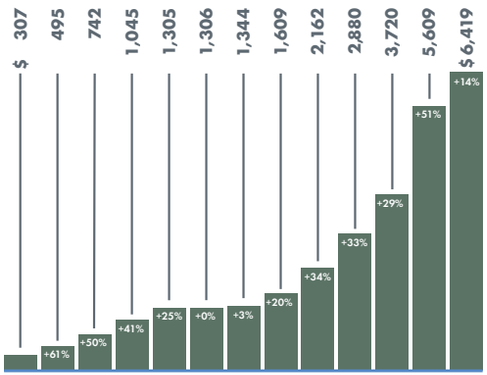
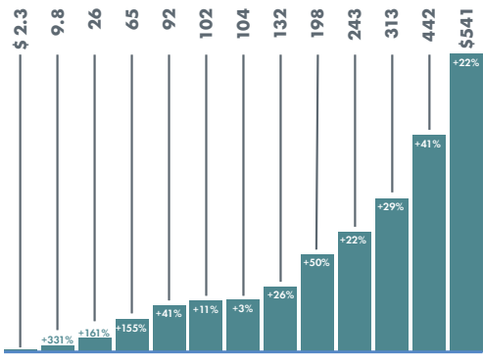

CAROLINA PINES
REGIONAL MEDICAL CENTER
MUSC Health
Physician
Parking

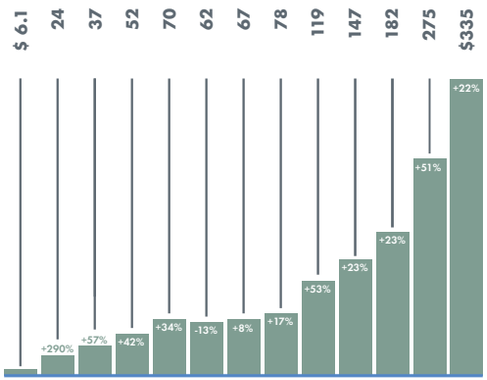
## STRENGTH IN NUMBERS
(IN MILLIONS)




**TOTAL ASSETS**
(2004 - 2016)




**TOTAL REVENUE**
(2004 - 2016)




**NORMALIZED FUNDS FROM OPERATIONS**
(2004 - 2016)

**ON THE COVER:**
Carolina Pines Regional Medical Center in Hartsville, SC, is part of RCCH HealthCare Partners, which was created by the merger of Capella Healthcare and RegionalCare in April 2016 – a merger MPT helped facilitate. RCCH currently operates 16 regional health systems across 12 states.

# IT WAS A VERY GOOD YEAR.

We began 2016 by creating yet another valuable relationship with one of the leading hospital operators in the United States – RCCH HealthCare Partners – welcoming them in April through a transaction that generated $600 million for MPT. And that relationship continues to grow as we complete additional sale/leaseback transactions together.

That marked only the first of several strategic transactions designed to improve our capital structure and position MPT for continued growth. By mid-year, we had committed to the profitable sales of $800 million worth of hospital properties, proving the value of our assets and the strength of our underwriting team.

Then we pivoted to create a new relationship with Boston-based Steward Health Care, another industry-leading operator. Our $1.25 billion investment in nine community hospitals included a right of first refusal to acquire the next $1 billion of Steward's growth beyond Massachusetts. Like our relationship with RCCH, this has already resulted in attractive additional acquisition opportunities.

We also refinanced MPT's long-term debt with lower rate borrowings, replaced short-term, variable rate loans with long-term, low fixed-rate debt and negotiated a new credit facility with lower rates and more flexible terms.

Perhaps most importantly, we continued our long-standing tradition of *doing what we say we will do*.

As we move forward, we know that – no matter what changes may occur in the Affordable Care Act, the stock market or the capital market – hospitals will continue to be the centerpiece of any healthcare system.

"People will always need hospitals," as our chairman Ed Aldag is fond of saying. And that is where MPT's focus will remain – ***"At the very heart of healthcare."***

# STRENGTH ACROSS THE BOARD

**247**
PROPERTIES

Medical Properties Trust's preeminent position of strength is the result of faithful execution of our unique business plan, and our performance in 2016 provided yet more evidence of the benefits of that consistent execution. Year after year, your company continues to demonstrate operational success while delivering exceptional shareholder value.

In 2016, we cemented our position as the leading provider of real estate capital to experienced hospital operators across the United States and Western Europe, helping them take advantage of growth opportunities by unlocking the value of their real estate assets. In the process, we achieved all of the operational and strategic goals we set for ourselves.

With a focus on strengthening our portfolio, our balance sheet and our team, we successfully and profitably enhanced our portfolio by capturing inexpensive capital from asset sales in the first half of the year and allocating that capital to compelling new investment opportunities in the second half.

Our team made commitments of approximately $1.8 billion in new investments in 2016, growing MPT's total gross asset base to $7.1 billion, including $4.7 billion in general acute care hospitals, $1.7 billion in inpatient rehabilitation hospitals and $0.4 billion in long-term acute care hospitals. Despite our profitable disposition of more than $750 million in assets in 2016, we have grown our total assets by $2.7 billion over the past two years and, just as importantly, increased normalized funds from operations per diluted share by 21 percent. Since our founding in 2003, we have created a hospital portfolio that includes 247 properties representing more than 27,000 licensed beds across 30 U.S. states and in Germany, the United Kingdom, Italy and Spain.

Over the past year, we not only maintained our position as "the established leader" in the hospital REIT sector, but also reinforced our strong foundation for growth and success in 2017 and beyond. Across the board, we are excited about what our team accomplished in 2016 and what it means for our future.

## PRESERVING OUR STRONG BALANCE SHEET

We have always operated MPT with a strong, long-term capital structure including prudent levels of debt. During 2016, we took steps to even further strengthen our balance sheet. Through a combination of strategic asset sales, opportunistic refinancing of long-term debt and the solid execution of our strategy, we reduced our leverage, improved liquidity and positioned MPT for long-term growth.

**2ND**
LARGEST U.S.-BASED OWNER OF FOR-PROFIT HOSPITAL BEDS

In the first half of 2016, we executed approximately $800 million in very profitable asset sales and we recently secured a new $1.7 billion unsecured credit facility at historically low interest rates. We also completed unsecured bond offerings during the year whose proceeds were used to repay borrowings under our revolving credit facility and substantially reduce ongoing interest expense.

We currently have no meaningful scheduled debt maturities until 2022. Our year-end leverage metric of approximately 5.1 times net debt to EBITDA is one of the lowest leverage levels in the healthcare REIT sector. We are committed to maintaining our conservative debt metrics and to continuing to manage the company's capital structure to increase value for the long term.

## SUSTAINING STRENGTH THROUGH ACQUISITIONS

The purchase of Capella Healthcare for $900 million in 2015 marked what was then the largest acquisition in MPT's history, and it brought an outstanding operator and increased diversification to our portfolio.

In the first quarter of 2016, as we repositioned MPT's portfolio for accretive growth, we agreed to facilitate the merger of Capella Healthcare with RegionalCare, which created RCCH HealthCare Partners. Following the merger, MPT maintained ownership of six facilities and our new relationship


with RCCH has only grown stronger. Backed by Apollo Global Management, RCCH currently operates 16 regional health systems in 12 states and we continue to look for opportunities to invest in RCCH's growth.

On the heels of the RCCH merger, we turned our attention to Steward Health Care as part of our strategic plan to sustain MPT's trajectory of highly and immediately accretive growth. In October, we acquired the real estate assets of nine Steward acute care facilities in a $1.25 billion transaction – currently our largest ever.

This investment not only aligned MPT with another industry-leading acute care provider, but also expanded our acquisition pipeline by providing the right of first refusal to purchase an additional billion dollars in real estate from Steward in the future.

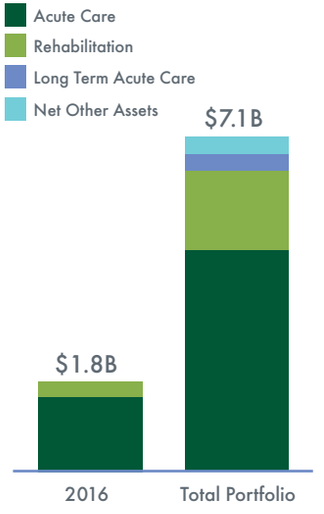
In the fourth quarter of 2016, we also completed the acquisition of 12 post-acute hospitals to be operated by Median and its affiliates in Germany and we expect to complete additional investments in the first half of 2017.

Our ability to complete transactions such as these demonstrates the significant value of our assets as well as the strength of our underwriting process, and we are confident that each of these opportunities has created value for our shareholders. Looking ahead, we are pleased to see significant acquisition opportunities as operators with proven healthcare delivery models look to expand into new markets with the assistance of MPT.

During 2017, we expect to complete between $500 million and $1 billion in acquisitions and will explore additional asset sales, joint venture opportunities and other transactions as a means of maintaining our prudent capital structure. We will continue to carefully evaluate each strategic opportunity for immediate positive financial impact and long-term value creation.

## A STRONG YEAR FOR ACQUISITIONS:

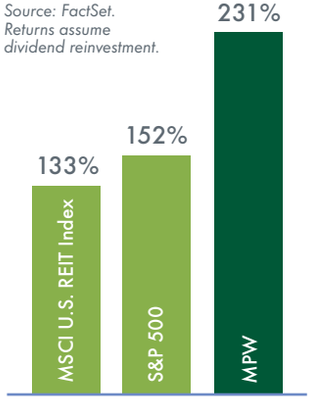
Properties by Type
(in billions)




## INVESTOR RETURNS:

MPW vs. S&P 500 and U.S. REIT Index

*Source: FactSet. Returns assume dividend reinvestment.*



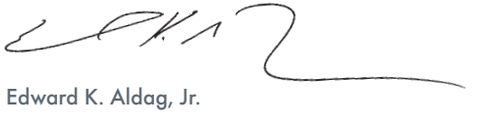

From MPW's IPO on July 7, 2005 through April 7, 2017.

## ENHANCING A STRONG PORTFOLIO

In addition to growing our company, the transactions we completed throughout 2016 also allowed us to further develop and diversify our portfolio. We improved our tenant concentration levels to the best levels in MPT's history. At the end of the year, our largest tenant represented only 17.5 percent of our total portfolio and the largest investment in our portfolio represented only 3.3 percent of our total portfolio. MPT's properties are now leased to, or mortgaged by, 30 different hospital operating companies and MPT is represented in 30 different states.

On behalf of the Board of Directors, as well as our senior management team and the dedicated employees of MPT, I want to thank you for your continued support. We remain committed to being the leading provider of capital to the hospital industry and delivering value to all of our shareholders as we continue to build on MPT's abiding strengths.

Sincerely,



Edward K. Aldag, Jr.
Chairman, President and Chief Executive Officer

# BECAUSE HEADLINES DON'T MATTER

*The pressure is always on, because the headlines are always breaking.*

Good news. Bad news. Fake news. It all converges.

And sometimes – often times – it's hard to sort out which is which.

Yet the pressure keeps building.

"Our job is not to react to headlines," said Steve Hamner, MPT's Executive Vice President and CFO, "it's to take wise and prudent steps based on the core realities of MPT's strengths – to take advantage of real opportunities."

"At MPT, we invest in assets that have years of useful lives – of 30 to 50 years or more," he added. "We're not going to manage our company as if our assets had a shelf life of only five or six months."

Turn the clock back to the third quarter of 2015, right after MPT had announced plans to invest $900 million in Capella Healthcare, one of the most dynamic hospital operating companies in the U.S. The transaction would include $600 million for the real estate assets of Capella's nine acute care hospitals plus $300 million for Capella's operations, together constituting then the largest acquisition in the company's history.

Hamner and MPT's CEO Ed Aldag were excited. But, given market conditions, not every analyst and investor shared in the excitement.


## FACING UNFAVORABLE HEADWINDS

Remember the prevailing market conditions, particularly those affecting the healthcare sector. In the prior quarter, some of the largest hospital operating companies had just failed to meet analysts' projections. Nearly everyone was worried that interest rates would soon be heading higher, and the Affordable Care Act was not exactly living up to promised cost savings – no, quite the opposite.

On top of all that, some analysts and investors were expressing some concerns about MPT's sizeable investment in Capella's operations, wondering if the timing was right for such an investment.

All of those converging forces cast a shadow over MPT's stock offering of August 2015, a month in which the Dow Jones Industrial Average would ultimately drop by more than 1,000 points. MPT's offering in the first week of that month simply didn't go well. "We were trying to raise $600 million (to help pay for the Capella deal) and we only raised $337 million," said Aldag. "That's a big overhang."

As Aldag declared at MPT's Analyst and Investor Conference in New York in November 2015, "We believe our portfolio is seriously undervalued, and we are prepared to take steps to confirm its true value. If that means selling some of our assets, then that's what we're going to do..."


Some commentators and analysts were sure MPT's options were limited to selling common shares even at discounted valuations.

"That would have been the fastest thing to do," said Hamner, "but accessing capital in that manner would have diluted our shareholders' interests. We knew that we were strong enough that we did not have to go down that path, especially with the entire market in turmoil."

## THE LUXURY OF PATIENCE

"The most critical job of MPT management is to invest only in hospitals that the local community views almost as infrastructure; if they were to close for any reason, healthcare in the community would suffer," the CFO explained. "We are confident that any hospital needed by its community can be operated profitably even if an operator must be replaced."

"MPT has built its portfolio and its success on the foundation of such hospitals," Hamner added. "That is the source of our strength, and it gives us the luxury of patience. We don't have to follow conventional thinking and do something in the short run that would be bad for our shareholders in the long run."

Carefully, prudently over the next seven months, MPT explored sales of its own assets and, as Aldag noted, "Everything was on the table."

The extraordinary value to MPT of its earlier acquisition of Capella became the first demonstration of portfolio strength. MPT helped facilitate a merger of Capella and RegionalCare into a new entity known as RCCH HealthCare Partners, which generated proceeds exceeding $600 million for MPT – affirming the value MPT had seen in Capella's operations.

**"The execution of our asset repositioning and deleveraging strategy has been nothing short of outstanding"**

Together with other asset sales (including three modern HealthSouth rehabilitation hospitals for $111.5 million), MPT harvested more than $800 million from its own portfolio and the proceeds were quickly applied to pay down debt and strengthen the balance sheet.

