued in the mergers	NA	42,299	40,247	82,546
Average outstanding shares of common stock to be issued in consideration for the CLNS Contributed Portfolio	44,399	—	—	44,399
Pro forma weighted average shares of Class A and Class B-3 common stock—basic and diluted (i)				<u>126,945</u>

- (i) Excludes 3,075,623 OP Units, which are redeemable for cash, or at the Company's option, shares of Class A common stock on a one-for-one basis, and therefore would not be dilutive.