As Hamner noted, "We demonstrated the long-term value of MPT's business plan, which from the beginning has been focused on acquiring and improving the value of hospital real estate. And we avoided the substantial dilution of our shareholders by *drawing on our own strength*."

## PIVOTING TO THE NEXT BIG DEAL

"The execution of our asset repositioning and deleveraging strategy has been nothing short of outstanding," Aldag proclaimed in early May 2016, noting, "It was only late last year that we initiated this plan" – a strategy that successfully repositioned MPT among the best capitalized REITs in the healthcare sector.

The asset sales also confirmed the strength of the company's underwriting process and positioned Medical Properties Trust for its next major transaction, the $1.25 billion investment in the real estate assets of Boston-based Steward Health Care.

Discussions with Steward had begun in the summer of 2015 when Steward CEO Ralph de la Torre, MD, and his management team were looking for a new capital partner. They wanted to take the integrated healthcare delivery model they had developed and refined over the past five years beyond their Massachusetts base.

De la Torre flew to Birmingham to meet with Aldag, and the meeting went well. Each was impressed with the strengths of the company the other had built, and they felt destined to work together. Plus they liked each other personally, and trust – the most important element – began to build.

It seemed a natural fit. Steward Health Care had proven its model in the competitive Boston market by building a strong brand around community hospitals that it had turned around and measurably strengthened, demonstrating that top quality healthcare can be delivered in highly competitive settings. And Medical Properties Trust had proven the effectiveness of its sale/leaseback model by successfully deploying it for the benefit of hundreds of hospitals across the U.S. and Western Europe.

The same market conditions that impacted the entire REIT world in late 2015 served to delay the ultimate conclusion of the negotiations between MPT and Steward, but when capital markets stabilized and MPT had recapitalized its balance sheet in 2016, Aldag and de la Torre reestablished contact.

"We knew that no one else could move as fast as we could move together," Aldag remarked. And he was right on the money. By early October 2016, MPT had made a $1.25 billion investment in the real estate of nine Steward hospitals, all in Massachusetts.

"What we demonstrated in 2016 is that *headlines don't matter*," observed Hamner. "We manage for the long term – the sustainable term of the lives of our assets – and when that value is needed it will be there for us to call on again."


St. Elizabeth's Medical Center
A STEWARD FAMILY HOSPITAL
WASHINGTON ST
EMERGENCY
MAIN ENTRANCE

# THE PERFECT FIT

*With MPT's backing, Steward Health Care is ready to take high-quality, affordable healthcare far beyond Boston.*

For Ralph de la Torre, *affordable care* isn't just an act.

It's a quest.

And one he's been on for most of his professional life.

The former chief of cardiac surgery at Beth Israel Deaconess Medical Center in Boston and the founder of its Cardiovascular Institute, Dr. de la Torre left a thriving medical practice in 2008 to become CEO of Caritas Christi Health Care, a struggling Catholic health system serving the Greater Boston area.

Dr. de la Torre, who had been performing 300 cardiovascular surgeries a year, decided to trade his surgical scrubs for C-suite pinstripes and earn new stripes as a healthcare leader. He came at the invitation of the Catholic Archbishop of Boston, who had appealed to other Catholic systems to assume Caritas's operations, but no one stepped forward.

De la Torre saw it as an opportunity to turn things around.

He also thought Caritas Christi would be a good place to make a stand for *vertically integrated* healthcare, and use the fulcrum of his vision to move the world.

"I've seen medicine throughout every component, up to and including the hardcore business side of it – all the good, the bad, and the well-intended policies," said Dr. de la Torre, "and I've seen how the loopholes get exploited and self-serving policies come into play."

"It's a system that needs to be *restructured*," he observed, "not just reformed."

## STRENGTHENING EXISTING HOSPITALS

Before de la Torre could address the structure of the Caritas system, he had to make the individual hospitals strong. With the help of the "rock star" team of fellow physicians and healthcare experts he assembled, de la Torre began cutting operating costs, strengthening inventory controls, improving quality standards and eliminating unnecessary staff.


"De la Torre envisioned Steward as a community-based, patient-centered, vertically integrated healthcare organization that would not just compete with the best hospitals in the area, but also collaborate."

He also recruited more than 100 leading physicians because he knew that physicians would be the backbone of a reenergized system. Plus, he invested heavily in IT to make Caritas Christi more competitive with academic medical centers.

To do more, he needed capital, so in 2010, he developed a business plan for a new type of health care system which would thrive in the environment of the impending Affordable Care Act. Orchestrating a road show to guage interest in this new, dynamic model, he selected a private equity partner, Cerberus Capital Management, who agreed to invest $835 million to fund this new company, Steward Health Care.

The six hospitals of Caritas Christi became Steward's first acquisition, and part of the capital infusion from Cerberus was deployed to upgrade facilities – to the tune of $400 million. That included renovating such areas as emergency departments, operating rooms and obstetrical units – all of which helped enhance the facilities' reputations as hospitals of choice.

De la Torre envisioned Steward as a community-based, patient-centered, vertically integrated healthcare organization that would not just compete with the best hospitals in the area, but also collaborate.

## COMPETING *AND* COLLABORATING

"We're very lucky to have some of the best hospitals in the world here in Boston, and we try to take advantage of that when we can," explained Michael Callum, MD, who heads Steward's Physicians Services Group.

"For example, Brigham and Women's Hospital (a 793-bed teaching affiliate of Harvard Medical School) does all of our neonatology. They send their doctors to our hospitals and staff our neonatal intensive care units – and it's a win-win for both institutions."

"We have a similar partnership for trauma with Mass General (another Harvard Medical affiliate) and the Brigham," he noted. "I think it gives people comfort knowing that if there is something that we feel is more appropriately taken care of in an academic medical center, they are going to be getting the best care in the world. I think it also elevates our brand."

Steward was launched in 2010 – the same year that the Affordable Care Act was passed by the U.S. Congress.

When the Medicare Pioneer Accountable Care Organization (ACO) program was introduced two years later, Steward "jumped at the opportunity to become one of the early pioneer

ACOs," said Dr. Mark Girard, President of the Steward Healthcare Network.

As one of only 32 ACO's selected, Steward was given a fixed budget for taking care of all the healthcare needs of its Medicare patients instead of being reimbursed for each procedure, test or hospital visit.

This pilot program included incentives for providers to coordinate patient care and work proactively to keep patients healthy. Steward did just that, becoming one of the best performers in the nation in achieving cost savings.

But at Steward, *accountable care* is not just a pilot program. "It's what we do," said Dr. de la Torre. The idea is to "*own the patient*" – by taking full responsibility for providing all the healthcare the patient may need.

### TRANSITIONING TO LOWER-COST SETTINGS

"The Steward model is pretty simple," explained Dr. Callum. "It's about keeping care in the local communities where people live, and providing *the right care in the right setting at the right time*."

# Steward's Biggest Challenge

As Secretary of Health and Human Services for the Commonwealth of Massachusetts from 2013 to 2015, John Polanowicz met with the presidents or CEOs of nearly every healthcare system across the state.

Many complained about Medicaid rates being too low, Polanowicz remembers, but only one kept saying, "You need a different model."

And that was Ralph de la Torre of Steward Health Care, who was concerned that the healthcare needs of 1.6 million Medicaid members in Massachusetts were completely unmanaged.

As executive vice president of Steward's Hospital Services Group, Polanowicz is most excited about the model that de la Torre and his team have refined over the past seven years, which is "all about being accountable for the care of a population."

### THINKING TWO STEPS AHEAD

"We've gotten away from the 'if we built it they will come' philosophy or the idea that every hospital has to be everything to everybody," Polanowicz observed. "It's really more about what is the population we're serving, what are their needs, and do we have the right services at the hospital to meet those needs? Plus, should those services be performed in the hospital, or in the physician's office, or in the community setting?"

"That's kind of *thinking two steps ahead* to where should we be in terms of providing care for a population," he added.

"For so long, the care has been focused on the hospital side," Polanowicz noted, "but we realized that some care needs to happen in the hospital, and other care needs to occur outside the hospital setting." And where it happens affects costs.

### BEING THE RIGHT PARTNER

"The great thing about our model is that it is rooted in a physician-led and physician-run culture," said Polanowicz who is not a physician but an integral part of the Steward team, with impressive healthcare credentials in both public and private sectors.

"At the end of the day, the Steward model is about *doing the right thing for the patients* and *being the right partner for the communities we serve*," noted the West Point graduate who served overseas with an Army Blackhawk helicopter unit and earned an MBA from Stanford following his military service.

Stepping back to think about the opportunities Steward has created for itself from the 19,000-foot level (which is the ceiling for a Blackhawk), Polanowicz reflected, "I think our challenge – really candidly – is keeping up with Ralph."

"Everybody talks about healthcare reform and driving down costs, but the only way you can really do that is by providing care in a lower-cost setting," he explained. "Eighty-five percent of hospital care can be done well with great quality in a community hospital, and that's been our model."

"We know that a large amount of the care in academic tertiary medical centers could easily be done in a community-based hospital at comparable or improved quality and much lower cost," said Dr. Girard. "If you transition that care, you can achieve a 20 percent reduction in total medical expense."

As they continued to refine the model, the Steward leadership team began looking outward for new opportunities beyond Massachusetts. In the summer of 2015, de la Torre came to see Ed Aldag, the Chairman, President and CEO of Medical Properties Trust, to explore the idea of expanding Steward's footprint using MPT's capital funding model.

## SHIFTING TO AN 'ASSET-LIGHT' MODEL

It's a sale/leaseback model whereby MPT acquires the real estate assets of a hospital and leases the facility back to the operator on a long-term basis.

Also referred to as an "*asset-light*" model, it's much like the one employed by leading hotel chains such as the Four Seasons and Ritz Hotels, which sometimes forego real estate ownership to build profitability and growth through operations and exceptional customer service.

# Steward Snapshot:

Steward Health Care is the largest fully integrated healthcare services organization and community hospital network in New England.

**Founded:**
2010

**Headquarters:**
Boston, MA

**Hospitals:**
10 (all in Massachusetts)

**Serving:**
150 communities

**Physicians:**
800+ (Steward Medical Group)

**Patient Encounters/Year:**
1Million (Steward Medical Group)

**Affiliated Physicians:**
2,800+
(Steward Health Care Network)

**Patient Encounters/Year:**
4 million
(Steward Health Care Network)

**Employees:**
17,000+
(Top five employer in Massachusetts)

**Hospitals Being Acquired in 2017:** 8
(3 in Florida, 3 in Ohio, 2 in Pennsylvania)

Aldag and de la Torre hit it off immediately, sharing similar philosophies about the importance of hospitals to the future of healthcare. Soon thereafter, MPT's careful underwriting process began and team members on both sides of the due diligence found themselves impressed with each other.

"The MPT folks were people that you wanted to be in partnership with," recalled John Polanowicz, who heads Steward's Hospital Services Group. "They were asking the right questions – the kind of questions that we, as hospital operators, ask ourselves."

## STAYING CLOSE

As things turned out, the deal didn't move forward in 2015 due to market conditions, but as Aldag said, "Ralph and I knew that we wanted to be in business together and we stayed in close contact. As soon as the markets came back, I called him to say I think we can do this deal now, and he was delighted."

Part of the deal with Steward that closed at the beginning of October – the largest in MPT's history at $1.25 billion for nine hospitals – was the right of first refusal on the next $1 billion of Steward acquisitions. MPT expects to begin exercising that option in 2017 as Steward has announced plans to purchase hospitals from a large operator.

As John Polanowicz noted, "The original deal with MPT positioned Steward for success going forward, and here we are – less than six months later – *growing again* with the help of MPT."

**"I think you are going to see a lot more people looking at MPT's model in the very near future."**

"What's really important for Steward is continued growth," Dr. Callum added. "For us to take our model outside of Massachusetts and to grow not only as a company, but to try and change the way healthcare is delivered across the country, MPT's asset-light model is really important."

"We're at the forefront of that right now," he reflected, "but I think you are going to see a lot more people looking at MPT's model in the very near future."

"It's the *perfect fit*," declared Ralph de la Torre, the unquestioned visionary at the heart of the Steward model. "In fact, it's the *only* fit I see."

And clearly, it's the right *next step* in his continuing quest.

# AN EXTRA LAYER OF CARE

*With a virtual team of critical caregivers always on call, bedside care in the ICU improves – and so do patient outcomes.*

Critical care doctors and nurses are in short supply, but needed more than ever. That's why forward-thinking providers like Steward Health Care "beam" them into intensive care units *virtually*.

Michelle Fey calls it "a second set of eyes" – to monitor every patient in intensive care at every Steward hospital, night and day. But not just any eyes.

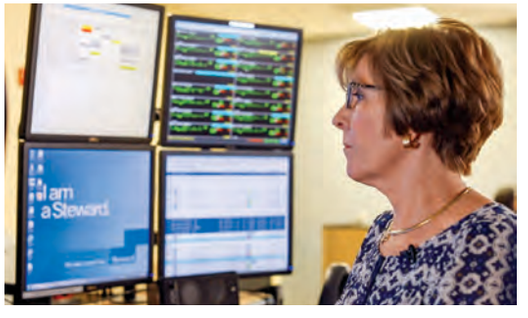
As Vice President of Clinical Operations at Steward, Fey knows that the eyes of the Steward eICU team are exceptionally well focused and highly experienced.

Take Kathy Doyle, RN, for example, who spent 35 years as a critical care nurse mainly at Steward's Carney Hospital before joining the Steward eICU Program in Westwood, MA, five years ago. She's handled thousands of critical care cases in her career and knows what to look for as she scans the bank of monitors transmitting real-time images to her workstation from individual patient rooms.

## ZOOMING IN ON POTENTIAL PROBLEMS

Through high-definition video cameras, she can zoom in on a patient's oxygen meter to check levels, pan to an IV monitor to make sure the medication drip is right, or look to make sure a patient's breathing tube is secure. As a result, she can alert a bedside nurse to solve a problem or intervene to prevent the progression of an illness.

"We can speak with the bedside nurse about what might be happening and discuss treatment options before the patient's condition worsens," Doyle explained. "If we can catch things before they get bad, the outcome will be better."




> "With sophisticated algorithms, they can detect subtle changes in a patient's vital signs"

If a nurse is tied up with a patient in one room and a patient in another room begins to get restless or agitated and an alert sounds, Doyle can "camera in" and ask, "Do you need anything?"

"The patients can hear us as well as see us," she noted. "Our pictures are up on the monitor in the patient's room."

## MONITORING VITAL SIGNS WITH SOPHISTICATED ALGORITHMS

Computers in the Steward eICU command center are connected to monitors in the patient's room. Using software with sophisticated algorithms, they can detect subtle changes in a patient's vital signs from trending data, even before a bedside alarm is triggered.

The eICU nurses can also gather information on a patient while bedside nurses are busy checking on their patients first thing in the morning. "If we see something like a critical lab that needs to be addressed, we can notify them

and they can get the doctor to write an order *sooner*," Doyle explained. And that might result in an earlier discharge from the ICU.

Nurses at the bedside can also call on eICU nurses for help.

"If there is a lot going on in real time with a critically ill patient, a doctor may order a new medication," Fey noted. "The bedside nurse can then call in from the patient's room and ask a Steward eICU nurse, 'Can you look up this medication and let me know if it is compatible with what I already have running for this patient?' That way, the nurse doesn't have to leave the patient's bedside to go look it up."

"I know what the bedside nurses are going through," Doyle said. "I know they are really busy, and we are here to support them any way we can."

## IMPROVING OUTCOMES

Steward's eICU command center is staffed around the clock with registered nurses who work 12-hour shifts and healthcare associates who handle non-medical tasks, and help quantify and record data.

"One of the most significant things we provide is a board certified critical care doctor to monitor every patient overnight, from 7:00 p.m. to 7:00 a.m.," Fey said.

"These physicians, known as 'intensivists,' have been trained in pulmonary medicine or anesthesiology and have completed a fellowship in critical care medicine," she added. "Studies have shown outcomes are better when critically ill patients are managed by an intensivist."

Doctors at each hospital determine the plan of care for ICU patients and make rounds during the day, then they sign off for the night and hand the care over to the doctor in the Steward eICU. The intensivist's role is to make sure standardized treatment protocols are followed overnight and to address any problems that may arise.

All in all, it's an extra layer of care designed to enhance quality and improve outcomes while reducing costs.

# EXTENDING THE LEAD

*MPT and Median keep building a special European union.*

Median, Germany's leading chain of private rehabilitation hospitals, took another major step forward in 2016 under the steady hand of Dr. André Schmidt, the company's forward-thinking CEO.

In the third quarter, Berlin-based Median announced the takeover of Düsseldorf-based AHG Allgemeine Hospitalgesellschaft and its 45 hospitals and sociotherapeutic centers in a merger that's expected to boost Median's annual revenues to nearly €1 billion. The deal also moved the company closer to Schmidt's long-term goal of locating a Median facility within one-hour's drive time of everyone in Germany.

Medical Properties Trust first became involved with Dr. Schmidt in 2013, when he was the CEO of RHM Kliniken ("RHM"), looking for a capital partner. MPT purchased the real estate assets of 11 RHM rehabilitation hospitals, marking the very first hospital portfolio investment in Europe by a U.S. healthcare REIT.

Subsequently, MPT became the capital source once again for RHM's equity partner, Waterland Private Equity, as they acquired 32 German facilities operated by Median Kliniken and merged the two companies with Dr. Schmidt at the helm.

## BUILDING PARTNERSHIPS

"This is a great example of *lasting partnerships* that MPT has been able to form with companies at the leading edge of healthcare," said R. Steven Hamner, MPT's Executive Vice President and CFO.

"From our perspective, we get linked with industry-changing companies in their own markets and gain from that experience, and they get to team up with *a capital source that knows their business uniquely, like no one else does*," he added.

"When MPT first went into Germany, everyone told us you can't do that; rehab is too much of a 'mom and pop' market and you won't be able to find a way to grow it," Hamner noted.

"And yet here we are, three years later, and we own the hospitals of the largest private rehab operator in Germany and we are *helping them grow their platform*," the CFO concluded. "Median is another great example of MPT being on the cutting edge."

## BELIEVING IN ANDRÉ SCHMIDT

Recalling the early days of what has become an abiding relationship, MPT's CEO Edward K. Aldag, Jr., said, "I went over and met with André and totally fell in love with his leadership ability. I believed that he was truly the only person capable of bringing all those various facilities together under one roof."

"We decided that we wanted to work together," Schmidt remembers, "and that's also true now as we refine our targets. I think it's going extremely well for both sides."

"The relationship remains strong on a professional level and a highly personal level – just as it has been for the past four years. It hasn't deteriorated whatsoever – only improved," Schmidt concluded. "It's very important that Ed wants to keep Median strong."

Strong is certainly the word for Median today.

With the acquisition of AHG, Median grows to 120 facilities with 17,500 hospital beds across 14 of the 16 German federal states, with nearly 15,000 employees who can treat more than 225,000 patients each year. Median not only remains the #1 private rehabilitation services provider in Germany, but also becomes its fifth-largest hospital chain.

"Our first horizon for growth is still Germany, where we have a little more than 10 percent of the overall market – so there is still a lot of room to grow," Schmidt said.

## GROWING THROUGH DIGITAL PLATFORMS

He sees a second growth opportunity in digital platforms. "It's not just IT anymore, it's '*digitalization*.' We are developing digital solutions to keep patients connected to the Median network after they have been discharged," he explained.

Median is now piloting a program in two hospitals known as "MEDIANET," through which a patient can send personal information and insurance forms to the hospital electronically, before checking in. They can also view their room, pick their dinner menu, or

even begin a therapy plan. The system can also track treatment outcomes that patients can keep and share with other physicians.

"We think digitalization will transform the rehab industry in the next five years," he said. "It also extends our reach to other countries where we already have a lot of patients today, such as the Arabian countries. I think it will give us the chance to make rehab more popular outside of Germany."

Schmidt sees internationalization as the third growth horizon. "If we go abroad, we must have the possibility of growing significantly. There are some areas where MPT is already ahead of us – in Spain, Northern Italy and the UK. So that is something we might capitalize on together."

## ALWAYS THINKING

Like the scientist he was originally trained to be, Schmidt is always thinking about the precise measurement of quality and how to improve it.

Not long ago, a friend called to ask for a treatment referral for someone suffering from extreme anorexia. The more Schmidt listened, the more he realized how much the specific circumstances of the patient's life could affect his recommendation of a treatment center.

"We weren't talking about just any place that tries to cure anorexia, but one that would be most appropriate for a particular person," he noted. "For example, is a specific treatment center *generally* more oriented for male or female patients, for someone younger or middle-aged or older? And from what sort of family background?"

**"This is a great example of lasting partnerships... with companies at the leading edge of healthcare"**

"And, on the other side, what about the hospital I might refer the patient to," he continued. "How do I know what its level of quality is right now, not just what's shown on a website or based on my knowledge, which could be out of date? Has a gifted specialist retired from that facility? If so, has an equally talented person replaced them – and how do I really know? How has that been communicated, or how should it be communicated? And can the Internet and digitalization help?"

"The potential needs of this one patient has had a huge impact on how I am thinking about the strategy in *my* hospitals," Schmidt continued, "and about how really good hospitals stay strong – not just in Germany, but around the world…"

André Schmidt seems to always be thinking about such things – about how to improve his business and its effectiveness – paying attention to challenges that may have no easy or immediate solutions.

Ever the scientist, Schmidt is carefully weighing things in the background of his mind, letting the problems meander down neural pathways to realizations that may not become apparent for some time.

As he said, "We invest today to strengthen our business in two years."

**"We invest today to strengthen our business in two years"**

## REALIZING A VISION

It's not unlike Ed Aldag 15 years ago, thinking about the international aspects of the business model that had been rolling around in his head. He didn't know how or when or where, but he believed the idea would come to fruition. And he was willing to let it simmer on his mental back burner until the right next step became clear.

MPT's right next step in 2013 became to capitalize on opportunities in Europe, specifically the real estate of the facilities that André Schmidt was managing.

MPT boldly took that step on the strength of what it had already built in the U.S. And, just a year later, it took a much bigger step – investing in 32 additional German hospitals in the company that would become the *new* Median, with André Schmidt once again at the helm.

"It's just an amazing story," Schmidt says, "about Ed Aldag and the other founders of MPT, Steve Hamner and Emmett McLean. What they did *from scratch* is something very special and I'm so happy that we met four years ago."

One right step led to another and another. And, today, MPT is represented not only in Germany – through more than 70 hospitals managed by André Schmidt – but also in Italy, the United Kingdom and Spain.


# *RE-* DESIGNED FOR *HEALING*

*MPT's first facility in Spain opens with the the latest technology and some bright ideas.*

If sunlight can promote healing, patients who enter the new IMED Valencia hospital should be well on their way to better health – as soon as they walk in the door.

This sleek, ultra-modern facility in the environs of Spain's third-largest city is filled with natural light. And that's by design.

Or redesign.

This unusual edifice, originally designed as two circular towers, began life with aspirations of being an office building, with glorious corporate views. But fate and an economic crisis intervened and the project was temporarily abandoned – even though construction had progressed pretty far.

Then the IMED Group stepped in with a brilliant idea.

As a growing group of private hospitals offering the highest levels of patient care and the latest medical technology, IMED wanted to convert the structure into its new flagship hospital. But before the transformation could begin, a key architectural challenge had to be addressed – namely, how much of the partially completed structure to tear down.


The original office building design had called for two independent towers, one nine stories tall and the other 18. But to work better as a hospital, the towers needed to be closer to the same height – and to be connected not only on the bottom floors, but also at the top.

## EXPANDING THE FOOTPRINT

To solve the problem, the building's original architect, Francesco Nabot, was reengaged. He knew the building better than anyone and was best equipped to restructure and expand the framework.

But Nabot had never designed a hospital before, so IMED brought in a second architect, Luis Rodrigo, who had designed two other very modern IMED hospitals. His new assignment was to design and program nearly 400,000 square feet of interior space.

Working in close collaboration with the IMED team, the architects decided to reconfigure the smaller of the two towers into 100 outpatient consultation rooms, and to expand the footprint of the second tower to accommodate 185 inpatient rooms, including 22 suites.

A key design parameter was to maintain the beautiful curved shape of the original design, and Nabot managed to achieve that by conforming the expansion to the curve of the street below.

"One of the most delicate parts of the project was joining the two towers on the top two floors," Rodrigo explained. "To achieve this, we designed a metal structure that had to be assembled on the ground and then raised to the top of the structure. This two-floor bridge really added to the distinctive character of the building and provided for smooth passage between the two towers."

Many older facilities across Western Europe can be cold, but Nabot and Rodrigo envisioned just the opposite for IMED Valencia, the first new hospital to open in Spain's third-largest city in nearly 25 years.

> "We imagined that... patients and visitors would find it to be modern and pleasant, filled with light and open spaces"

## CREATING WELCOMING SPACES

"We imagined that, upon entering the building, patients and visitors would find it to be modern and pleasant, filled with light and open spaces – sometimes double-height spaces," he said. "We wanted it to be the most welcoming place possible within the context of being a hospital."

The architects also worked hard to create an inspiring work place that would motivate the entire medical team and enhance their productivity and effectiveness in dealing with patients.

Rodrigo designed the rooms to be spacious, with elegant finishes and large windows, to provide natural light and beautiful views.

"According to the doctors, natural light is good for patients," he explained. "They are better able to orient themselves and distinguish the different hours of the day instead of being confined in a closed space that might overwhelm them, or cause feelings of discomfort."

"The idea is that patients will experience a level of quality and comfort similar to a four-star hotel rather than feeling like they are in a hospital room," Rodrigo said. "This was very important for a private hospital designed to attract patients not only from Spain, but from other countries."

## PURSUING MEDICAL TOURISM

Destination healthcare is in fact, a growing business. And IMED hospitals are already working to attract patients from such markets as Great Britain, Norway, the Netherlands and Russia. In fact, nearly 50 percent of the patients at one of the IMED facilities are foreign. Spain is already a popular destination for medical care and more Europeans are seeing it as a high quality



alternative to their own healthcare systems – and one that is more affordable.

As Lee Baker of Medical Properties Trust's Underwriting and Asset Management Department noted, "Patients are paying for private insurance and they want healthcare in a nice setting."

IMED Valencia, which is clearly IMED's new flagship, fits the bill with what Baker describes as a "very sleek, upscale hospital with a crisp, clean and soothing environment." Plus it's equipped with all the advanced technology that you would expect in a modern hospital anywhere, such as 3.0 and 1.5 tesla MRI units, CT and dental CT scanners, state-of-the-art ultrasound and a da Vinci System for robotic surgery. A linear accelerator is also on the way.

**"IMED's new high-tech flagship is a "sleek, upscale hospital with a crisp, clean and soothing environment."**

The modern facility, which received its first patient in April, is projected to employ 450 people and to care for 100,000 patients a year.

## REMEMBERING HOW TO SEE

IMED Valencia also includes 15 operating theatres and specialized medical surgical units, providing practically all medical specialties, as well as 24-hour emergency services and intensive care for both adults and children.

In the children's areas, tables and chairs are scaled down for the younger patients, and walls bear images and quotations from Antoine de Saint-Exupéry's universal children's classic, "The Little Prince."

One says, in Spanish (as translated from the original French), "*All grown-ups were once children, but only a few of them remember it.*"

And yet it seems that the sensitive architects who designed this space and this unique hospital did *not* forget. Instead they remembered what it's like to see the world through a child's eyes – especially a sick child – and they surrounded these welcoming spaces with soothing reminders and the wonder of sunlight, which makes everything better.

*Capital funding for IMED Valencia was provided through a joint venture between Medical Properties Trust and AXA Investment Managers – Real Assets. Grupo IMED, which served as the construction manager, is the hospital operator.*

# BEING *THERE*

*Medical Properties Trust establishes a European office.*

With assets in Europe approaching $2 billion, Medical Properties Trust is establishing an office in the center of Europe and sending one of its longest-serving acquisition managers to head it.

Luke Savage, who is celebrating his 10th year with MPT, will be managing the office in Luxembourg City, Luxembourg, and using it as a base for calling on tenants, prospects and potential investors across Europe.

Savage, whose career at MPT has spanned underwriting and asset management as well as acquisitions, will be focused on building relationships. In essence, it's a role he's already been playing for MPT from both its headquarters in Birmingham, AL, and its New York office. He has traveled to Europe many times as part of MPT's due diligence and acquisitions teams.

A native of Dallas, TX, Savage is a graduate of Harding University and a CPA with experience at both KPMG and Ernst & Young. Before joining MPT in 2007, he spent five years in the corporate offices of a leading hospital operator.

**"From the beginning, we planned to grow nationally and internationally"**

As he moves into his new position as MPT's Director of European Operations and Acquisitions, he leaves behind a six- to seven-hour time difference between MPT's U.S. offices and Europe that he won't miss.

## LEAVING TIME DIFFERENCES BEHIND

"We wanted to be in a European time zone, so we can get in front of people and respond to their needs more quickly. Luxembourg City is central to all of Europe, and I will be able to get to Berlin, London, Milan and many other places in a matter of hours. Plus, I'll be able to return emails and phone calls in real *local* time."

"We already know a lot of people, we just need to know them better," Savage said. "And we need to find the ones we don't know. I see this as a great opportunity for me and for MPT. I view it as a way *to help MPT keep growing*."

"At MPT, we have always done what we said we would do, and this is just another example, and of our continuing evolution as a company," said Edward K. Aldag, Jr., the company's Chairman, President and CEO. "From the beginning, we planned to grow nationally and internationally and that has happened. Luke Savage has been a key part of our growth for nearly a decade," Aldag added. "He has an in-depth knowledge of healthcare and fully understands our business."

"This has been a prudent and carefully considered decision," said R. Steven Hamner, MPT's Executive Vice President and CFO. "It further demonstrates that we're fully committed

to Western Europe and to growing MPT's business there. Luke's presence should simply make us more responsive to our growing relationships."

André Schmidt, the CEO of Berlin-based Median Kliniken, the leading German private rehabilitation hospital chain (in which MPT has invested heavily), said, "I think it's extremely important that MPT is opening an office in Europe. There is so much room to grow here and you need to be near all the potential players."

## JUST HAVING COFFEE

Schmidt has been dealing with Luke Savage and others from MPT since 2013, when MPT made its first European real estate investments in 11 private rehabilitation hospitals operated by RHM, of which Schmidt was the CEO. Subsequently, MPT invested in 32 additional hospitals run by Median Kliniken, which merged with RHM – and Schmidt took the reins of the combined enterprise.

**"Luke's presence should simply make us more responsive to our growing relationships."**

"MPT is our preferred capital partner," Schmidt said. In 2016, MPT provided the capital when Median acquired AHG and its hospitals. Savage was involved and fully understands the importance of the continuing partnership.

When Aldag announced that MPT was planning to open a European office, Savage stepped up immediately. "He was committed from the very beginning," Aldag said, "and he understands that if you're going to move up in any organization, sometimes you've got to take risks. He saw this as a great opportunity for him and his family and I believe he's right."

"Luke is an impressive guy and he will represent MPT very well," Aldag added. "My advice to him was that it's just as important to go have coffee with someone as to go talk about a deal. That's hard to do from Birmingham, but if you are going from Luxembourg to Berlin, it's easy."

*"And the coffee may be better!"*

# A GIVING SPIRIT


*Contributing to the community is ingrained in MPT's culture.*

At Medical Properties Trust, a giving spirit is second nature.

For Ronald McDonald House of Alabama, it's a team effort. MPT's CEO Ed Aldag serves on the steering committee for the capital campaign to "Expand Our House" and Emmett McLean, the COO, serves on the board and as co-chair of the major gifts committee. Employees Katie Henson, Andrew Pearce and Lauren Yarnish serve on the junior board – and others bring food to the house to help feed the families.

They know the vital role the House plays in providing temporary housing for families of children being treated for serious illnesses at Children's of Alabama and UAB.

Each year, nearly 25,000 children undergo surgery at Children's (where Aldag is a board member) and more than 677,000 receive outpatient care. Many come from counties in Alabama or Mississippi that do not provide neonatal services or specialty pediatric care. And often their families cannot afford a place to stay.

As McLean learned at his first board meeting, some families are sleeping in their cars. The campaign was created to help address such problems and reduce the waiting list.

So MPT stepped up to help fund the new East Wing's Second Floor and the Resident's Main Dining Room as places of nurture and comfort. As McLean noted, "We are honored to help the Ronald McDonald House serve a much larger number of families."





# BRIDGING THE GAP

When 50 eighth-graders from Phillips Academy visited MPT in March, they had no idea they would be 'investing' in hospital real estate before the morning was over.

But that's the kind of thing that happens in the Birmingham Educational Foundation's "*Bridging the Gap*" program, which helps connect kids to career options early.

A host of MPT team members described what it's like to work in underwriting, asset management, investor relations, accounting and such, and then the kids broke into small groups for *a crash course in real estate investing*. Before they knew it, they were 'buying' a hospital and defending their choice.

**"Life is full of bumps in the road: learn is how to get over them, how to get back up... and never give up on your dreams"**

Even the teachers and parents who had accompanied them were amazed – and wanted to come back for more.

The morning began with inspiring remarks by MPT's CEO Ed Aldag, who shared his own story and offered a few words of wisdom:

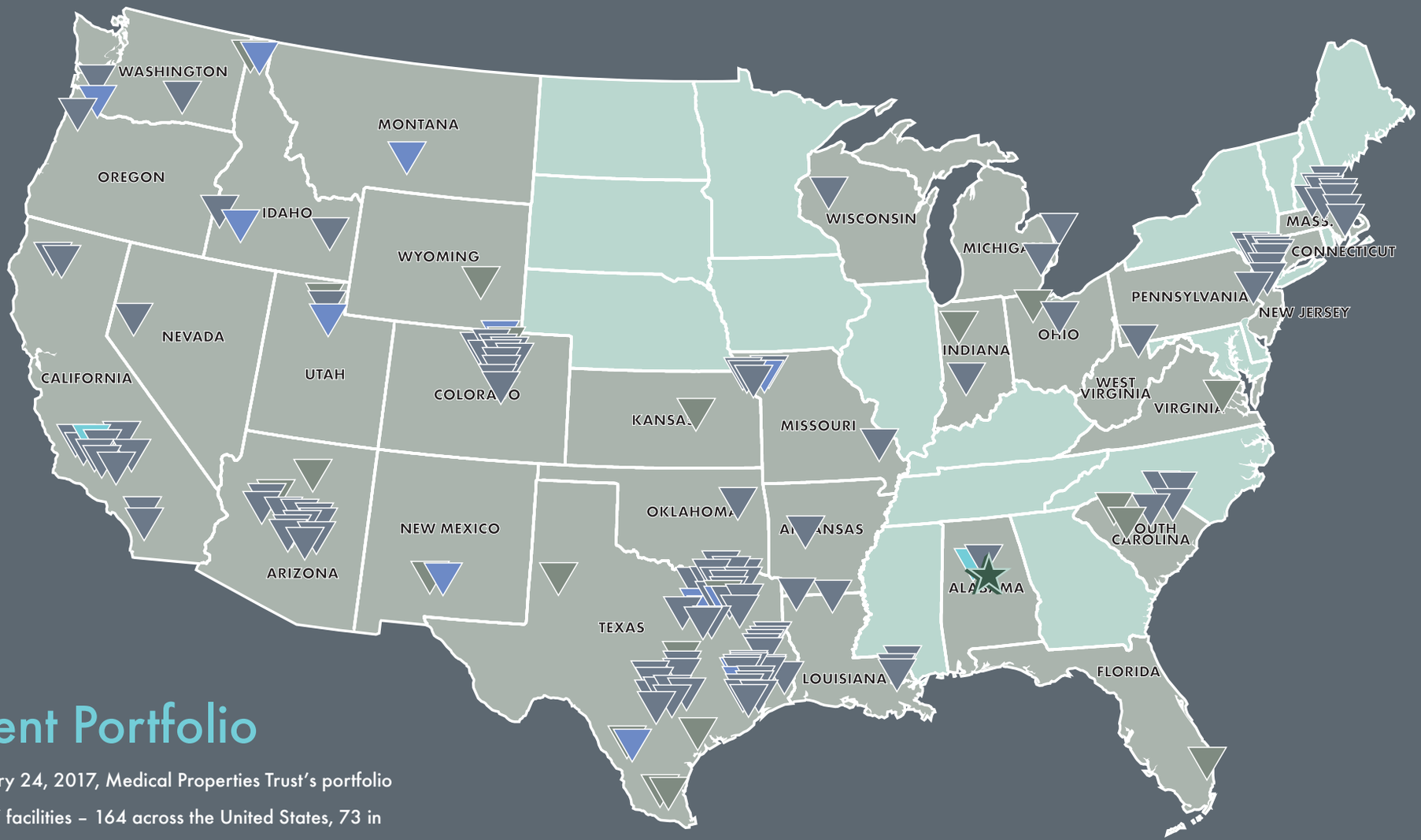
1. *"You can be anything that you want to be* if you're willing to work and accept the responsibility of taking care of yourself;

2. *"Life is full of bumps in the road:* learn how to get over them, how to get back up... and *never give up on your dreams;*

3. *"When you make it, don't forget where you came from:* remember the people who answered your phone calls, met with you and helped you, and especially the people who love you; and don't forget to *give back to where you came from*."

"This was an absolute home run," said the Birmingham Educational Foundation's Executive Director J.W. Carpenter. "MPT rolled out the red carpet, with so many people involved and Ed kicking everything off with one of the best speeches I've ever heard."

"The best way to describe it is *extraordinary*."



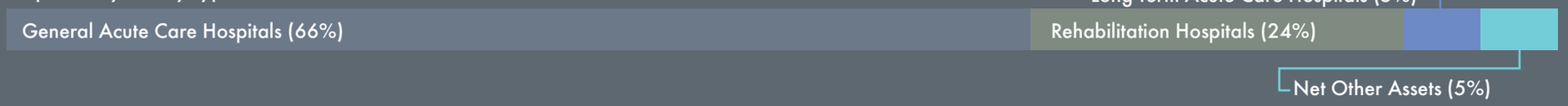

# Current Portfolio

As of February 24, 2017, Medical Properties Trust's portfolio included 247 facilities – 164 across the United States, 73 in Germany, 8 in Italy, 1 in the U.K. and 1 in Spain – representing an investment of approximately $7.1 billion.

**247** FACILITIES **30** STATES **5** COUNTRIES

*Portfolio statistics are as of February 24, 2017, and assume fully funded commitments.*

Properties by Facility Type

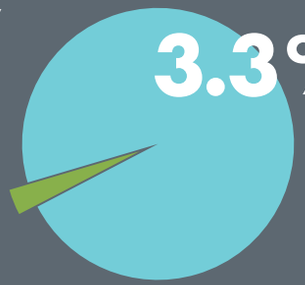


# Western Europe

Medical Properties Trust provides stockholders an opportunity to earn attractive returns from profitable hospital facilities at home and abroad.

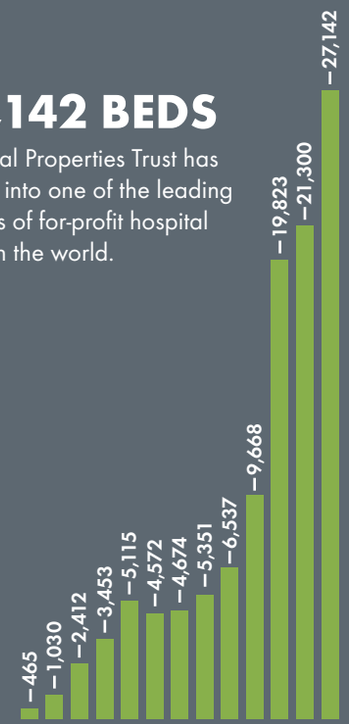
## WELL DIVERSIFIED

No single hospital property represents more than 3.3% of MPT's portfolio.

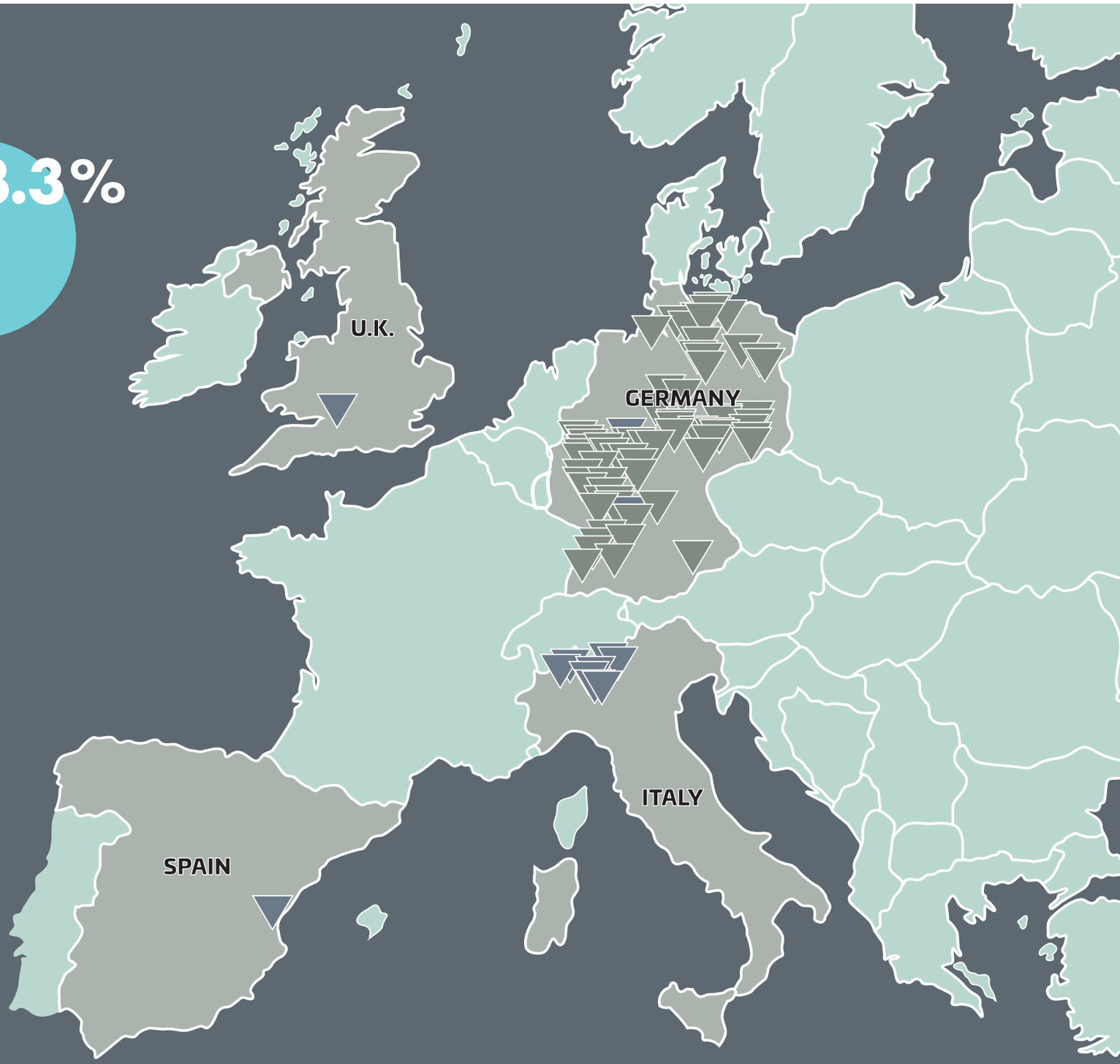



## 27,142 BEDS

Medical Properties Trust has grown into one of the leading owners of for-profit hospital beds in the world.




**HOSPITAL BEDS OWNED**
(2004 - 2016)



# SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information on a historical basis:

| [In thousands, except per share amounts] | For the Year Ended December 31, 2016[1] | For the Year Ended December 31, 2015[1] | For the Year Ended December 31, 2014[1] | For the Year Ended December 31, 2013[1] | For the Year Ended December 31, 2012[1] |
|---|---|---|---|---|---|
| **OPERATING DATA** | | | | | |
| Total revenue | $ 541,137 | $ 441,878 | $ 312,532 | $ 242,523 | $ 198,125 |
| Real estate depreciation and amortization (expense) | (94,374) | (69,867) | (53,938) | (36,978) | (32,815) |
| Property-related and general and administrative (expenses) | (51,623) | (47,431) | (39,125) | (32,513) | (30,039) |
| Acquisition expenses [2] | (46,273) | (61,342) | (26,389) | (19,494) | (5,420) |
| Impairment (charge) | (7,229) | — | (50,128) | — | — |
| Gain on sale of real estate and other asset dispositions, net | 61,224 | 3,268 | 2,857 | 7,659 | 16,369 |
| Interest and other (expense) income | (1,618) | 175 | 5,183 | (4,424) | (15,088) |
| Unutilized financing fees/ debt refinancing costs | (22,539) | (4,367) | (1,698) | — | — |
| Interest (expense) | (159,597) | (120,884) | (98,156) | (66,746) | (58,243) |
| Income tax benefit (expense) [3] | 6,830 | (1,503) | (340) | (726) | (19) |
| Income from continuing operations | 225,938 | 139,927 | 50,798 | 89,301 | 72,870 |
| Income (loss) from discontinued operations | (1) | — | (2) | 7,914 | 17,207 |
| Net income | 225,937 | 139,927 | 50,796 | 97,215 | 90,077 |
| Net income attributable to non-controlling interests | (889) | (329) | (274) | (224) | (177) |
| Net income attributable to MPT common stockholders | $ 225,048 | $ 139,598 | $ 50,522 | $ 96,991 | $ 89,900 |
| Income from continuing operations attributable to MPT common stockholders per diluted share | $ 0.86 | $ 0.63 | $ 0.29 | $ 0.58 | $ 0.54 |
| Income from discontinued operations attributable to MPT common stockholders per diluted share | — | — | — | 0.05 | 0.13 |
| Net income attributable to MPT common stockholders per diluted share | $ 0.86 | $ 0.63 | $ 0.29 | $ 0.63 | $ 0.67 |
| Weighted average number of common shares – diluted | 261,072 | 218,304 | 170,540 | 152,598 | 132,333 |
| **OTHER DATA** | | | | | |
| Dividends declared per common share | $ 0.91 | $ 0.88 | $ 0.84 | $ 0.81 | $ 0.80 |
| **BALANCE SHEET DATA** | **December 31, 2016[1]** | **December 31, 2015[1]** | **December 31, 2014[1]** | **December 31, 2013[1]** | **December 31, 2012[1]** |
| Real estate assets – at cost | $ 4,965,968 | $ 3,924,701 | $ 2,612,291 | $ 2,296,479 | $ 1,591,189 |
| Real estate accumulated depreciation/amortization | (325,125) | (257,928) | (202,627) | (159,776) | (122,796) |
| Mortgage and other loans | 1,216,121 | 1,422,403 | 970,761 | 549,746 | 527,893 |
| Cash and equivalents | 83,240 | 195,541 | 144,541 | 45,979 | 37,311 |
| Other assets | 478,332 | 324,634 | 195,364 | 147,915 | 128,393 |
| Total assets | $ 6,418,536 | $ 5,609,351 | $ 3,720,330 | $ 2,880,343 | $ 2,161,990 |
| | | | | | |
| Debt, net | $ 2,909,341 | $ 3,322,541 | $ 2,174,648 | $ 1,397,329 | $ 1,008,264 |
| Other liabilities | 255,967 | 179,545 | 163,635 | 138,806 | 103,912 |
| Total Medical Properties Trust, Inc. Stockholders' Equity | 3,248,378 | 2,102,268 | 1,382,047 | 1,344,208 | 1,049,814 |
| Non-controlling interests | 4,850 | 4,997 | — | — | — |
| Total equity | 3,253,228 | 2,107,265 | 1,382,047 | 1,344,208 | 1,049,814 |
| Total liabilities and equity | $ 6,418,536 | $ 5,609,351 | $ 3,720,330 | $ 2,880,343 | $ 2,161,990 |

Footnotes to
Selected Financial Data:

(1) Cash paid for acquisitions and other related investments totaled $1.5 billion, $1.8 billion, $767.7 million, $654.9 million, and $621.5 million in 2016, 2015, 2014, 2013, and 2012, respectively. The results of operations resulting from these investments are reflected in our consolidated financial statements from the dates invested. See Note 3 to the consolidated financial statements included in this Annual Report for further information on acquisitions of real estate, new loans, and other investments. We funded these investments generally from issuing common stock, utilizing additional amounts of our revolving facility, incurring additional debt, or from the sale of facilities. See Notes 4, 9, and 3 in this Annual Report for further information regarding our debt, common stock and property disposals, respectively.

(2) Includes $30.1 million, $37.0 million, $5.8 million and $12.0 million in transfer and capital gains taxes in 2016, 2015, 2014 and 2013, respectively, related to our property acquisitions in foreign jurisdictions.

(3) Includes $9.1 million tax benefit generated from the reversal of foreign valuation allowances and acquisition expenses incurred by certain international subsidiaries in 2016.

# RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The following table presents a reconciliation of net income attributable to MPT common stockholders to FFO and normalized FFO for the years ended December 31, 2016, 2015, and 2014 ($ amounts in thousands except per share data):

| **FFO information:** | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net income attributable to MPT common stockholders | $ 225,048 | $ 139,598 | $ 50,522 |
| Participating securities' share in earnings | (559) | (1,029) | (895) |
| Net income, less participating securities' share in earnings | $ 224,489 | $ 138,569 | $ 49,627 |
| Depreciation and amortization | 96,157 | 69,867 | 53,938 |
| Gain on sale of real estate | (67,168) | (3,268) | (2,857) |
| Real estate impairment charge | – | – | 5,974 |
| Funds from operations | $ 253,478 | $ 205,168 | $ 106,682 |
| Write-off of straight line rent and other | 3,063 | 3,928 | 2,818 |
| Transaction costs from non-real estate dispositions | 5,944 | – | – |
| Acquisition expenses, net of tax benefit | 46,529 | 61,342 | 26,389 |
| Release of valuation allowance | (3,956) | – | – |
| Impairment charges | 7,229 | – | 44,154 |
| Unutilized financing fees/ debt refinancing costs | 22,539 | 4,367 | 1,698 |
| Normalized funds from operations attributable to MPT common stockholders | $ 334,826 | $ 274,805 | $ 181,741 |
| | | | |
| Per diluted share data: | | | |
| Net income, less participating securities' share in earnings | $ 0.86 | $ 0.63 | $ 0.29 |
| Depreciation and amortization | 0.37 | 0.32 | 0.31 |
| Gain on sale of real estate | (0.26) | (0.01) | (0.01) |
| Real estate impairment charge | – | – | 0.04 |
| Funds from operations | $ 0.97 | $ 0.94 | $ 0.63 |
| Write-off of straight line rent and other | 0.01 | 0.02 | 0.02 |
| Transaction costs from non-real estate dispositions | 0.02 | – | – |
| Acquisition expenses, net of tax benefit | 0.18 | 0.28 | 0.15 |
| Release of valuation allowance | (0.02) | – | – |
| Impairment charges | 0.03 | – | 0.26 |
| Unutilized financing fees/debt refinancing costs | 0.09 | 0.02 | – |
| Normalized funds from operations attributable to MPT common stockholders | $ 1.28 | $ 1.26 | $ 1.06 |

Investors and analysts following the real estate industry utilize funds from operations, or FFO, as a supplemental performance measure. FFO, reflecting the assumption that real estate asset values rise or fall with market conditions, principally adjusts for the effects of GAAP depreciation and amortization of real estate assets, which assumes that the value of real estate diminishes predictably over time. We compute FFO in accordance with the definition provided by the National Association of Real Estate Investment Trusts, or NAREIT, which represents net income (loss) (computed in accordance with GAAP), excluding gains (losses) on sales of real estate and impairment charges on real estate assets, plus real estate depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose normalized FFO, which adjusts FFO for items that relate to unanticipated or non-core events or activities or accounting changes that, if not noted, would make comparison to prior period results and market expectations potentially less meaningful to investors and analysts.

We believe that the use of FFO, combined with the required GAAP presentations, improves the understanding of our operating results among investors and the use of normalized FFO makes comparisons of our operating results with prior periods and other companies more meaningful. While FFO and normalized FFO are relevant and widely used supplemental measures of operating and financial performance of REITs, they should not be viewed as a substitute measure of our operating performance since the measures do not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which can be significant economic costs that could materially impact our results of operations. FFO and normalized FFO should not be considered an alternative to net income (loss) (computed in accordance with GAAP) as indicators of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity.

# SHARED VISION

Medical Properties Trust's three original founders remain actively engaged in the management of the company as they begin their 15th year together, continuing to instill their unabated vision in other company leaders who are adding to the strength of the team.

Edward K. Aldag, Jr., Founder, Chairman, President and CEO (right)
R. Steven Hamner, Founder, Executive Vice President and CFO (left)
Emmett E. McLean, Founder, Executive Vice President and COO (second from left)
J. Kevin Hanna, Vice President, Controller & Chief Accounting Officer (second from right)

# FINANCIAL REVIEW

## FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Annual Report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business strategy;
- our projected operating results;
- our ability to acquire or develop additional facilities in the United States ("U.S.") or Europe;
- availability of suitable facilities to acquire or develop;
- our ability to enter into, and the terms of, our prospective leases and loans;
- our ability to raise additional funds through offerings of debt and equity securities and/or property disposals;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to pay, future distributions;
- our ability to service our debt and comply with all of our debt covenants;
- our ability to compete in the marketplace;
- lease rates and interest rates;
- market trends;
- projected capital expenditures; and
- the impact of technology on our facilities, operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common stock and other securities, along with, among others, the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in the sections captioned "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business;" in our Form 10-K for the year ended December 31, 2016.
- U.S. (both national and local) and European (in particular Germany, the United Kingdom, Spain and Italy) political, economic, business, real estate, and other market conditions;
- the competitive environment in which we operate;
- the execution of our business plan;
- financing risks;
- acquisition and development risks;
- potential environmental contingencies and other liabilities;
- other factors affecting the real estate industry generally or the healthcare real estate industry in particular;
- our ability to maintain our status as a real estate investment trust, or REIT, for U.S. federal and state income tax purposes;
- our ability to attract and retain qualified personnel;
- changes in foreign currency exchange rates;
- U.S. (both federal and state) and European (in particular Germany, the United Kingdom, Spain and Italy) healthcare and other regulatory requirements; and
- U.S. national and local economic conditions, as well as conditions in Europe and any other foreign jurisdictions where we own or will own healthcare facilities, which may have a negative effect on the following, among other things:
    - the financial condition of our tenants, our lenders, or institutions that hold our cash balances, which may expose us to increased risks of default by these parties;
    - our ability to obtain equity or debt financing on attractive terms or at all, which may adversely impact our ability to pursue acquisition and development opportunities, refinance existing debt and our future interest expense; and
    - the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.

When we use the words "believe," "expect," "may," "potential," "anticipate," "estimate," "plan," "will," "could," "intend" or similar expressions, we are identifying forward-looking statements. You should not place undue reliance on these forward-looking statements. Except as required by law, we disclaim any obligation to update such statements or to publicly announce the result of any revisions to any of the forward-looking statements contained in this Annual Report to reflect future events or developments.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Medical Properties Trust, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income, comprehensive income, equity and cash flows present fairly, in all material respects, the financial position of Medical Properties Trust, Inc. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Birmingham, Alabama
March 1, 2017

## MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | (Amounts in thousands, except for per share data) | |
| **ASSETS** | | |
| Real estate assets | | |
| Land | $ 417,368 | $ 315,787 |
| Buildings and improvements | 3,550,674 | 2,675,803 |
| Construction in progress and other | 53,648 | 49,165 |
| Intangible lease assets | 296,176 | 256,950 |
| Net investment in direct financing leases | 648,102 | 626,996 |
| Mortgage loans | 1,060,400 | 757,581 |
| Gross investment in real estate assets | 6,026,368 | 4,682,282 |
| Accumulated depreciation | (292,786) | (232,675) |
| Accumulated amortization | (32,339) | (25,253) |
| Net investment in real estate assets | 5,701,243 | 4,424,354 |
| Cash and cash equivalents | 83,240 | 195,541 |
| Interest and rent receivables | 57,698 | 46,939 |
| Straight-line rent receivables | 116,861 | 82,155 |
| Other loans | 155,721 | 664,822 |
| Other assets | 303,773 | 195,540 |
| Total Assets | **$ 6,418,536** | **$ 5,609,351** |
| **LIABILITIES AND EQUITY** | | |
| Liabilities | | |
| Debt, net | $ 2,909,341 | $ 3,322,541 |
| Accounts payable and accrued expenses | 207,711 | 137,356 |
| Deferred revenue | 19,933 | 29,358 |
| Lease deposits and other obligations to tenants | 28,323 | 12,831 |
| Total Liabilities | 3,165,308 | 3,502,086 |
| Commitments and Contingencies | | |
| Equity | | |
| Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding | – | – |
| Common stock, $0.001 par value. Authorized 500,000 shares; issued and outstanding | | |
| – 320,514 shares at December 31, 2016 and 236,744 shares at December 31, 2015 | 321 | 237 |
| Additional paid-in capital | 3,775,336 | 2,593,827 |
| Distributions in excess of net income | (434,114) | (418,650) |
| Accumulated other comprehensive loss | (92,903) | (72,884) |
| Treasury shares, at cost | (262) | (262) |
| Total Medical Properties Trust, Inc. Stockholders' Equity | 3,248,378 | 2,102,268 |
| Non-controlling interests | 4,850 | 4,997 |
| Total Equity | 3,253,228 | 2,107,265 |
| Total Liabilities and Equity | **$ 6,418,536** | **$ 5,609,351** |



See accompanying notes to consolidated financial statements.

## MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF NET INCOME

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Amounts in thousands, except for per share data) | | |
| **Revenues** | | | |
| Rent billed | $ 327,269 | $ 247,604 | $ 187,018 |
| Straight-line rent | 41,067 | 23,375 | 13,507 |
| Income from direct financing leases | 64,307 | 58,715 | 49,155 |
| Interest and fee income | 108,494 | 112,184 | 62,852 |
| Total revenues | 541,137 | 441,878 | 312,532 |
| **Expenses** | | | |
| Real estate depreciation and amortization | 94,374 | 69,867 | 53,938 |
| Impairment charges | 7,229 | – | 50,128 |
| Property-related | 2,712 | 3,792 | 1,851 |
| Acquisition expenses | 46,273 | 61,342 | 26,389 |
| General and administrative | 48,911 | 43,639 | 37,274 |
| Total operating expenses | 199,499 | 178,640 | 169,580 |
| Operating income | 341,638 | 263,238 | 142,952 |
| **Other income (expense)** | | | |
| Interest expense | (159,597) | (120,884) | (98,156) |
| Gain on sale of real estate and other asset dispositions, net | 61,224 | 3,268 | 2,857 |
| Earnings from equity and other interests | (1,116) | 2,849 | 2,559 |
| Unutilized financing fees/ debt refinancing costs | (22,539) | (4,367) | (1,698) |
| Other Income (expense) | (502) | (2,674) | 2,624 |
| Income tax benefit (expense) | 6,830 | (1,503) | (340) |
| Net other expenses | (115,700) | (123,311) | (92,154) |
| **Income from continuing operations** | 225,938 | 139,927 | 50,798 |
| Loss from discontinued operations | (1) | – | (2) |
| Net income | 225,937 | 139,927 | 50,796 |
| Net income attributable to non-controlling interests | (889) | (329) | (274) |
| **Net income attributable to MPT common stockholders** | **$ 225,048** | **$ 139,598** | **$ 50,522** |
| | | | |
| **Earnings per share — basic** | | | |
| Income from continuing operations attributable to MPT common stockholders | $ 0.86 | $ 0.64 | $ 0.29 |
| Income from discontinued operations attributable to MPT common stockholders | – | – | – |
| **Net income attributable to MPT common stockholders** | **$ 0.86** | **$ 0.64** | **$ 0.29** |
| **Weighted average shares outstanding — basic** | **260,414** | **217,997** | **169,999** |
| | | | |
| **Earnings per share — diluted** | | | |
| Income from continuing operations attributable to MPT common stockholders | $ 0.86 | $ 0.63 | $ 0.29 |
| Income from discontinued operations attributable to MPT common stockholders | – | – | – |
| **Net income attributable to MPT common stockholders** | **$ 0.86** | **$ 0.63** | **$ 0.29** |
| **Weighted average shares outstanding — diluted** | **261,072** | **218,304** | **170,540** |

See accompanying notes to consolidated financial statements.

## MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Amounts in thousands) | | |
| Net income | $ 225,937 | $ 139,927 | $ 50,796 |
| Other comprehensive income (loss): | | | |
| Unrealized gain on interest rate swap | 2,904 | 3,139 | 2,964 |
| Foreign currency translation loss | (22,923) | (54,109) | (15,937) |
| Total comprehensive income | 205,918 | 88,957 | 37,823 |
| Comprehensive income attributable to non-controlling interests | (889) | (329) | (274) |
| Comprehensive income attributable to MPT common stockholders | $ 205,029 | $ 88,628 | $ 37,549 |

See accompanying notes to consolidated financial statements.

## MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

| | Preferred | | Common | | Additional | Distributions in Excess | Accumulated Other | Treasury | Non-Controlling | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | Paid-in Capital | of Net Income | Comprehensive Loss | Stock | Interests | Total Equity |
| | (Amounts in thousands, except for per share data) | | | | | | | | | |
| **Balance at December 31, 2013** | – | $ – | 161,310 | $ 161 | $ 1,618,054 | $ (264,804) | $ (8,941) | $ (262) | $ – | $ 1,344,208 |
| Net income | – | – | – | – | – | 50,522 | – | – | 274 | 50,796 |
| Unrealized gain on interest rate swap | – | – | – | – | – | – | 2,964 | – | – | 2,964 |
| Foreign currency translation loss | – | – | – | – | – | – | (15,937) | – | – | (15,937) |
| Stock vesting and amortization of stock-based compensation | – | – | 777 | – | 9,165 | – | – | – | – | 9,165 |
| Distributions to non-controlling interests | – | – | – | – | – | – | – | – | (274) | (274) |
| Proceeds from offering (net of offering costs) | – | – | 10,656 | 11 | 138,162 | – | – | – | – | 138,173 |
| Dividends declared ($0.84 per common share) | – | – | – | – | – | (147,048) | – | – | – | (147,048) |
| **Balance at December 31, 2014** | – | $ – | 172,743 | $ 172 | $ 1,765,381 | $ (361,330) | $ (21,914) | $ (262) | $ – | $ 1,382,047 |
| Net income | – | – | – | – | – | 139,598 | – | – | 329 | 139,927 |
| Sale of non-controlling interests | – | – | – | – | – | – | – | – | 5,000 | 5,000 |
| Unrealized gain on interest rate swap | – | – | – | – | – | – | 3,139 | – | – | 3,139 |
| Foreign currency translation loss | – | – | – | – | – | – | (54,109) | – | – | (54,109) |
| Stock vesting and amortization of stock-based compensation | – | – | 751 | 2 | 11,120 | – | – | – | – | 11,122 |
| Distributions to non-controlling interests | – | – | – | – | – | – | – | – | (332) | (332) |
| Proceeds from offering (net of offering costs) | – | – | 63,250 | 63 | 817,326 | – | – | – | – | 817,389 |
| Dividends declared ($0.88 per common share) | – | – | – | – | – | (196,918) | – | – | – | (196,918) |
| **Balance at December 31, 2015** | – | $ – | 236,744 | $ 237 | $ 2,593,827 | $ (418,650) | $ (72,884) | $ (262) | $ 4,997 | $ 2,107,265 |
| Net income | – | – | – | – | – | 225,048 | – | – | 889 | 225,937 |
| Unrealized gain on interest rate swap | – | – | – | – | – | – | 2,904 | – | – | 2,904 |
| Foreign currency translation loss | – | – | – | – | – | – | (22,923) | – | – | (22,923) |
| Stock vesting and amortization of stock-based compensation | – | – | 1,021 | 1 | 7,941 | – | – | – | – | 7,942 |
| Distributions to non-controlling interests | – | – | – | – | – | – | – | – | (1,036) | (1,036) |
| Proceeds from offering (net of offering costs) | – | – | 82,749 | 83 | 1,173,568 | – | – | – | – | 1,173,651 |
| Dividends declared ($0.91 per common share) | – | – | – | – | – | (240,512) | – | – | – | (240,512) |
| **Balance at December 31, 2016** | – | $ – | 320,514 | $ 321 | $ 3,775,336 | $ (434,114) | $ (92,903) | $ (262) | $ 4,850 | $ 3,253,228 |

See accompanying notes to consolidated financial statements.

## MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Amounts in thousands) | | |
| **Operating activities** | | | |
| Net income | $ 225,937 | $ 139,927 | $ 50,796 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 97,601 | 71,827 | 55,162 |
| Amortization of deferred financing costs and debt discount | 7,613 | 6,085 | 5,105 |
| Direct financing lease interest accretion | (9,120) | (8,032) | (6,701) |
| Straight-line rent revenue | (41,567) | (26,187) | (16,325) |
| Share-based compensation | 7,942 | 11,122 | 9,165 |
| Gain from sale of real estate and other asset dispositions, net | (61,224) | (3,268) | (2,857) |
| Impairment charges | 7,229 | – | 50,128 |
| Straight-line rent and other write-off | 3,063 | 2,812 | 2,818 |
| Unutilized financing fees/ debt refinancing costs | 22,539 | 4,367 | 1,698 |
| Other adjustments | 3,563 | (6,334) | (1,178) |
| Decrease (increase) in: | | | |
| Interest and rent receivable | (13,247) | (5,599) | (3,856) |
| Other assets | (18,357) | (8,297) | 764 |
| Accounts payable and accrued expenses | 41,583 | 26,540 | 6,209 |
| Deferred revenue | (8,872) | 2,033 | (485) |
| Net cash provided by operating activities | 264,683 | 206,996 | 150,443 |
| **Investing activities** | | | |
| Cash paid for acquisitions and other related investments | (1,682,409) | (2,218,869) | (767,696) |
| Net proceeds from sale of real estate | 198,767 | 19,175 | 34,649 |
| Principal received on loans receivable | 906,757 | 771,785 | 11,265 |
| Investment in loans receivable | (109,027) | (354,001) | (12,782) |
| Construction in progress and other | (171,209) | (146,372) | (102,333) |
| Investment in unsecured senior notes | (50,000) | – | – |
| Proceeds from sale of unsecured senior notes | 50,000 | – | – |
| Other investments, net | (69,423) | (17,339) | (13,126) |
| Net cash used for investing activities | (926,544) | (1,945,621) | (850,023) |

## MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Amounts in thousands) | | |
| **Financing activities** | | | |
| Proceeds from term debt | 1,000,000 | 681,000 | 425,000 |
| Payments of term debt | (575,299) | (283) | (100,266) |
| Payment of deferred financing costs | (15,468) | (7,686) | (14,496) |
| Revolving credit facilities, net | (810,000) | 509,415 | 490,625 |
| Distributions paid | (218,393) | (182,980) | (144,365) |
| Lease deposits and other obligations to tenants | 14,557 | (10,839) | 7,892 |
| Proceeds from sale of common shares, net of offering costs | 1,173,651 | 817,389 | 138,173 |
| Other financing activities | (16,485) | (5,326) | – |
| Net cash provided by financing activities | 552,563 | 1,800,690 | 802,563 |
| Increase in cash and cash equivalents for the year | (109,298) | 62,065 | 102,983 |
| Effect of exchange rate changes | (3,003) | (11,065) | (4,421) |
| Cash and cash equivalents at beginning of year | 195,541 | 144,541 | 45,979 |
| **Cash and cash equivalents at end of year** | $ 83,240 | $ 195,541 | $ 144,541 |
| Interest paid, including capitalized interest of $2,320 in 2016, $1,425 in 2015, and $1,860 in 2014 | $ 138,770 | $ 107,228 | $ 91,890 |
| Supplemental schedule of non-cash investing activities: | | | |
| Mortgage loan issued from sale of real estate | $ – | $ – | $ 12,500 |
| Increase in development project construction costs incurred, not paid | 15,857 | 2,684 | – |
| Supplemental schedule of non-cash financing activities: | | | |
| Dividends declared, not paid | $ 74,521 | $ 52,402 | $ 38,461 |

See accompanying notes to consolidated financial statements.

## 1. ORGANIZATION

Medical Properties Trust, Inc., a Maryland corporation, was formed on August 27, 2003, under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in, owning, and leasing healthcare real estate. Our operating partnership subsidiary, MPT Operating Partnership, L.P., through which we conduct all of our operations, was formed in September 2003. Through another wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of the Operating Partnership. At present, we directly own substantially all of the limited partnership interests in the Operating Partnership and have elected to report our required disclosures and that of the Operating Partnership on a combined basis except where material differences exist.

We have operated as a REIT since April 6, 2004, and accordingly, elected REIT status upon the filing in September 2005 of the calendar year 2004 federal income tax return. Accordingly, we will generally not be subject to U.S. federal income tax, provided that we continue to qualify as a REIT and our distributions to our stockholders equal or exceed our taxable income.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We also make mortgage and other loans to operators of similar facilities. In addition, we may obtain profits or equity interests in our tenants, from time to time, in order to enhance our overall return. We manage our business as a single business segment. All of our properties are located in the U.S. and Europe.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Principles of Consolidation:* Property holding entities and other subsidiaries of which we own 100% of the equity or have a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated. For entities in which we own less than 100% of the equity interest, we consolidate the property if we have the direct or indirect ability to control the entities' activities based upon the terms of the respective entities' ownership agreements. For these entities, we record a non-controlling interest representing equity held by non-controlling interests.

We continually evaluate all of our transactions and investments to determine if they represent variable interests in a variable interest entity ("VIE"). If we determine that we have a variable interest in a VIE, we then evaluate if we are the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether we have the ability to direct the activities of a VIE that most significantly impact the entity's economic performance. We consolidate each VIE in which we, by virtue of or transactions with our investments in the entity, are considered to be the primary beneficiary.

At December 31, 2016, we had loans and/or equity investments in certain VIEs, which are also tenants of our facilities, (including but not limited to Ernest Health, Inc. ["Ernest"] and Vibra Healthcare, LLC). We have determined that we are not the primary beneficiary of these VIEs. The carrying value and classification of the related assets and maximum exposure to loss as a result of our involvement with these VIEs are presented below at December 31, 2016 (in thousands):

| VIE Type | Maximum Loss Exposure(1) | Asset Type Classification | Carrying Amount(2) |
|---|---|---|---|
| Loans, net | $ 316,179 | Mortgage and other loans | $ 235,613 |
| Equity investments | $ 13,223 | Other assets | $ 140 |

*(1) Our maximum loss exposure related to loans with VIEs represents our current aggregate gross carrying value of the loan plus accrued interest and any other related assets (such as rent receivables), less any liabilities. Our maximum loss exposure related to our equity investment in VIEs represents the current carrying values of such investment plus any other related assets (such as rent receivables) less any liabilities.*
*(2) Carrying amount reflects the net book value of our loan or equity interest only in the VIE.*

For the VIE types above, we do not consolidate the VIE because we do not have the ability to control the activities (such as the day-to-day healthcare operations of our borrowers or investees) that most significantly impact the VIE's economic performance. As of December 31, 2016, we were not required to provide financial support through a liquidity arrangement or otherwise to our unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls).

Typically, our loans are collateralized by assets of the borrower (some assets of which are on the premises of facilities owned by us) and further supported by limited guarantees made by certain principals of the borrower.

See Note 3 and 10 for additional description of the nature, purpose and activities of some of our VIEs and interests therein.

*Investments in Unconsolidated Entities:* Investments in entities in which we have the ability to influence (but not control) are typically accounted for by the equity method. Under the equity method of accounting, our share of the investee's earnings or losses are included in our consolidated statements of net income, and we have elected to record our share of such investee's earnings or losses on a 90-day lag basis. The initial carrying value of investments in unconsolidated entities is based on the amount paid to purchase the interest in the investee entity. Subsequently, our investments are increased/decreased by our share in the investees' earnings and decreased by cash distributions from our investees. To the extent that our cost basis is different from the basis reflected at the investee entity level, the basis difference is generally amortized over the lives of the related assets and liabilities, and such amortization is included in our share of equity in earnings of the investee.

Investments in entities in which we do not control nor do we have the ability to influence (such as our investments in Steward Health Care System LLC ["Steward"] and Median Kliniken S.à.r.l. ["MEDIAN"]) are accounted for using the cost method. The initial carrying value of such investments is based on the amount paid to purchase the interest in the investee entity. No income is recorded on our cost method investments until distributions are received.

We evaluate our equity and cost method investments for impairment based upon a comparison of the fair value of the equity method investment to its carrying value, when impairment indicators exist. If we determine a decline in the fair value of an investment in an unconsolidated investee entity below its carrying value is other-than-temporary, an impairment is recorded.

*Cash and Cash Equivalents:* Certificates of deposit, short-term investments with original maturities of three months or less and money-market mutual funds are considered cash equivalents. The majority of our cash and cash equivalents are held at major commercial banks, which at times may exceed the Federal Deposit Insurance Corporation limit. We have not experienced any losses to date on our invested cash. Cash and cash equivalents which have been restricted as to its use are recorded in other assets.

*Revenue Recognition:* We receive income from operating leases based on the fixed, minimum required rents (base rents) per the lease agreements. Rent revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for those acquired as part of a property acquisition. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent increases over the lease term. The straight-line method typically has the effect of recording more rent revenue from a lease than a tenant is required to pay early in the term of the lease. During the later parts of a lease term, this effect reverses with less rent revenue recorded than a tenant is required to pay. Rent revenue, as recorded on the straight-line method, in the consolidated statements of net income is presented as two amounts: rent billed and straight-line revenue. Rent billed revenue is the amount of base rent actually billed to the customer each period as required by the lease. Straight-line rent revenue is the difference between rent revenue earned based on the straight-line method and the amount recorded as rent billed revenue. We record the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to straight-line rent receivable.

Certain leases may provide for additional rents contingent upon a percentage of the tenant's revenue in excess of specified base amounts/thresholds (percentage rents). Percentage rents are recognized in the period in which revenue thresholds are met. Rental payments received prior to their recognition as income are classified as deferred revenue. We also receive additional rent (contingent rent) under some leases based on increases in the U.S. Consumer Price Index ("CPI") or when the CPI exceeds the annual minimum percentage increase in the lease. Contingent rents are recorded as rent billed revenue in the period earned.

We use direct financing lease ("DFL") accounting to record rent on certain leases deemed to be financing leases, per accounting rules, rather than operating leases. For leases accounted for as DFLs, the future minimum lease payments are recorded as a receivable. The difference between the future minimum lease payments and the estimated residual values less the cost of the properties is recorded as unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectability of the lease payments is reasonably assured. Investments in DFLs are presented net of unearned income.

In instances where we have a profits or equity interest in our tenants' operations, we record income equal to our percentage interest of the tenants' profits, as defined in the lease or tenants' operating agreements, once annual thresholds, if any, are met.

We begin recording base rent income from our development projects when the lessee takes physical possession of the facility, which may be different from the stated start date of the lease. Also, during construction of our development projects, we are generally entitled to accrue rent based on the cost paid during the construction period (construction period rent). We accrue construction period rent as a receivable with a corresponding offset to deferred revenue during the construction period. When the lessee takes physical possession of the facility, we begin recognizing the deferred construction period revenue on the straight-line method over the remaining term of the lease.

We receive interest income from our tenants/borrowers on mortgage loans, working capital loans, and other long-term loans. Interest income from these loans is recognized as earned based upon the principal outstanding and terms of the loans.

Commitment fees received from lessees for development and leasing services are initially recorded as deferred revenue and recognized as income over the initial term of a lease to produce a constant effective yield on the lease (interest method). Commitment and origination fees from lending services are also recorded as deferred revenue initially and recognized as income over the life of the loan using the interest method.

Tenant payments for certain taxes, insurance, and other operating expenses related to our facilities (most of which are paid directly by our tenants to the government or appropriate third party vendor) are recorded net of the respective expense as generally our leases are "triple-net" leases, with terms requiring such expenses to be paid by our tenants. Failure on the part of our tenants to pay such expense or to pay late would result in a violation of the lease agreement, which could lead to an event of default, if not cured.

*Acquired Real Estate Purchase Price Allocation:* For existing properties acquired for leasing purposes, we account for such acquisitions based on business combination accounting rules. We allocate the purchase price of acquired properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase prices of acquired real estate, we may utilize a number of sources, from time to time, including available real estate broker data, independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, internal data from previous acquisitions or developments, and other market data. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

We measure the aggregate value of lease intangible assets acquired based on the difference between (i) the property valued with new or in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in our analysis include an estimate of carrying costs during hypothetical expected lease-up periods, considering current market conditions, and costs to execute similar leases. We also consider information obtained about each targeted facility as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the intangible assets acquired. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to be about six months depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal costs, and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

We record above-market and below-market in-place lease values, if any, for our facilities, which are based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. We amortize any resulting capitalized above-market lease values as a reduction of rental income over the lease term. We amortize any resulting capitalized below-market lease values as an increase to rental income over the lease term.

Other intangible assets acquired may include customer relationship intangible values which are based on management's evaluation of the specific characteristics of each prospective tenant's lease and our overall relationship with that tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, including those existing under the terms of the lease agreement, among other factors.

We amortize the value of these intangible assets to expense over the term of the respective leases. If a lease is terminated early, the unamortized portion of the lease intangibles are charged to expense.

*Goodwill*: Goodwill is deemed to have an indefinite economic life and is not subject to amortization. Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. The impairment testing involves a two-step approach. The first step determines if goodwill is impaired by comparing the fair value of the reporting unit as a whole to its book value. If a deficiency exists, the second step measures the amount of the impairment loss as the difference between the implied fair value of goodwill and its carrying value.

*Real Estate and Depreciation:* Real estate, consisting of land, buildings and improvements, are maintained at cost. Although typically paid by our tenants, any expenditure for ordinary maintenance and repairs that we pay are expensed to operations as incurred. Significant renovations and improvements which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful lives. We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets, including an estimated liquidation amount, during the expected holding periods are less than the carrying amounts of those assets. Impairment losses are measured as the difference between carrying value and fair value of the assets. For assets held for sale, we cease recording depreciation expense and adjust the assets' value to the lower of its carrying value or fair value, less cost of disposal. Fair value is based on estimated cash flows discounted at a risk-adjusted rate of interest. We classify real estate assets as held for sale when we have commenced an active program to sell the assets, and in the opinion of management, it is probable the asset will be sold within the next 12 months.

Construction in progress includes the cost of land, the cost of construction of buildings, improvements and fixed equipment, and costs for design and engineering. Other costs, such as interest, legal, property taxes and corporate project supervision, which can be directly associated with the project during construction, are also included in construction in progress. We commence capitalization of costs associated with a development project when the development of the future asset is probable and activities necessary to get the underlying property ready for its intended use have been initiated. We stop the capitalization of costs when the property is substantially complete and ready for its intended use.

Depreciation is calculated on the straight-line method over the estimated useful lives of the related real estate and other assets. Our weighted-average useful lives at December 31, 2016 are as follows:

| | |
|---|---|
| Buildings and improvements | 38.8 years |
| Tenant lease intangibles | 23.9 years |
| Leasehold improvements | 17.9 years |
| Furniture, equipment and other | 9.5 years |

*Losses from Rent Receivables:* For all leases, we continuously monitor the performance of our existing tenants including, but not limited to: admission levels and surgery/procedure volumes by type; current operating margins; ratio of our tenants' operating margins both to facility rent and to facility rent plus other fixed costs; trends in cash collections; trends in revenue and patient mix; and the effect of evolving healthcare regulations on tenants' profitability and liquidity.

*Losses from Operating Lease Receivables:* We utilize the information above along with the tenant's payment and default history in evaluating (on a property-by-property basis) whether or not a provision for losses on outstanding rent receivables is needed. A provision for losses on rent receivables (including straight-line rent receivables) is ultimately recorded when it becomes probable that the receivable will not be collected in full. The provision is an amount which reduces the receivable to its estimated net realizable value based on a determination of the eventual amounts to be collected either from the debtor or from existing collateral, if any.

*Losses on DFL Receivables:* Allowances are established for DFLs based upon an estimate of probable losses on a property-by-property basis. DFLs are impaired when it is deemed probable that we will be unable to collect all amounts due in accordance with the contractual terms of the lease. Like operating lease receivables, the need for an allowance is based upon our assessment of the lessee's overall financial condition; economic resources and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. These estimates consider all available evidence including the expected future cash flows discounted at the DFL's effective interest rate, fair value of collateral, and other relevant factors, as appropriate. DFLs are placed on non-accrual status when we determine that the collectability of contractual amounts is not reasonably assured. If on non-accrual status, we generally account for the DFLs on a cash basis, in which income is recognized only upon receipt of cash.

*Loans:* Loans consist of mortgage loans, working capital loans and other long-term loans. Mortgage loans are collateralized by interests in real property. Working capital and other long-term loans are generally collateralized by interests in receivables and corporate and individual guarantees. We record loans at cost. We evaluate the collectability of both interest and principal on a loan-by-loan basis (using the same process as we do for assessing the collectability of rents) to determine whether they are impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the allowance is calculated by comparing the recorded investment to either the value determined by discounting the expected future cash flows using the loan's effective interest rate or to the fair value of the collateral, if the loan is collateral dependent. If a loan is deemed to be impaired, we generally place the loan on non-accrual status and record interest income only upon receipt of cash.

*Earnings Per Share:* Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted number of shares of common stock outstanding during the period. Diluted earnings per common share is calculated by including the effect of dilutive securities.

Our unvested restricted stock awards contain non-forfeitable rights to dividends, and accordingly, these awards are deemed to be participating securities. These participating securities are included in the earnings allocation in computing both basic and diluted earnings per common share.

*Income Taxes:* We conduct our business as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended ("the Code"). To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute to stockholders at least 90% of our REIT's ordinary taxable income. As a REIT, we generally pay little federal and state income tax because of the dividends paid deduction that we are allowed to take. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we intend to operate in such a manner so that we will remain qualified as a REIT for federal income tax purposes.

Our financial statements include the operations of taxable REIT subsidiaries ("TRSs"), including MPT Development Services, Inc. ("MDS"), along with many other entities, which are single member LLCs that are disregarded for tax purposes and are reflected in the tax returns of MDS. Our taxable REIT subsidiary ("TRS") entities are not entitled to a dividends paid deduction and are subject to federal, state, and local income taxes. Our TRS entities are authorized to provide property development, leasing, and management services for third-party owned properties, and they may make loans to and/or investments in our lessees.

With the property acquisitions and investments in Europe, we are subject to income taxes internationally. However, we do not expect to incur any additional income taxes in the U.S. as such income from our international properties will flow through our REIT income tax returns. For our TRS and international subsidiaries,

we determine deferred tax assets and liabilities based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Any increase or decrease in our deferred tax receivables/liabilities that results from a change in circumstances and that causes us to change our judgment about expected future tax consequences of events, is reflected in our tax provision when such changes occur. Deferred income taxes also reflect the impact of operating loss carryforwards. A valuation allowance is provided if we believe it is more likely than not that all or some portion of our deferred tax assets will not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances, and that causes us to change our judgment about the realizability of the related deferred tax asset, is reflected in our tax provision when such changes occur.

The calculation of our tax liabilities involve dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of technical merits. However, if a more likely than not position cannot be reached, we record a liability as an off-set to the tax benefit and adjust the liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the uncertain tax position liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

*Stock-Based Compensation:* We adopted the 2013 Equity Incentive Plan (the "Equity Incentive Plan") during the second quarter of 2013. Awards of restricted stock, stock options and other equity-based awards with service conditions are amortized to compensation expense over the vesting periods (typically three years), using the straight-line method. Awards that contain market conditions are amortized to compensation expense over the derived vesting periods, which correspond to the periods over which we estimate the awards will be earned, which generally range from three to five years, using the straight-line method. Awards with performance conditions are amortized using the straight-line method over the service period in which the performance conditions are measured, adjusted for the probability of achieving the performance conditions. Forfeitures of stock-based awards are recognized as they occur.

*Deferred Costs:* Costs incurred that directly relate to the offerings of stock are deferred and netted against proceeds received from the offering. Leasing commissions and other leasing costs directly attributable to tenant leases are capitalized as deferred leasing costs and amortized on the straight-line method over the terms of the related lease agreements. Costs identifiable with loans made to borrowers are recognized as a reduction in interest income over the life of the loan.

*Deferred Financing Costs:* We amortize deferred financing costs incurred in connection with anticipated financings and refinancings of debt. These costs are amortized over the lives of the related debt as an addition to interest expense. For debt with defined principal re-payment terms, the deferred costs are amortized to produce a constant effective yield on the debt (interest method) and are included within Debt, net on our consolidated balance sheets. For debt without defined principal repayment terms, such as revolving credit agreements, the deferred costs are amortized on the straight-line method over the term of the debt and are included as a component of Other assets on our consolidated balance sheets.

*Foreign Currency Translation and Transactions:* Certain of our international subsidiaries' functional currencies are the local currencies of their respective countries. We translate the results of operations of our foreign subsidiaries into U.S. dollars using average rates of exchange in effect during the period, and we translate balance sheet accounts using exchange rates in effect at the end of the period. We record resulting currency translation adjustments in accumulated other comprehensive income (loss), a component of stockholders' equity on our consolidated balance sheets.

Certain of our U.S. subsidiaries will enter into short-term and long-term transactions denominated in a foreign currency from time to time. Gains or losses resulting from these foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses on our short-term transactions are included in other income in the consolidated statements of income, while the translation effects on our long-term investments are recorded in accumulated other comprehensive income (loss) on our consolidated balance sheets.

*Derivative Financial Investments and Hedging Activities:* During our normal course of business, we may use certain types of derivative instruments for the purpose of managing interest rate and/or foreign currency risk. We record our derivative and hedging instruments at fair value on the balance sheet. Changes in the estimated fair value of derivative instruments that are not designated as hedges or that do not meet the criteria for hedge accounting are recognized in earnings. For derivatives designated as cash flow hedges, the change in the estimated fair value of the effective portion of the derivative is recognized in accumulated other comprehensive income (loss), whereas the change in the estimated fair value of the ineffective portion is recognized in earnings. For derivatives designated as fair value hedges, the change in the estimated fair value of the effective portion of the derivatives offsets the change in the estimated fair value of the hedged item, whereas the change in the estimated fair value of the ineffective portion is recognized in earnings.

To qualify for hedge accounting, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking the hedge prior to entering into a derivative transaction. This process includes specific identification of the hedging instrument and the hedge transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness in hedging the exposure to the hedged transaction's variability in cash flows attributable to the hedged risk will

be assessed. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items. In addition, for cash flow hedges, we assess whether the underlying forecasted transaction will occur. We discontinue hedge accounting if a derivative is not determined to be highly effective as a hedge or that it is probable that the underlying forecasted transaction will not occur.

*Fair Value Measurement:* We measure and disclose the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

*Level 1* – quoted prices for *identical* instruments in active markets;
*Level 2* – quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
*Level 3* – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

We measure fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at their estimated fair value on either a recurring or non-recurring basis. When available, we utilize quoted market prices from an independent third party source to determine fair value and classify such items in Level 1. In some instances where a market price is available, but the instrument is in an inactive or over-the-counter market, we apply the dealer (market maker) pricing estimate and classify the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads, market capitalization rates, etc. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by us include discounted cash flow and Monte Carlo valuation models. We also consider our counterparty's and own credit risk on derivatives and other liabilities measured at their estimated fair value.

*Fair Value Option Election:* For our equity interest in Ernest along with any related loans (as more fully described in Note 3 and 10), we have elected to account for these investments at fair value due to the size of the investments and because we believe this method is more reflective of current values. Other than the Capella Healthcare, Inc. ("Capella") equity investment held at December 31, 2015, we have not made a similar election for other existing equity interest or loans.

## RECENT ACCOUNTING DEVELOPMENTS:

### REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. On April 1, 2015, the FASB proposed deferring the effective date of this standard by one year to December 15, 2017, for annual reporting periods beginning after that date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. We do not expect this standard to have a significant impact on our financial results, as a substantial portion of our revenue consists of rental income from leasing arrangements, which are specifically excluded from ASU No. 2014-09.

### LEASES

In February 2016, the FASB issued ASU 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 new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is not effective for us until January 1, 2019, with early adoption permitted. We are continuing to evaluate this standard and the impact to us from both a lessor and lessee perspective.

### MEASUREMENT OF CREDIT LOSSES ON FINANCIAL INSTRUMENTS

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments", which is intended to improve financial reporting by requiring timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets not recorded at fair value based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU will be required to be implemented through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in

which the amendments are effective. The ASU is not effective for us until January 1, 2019. We do not expect the adoption of this ASU to have a significant impact on our consolidated financial statements.

### CLASSIFICATION OF CERTAIN CASH RECEIPTS AND CASH PAYMENTS

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments", which clarifies the classification within the statement of cash flows for certain transactions, including debt extinguishment costs, zero-coupon debt, contingent consideration related to business combinations, insurance proceeds, equity method distributions and beneficial interests in securitizations. The standard also clarifies that cash flows with aspects of multiple classes of cash flows or that cannot be separated by source or use should be classified based on the activity that is likely to be the predominant source or use of cash flows for the item. This guidance is effective for us starting January 1, 2018; however, we believe our current cash flow presentation is generally consistent with this standard.

### CLARIFYING THE DEFINITION OF A BUSINESS

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"). The amendments in ASU 2017-01 provide an initial screen to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, in which case, the transaction would be accounted for as an asset acquisition. In addition, ASU 2017-01 clarifies the requirements for a set of activities to be considered a business and narrows the definition of an output. ASU 2017-01 is effective for fiscal years, and interim periods within, beginning after December 15, 2017. Early adoption is permitted. A reporting entity must apply the amendments in ASU 2017-01 using a prospective approach. Upon adoption of ASU 2017-01, we expect to recognize a majority of our real estate acquisitions as asset transactions rather than business combinations which will result in the capitalization of related third party transaction costs.

### RECLASSIFICATIONS AND REVISIONS:

Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform to the current period presentation.

## 3. REAL ESTATE AND LOANS RECEIVABLE

### ACQUISITIONS

We acquired the following assets:

| Assets Acquired | 2016 | 2015 | 2014 |
|---|---|---|---|
| | (Amounts in thousands) | | |
| Land | $ 91,176 | $ 120,746 | $ 22,569 |
| Building | 654,772 | 741,935 | 241,242 |
| Intangible lease assets – subject to amortization (weighted average useful life of 28.5 years in 2016, 30.0 years in 2015 and 18.2 years in 2014 ) | 94,614 | 176,383 | 22,513 |
| Net investments in direct financing leases | 178,000 | 174,801 | — |
| Mortgage loans | 600,000 | 380,000 | — |
| Other loans | — | 523,605 | 447,664 |
| Equity investments and other assets | 70,166 | 101,716 | 33,708 |
| Liabilities assumed | (6,319) | (317) | — |
| Total assets acquired | $1,682,409 | $2,218,869 | $ 767,696 |
| Loans repaid(1) | (193,262) | (385,851) | — |
| Total net assets acquired | $ 1,489,147 | $ 1,833,018 | $ 767,696 |

*(1) $93.3 million loans advanced to Capella in 2015 and repaid in 2016 as a part of the Capella transaction, and $100.0 million loans advanced to Prime Healthcare Services, Inc. ("Prime") in 2015 and repaid in 2016 as part of the sale leaseback conversion of four properties in New Jersey. $385.9 million loans advanced to MEDIAN in 2014 and repaid in 2015 as a part of the MEDIAN transaction.*

Purchase price allocations attributable to acquisitions made during the 2016 fourth quarter are preliminary. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be adjusted to reflect new information obtained about the facts and circumstances that existed as of the respective acquisition dates that, if known, would have affected the measurement of the amounts recognized as of those dates.

### 2016 ACTIVITY

### ACQUISITION OF STEWARD PORTFOLIO

On October 3, 2016, we closed on a portfolio of nine acute care hospitals in Massachusetts operated by Steward. Our investment in the portfolio includes the acquisition of five hospitals for $600 million, the making of $600 million in mortgage loans on four facilities, and a $50 million minority equity contribution in Steward, for a combined investment of $1.25 billion. The five facilities acquired are being leased to Steward under a master lease agreement that has a 15-year term with three 5-year extension options, plus annual inflation-based escalators. The terms of the mortgage loan are substantially similar to the master lease.

### OTHER ACQUISITIONS

From October 27, 2016 to December 31, 2016, we acquired 12 rehabilitation hospitals in Germany for an aggregate purchase price to us of €85.2 million. Of these acquisitions, five properties (totaling €35.7 million) are leased to affiliates of MEDIAN, pursuant to a master lease agreement reached with MEDIAN in 2015.

(See "2015 Activity" below for further details of this master lease). The remaining seven properties (totaling €49.5 million) are leased to affiliates of MEDIAN, pursuant to a third master lease that has terms similar to the original master lease in 2015.

On October 21, 2016, we acquired three general acute care hospitals and one free-standing emergency department and health center in New Jersey from Prime (as originally contemplated in the agreements) by reducing the $100 million mortgage loan made in September 2015 and advancing an additional $15 million. We are leasing these properties to Prime pursuant to a fifth master lease, which has a 15-year term with three five-year extension options, plus consumer-price indexed increases.

On July 22, 2016, we acquired an acute care facility in Olympia, Washington in exchange for a $93.3 million loan and an additional $7 million in cash, as contemplated in the initial Capella acquisition transaction in 2015. The terms of the Olympia lease are substantially similar to those of the master lease with Capella post lease amendment. See the Capella Disposal Transaction under the subheading "Disposals" below for further details on the terms of the Capella leases.

On June 22, 2016, we closed on the final property of the initial MEDIAN transaction that began in 2014 for a purchase price of €41.6 million. See "2015 and 2014 Activity" for a description of the initial MEDIAN Transaction.

On May 2, 2016, we acquired an acute care hospital in Newark, New Jersey for an aggregate purchase price of $63 million leased to Prime pursuant to the fifth master lease. Furthermore, we committed to advance an additional $30 million to Prime over a three-year period to be used solely for capital additions to the real estate; any such addition will be added to the basis upon which the lessee will pay us rents.

From the respective acquisition dates in 2016 through year-end, the properties acquired during the year ended December 31, 2016, contributed $37.4 million and $31.7 million of revenue and income (excluding related acquisition expenses), respectively, for the year ended December 31, 2016. In addition, we incurred $12.1 million of acquisition-related costs on the 2016 acquisitions for the year ended December 31, 2016.

## 2015 ACTIVITY

### ACQUISITION OF CAPELLA PORTFOLIO

In July 2015, we entered into definitive agreements to acquire a portfolio of seven acute care hospitals owned and operated by Capella for a combined purchase price and investment of approximately $900 million, adjusted for any cash on hand. The transaction included our investments in seven acute care hospitals (two of which were in the form of mortgage loans) for an aggregate investment of approximately $600 million, an acquisition loan for approximately $290 million and a 49% equity interest in the ongoing operator of the facilities.

In conjunction with the acquisition, MPT Camaro Opco, LLC, a wholly-owned subsidiary of MDS, formed a joint venture limited liability company, Capella Health Holdings, LLC ("Capella Holdings"), with an entity affiliated with the senior management of Capella ("ManageCo"). MPT Camaro Opco, LLC held 49% of the equity interests in Capella Holdings and the ManageCo held the remaining 51%. Capella and its operating subsidiaries were managed and operated by ManageCo pursuant to the terms of one or more management agreements, the terms of which included base management fees payable to ManageCo and incentive payments tied to agreed benchmarks. Pursuant to the limited liability company agreement of Capella Holdings, ManageCo and MPT Camaro Opco, LLC shared profits and distributions from Capella Holdings according to a distribution waterfall under which, if certain benchmarks were met, after taking into account interest paid on the acquisition loan, ManageCo and MPT Camaro Opco, LLC shared in cash generated by Capella Holdings in a ratio of 35% to ManageCo and 65% to MPT Camaro Opco, LLC. The limited liability company agreement provided that ManageCo managed Capella Holdings and MPT Camaro Opco, LLC had no management authority or control except for certain protective rights consistent with a passive ownership interest, such as a limited right to approve certain components of the annual budgets and the right to approve extraordinary transactions.

On August 31, 2015, we closed on six of the seven Capella properties, two of which were in the form of mortgage loans. We closed on the seventh property on July 22, 2016 (as discussed above). We entered into a master lease, a stand-alone lease, and mortgage loans for the acquired properties providing for 15-year terms with four 5-year extension options, plus consumer price-indexed increases, limited to a 2% floor and a 4% ceiling annually. The acquisition loan had a 15-year term and carried a fixed interest rate of 8%.

On October 30, 2015, we acquired an additional acute hospital in Camden, South Carolina for an aggregate purchase price of $25.8 million. We leased this hospital to Capella pursuant to the 2015 master lease. In connection with the transaction, we funded an additional acquisition loan to Capella of $9.2 million.

See the Capella Disposal Transaction under the subheading "Disposals" below for an update to this transaction.

### MEDIAN TRANSACTION

During early 2015, we made additional loans (as part of the initial MEDIAN transaction discussed below under "2014 Activity") of approximately €240 million on behalf of MEDIAN, to complete step one of a two step process to acquire the healthcare real estate of MEDIAN. On April 29, 2015, we entered into a series of definitive agreements with MEDIAN to complete step two, which involved the acquisition of the real estate assets of 32 hospitals owned by MEDIAN for an aggregate purchase price of approximately €688 million. Upon acquisition, each property became subject to a master lease between us and MEDIAN providing for the leaseback of the property to MEDIAN. The master lease had an initial term of 27 years and provided for annual escalations of rent at the greater of one percent or 70% of the German consumer price index.

At each closing, the purchase price for each facility was reduced and offset against the interim loans made to affiliates of Waterland Private Equity Fund VC.V. ("Waterland") and MEDIAN and against the amount of any debt assumed or repaid by us in connection with the closing. As part of this transaction, we incurred approximately $37 million of real estate transfer tax in 2015. As of December 31, 2015, we had closed on 31 of the 32 properties for an aggregate amount of €646 million, and we had no loans outstanding to MEDIAN.

### OTHER ACQUISITIONS

On December 3, 2015, we acquired a 266-bed outpatient rehabilitation clinic located in Hannover, Germany from MEDIAN (formally RHM Klinik-und Altenheimbetriebe GmbH & Co. KG. ["RHM"]) for €18.7 million. Upon acquisition, the facility was leased back under the initial master lease with MEDIAN in 2013, providing for a remaining term of 25 years at that time and annual rent increases of 2.0% in 2017 and 0.5% thereafter. On December 31, 2020 and every three years thereafter, rent will also be increased to reflect 70% of cumulative increases in the German CPI.

On November 18, 2015, we acquired seven acute care hospitals and a freestanding clinic in northern Italy for an aggregate purchase price to us of approximately €90 million. The acquisition was effected through a newly-formed joint venture between us and affiliates of AXA Real Estate, in which we own a 50% interest. The facilities are leased to an Italian acute care hospital operator, pursuant to a long-term master lease. We are accounting for our 50% interest in this joint venture under the equity method.

On September 30, 2015, we provided a $100 million mortgage financing to Prime for three general acute care hospitals and one free-standing emergency department and health center in New Jersey. The loan had a five-year term and provided for consumer-priced indexed interest increases, subject to a floor. As previously noted above, we acquired these facilities in October 2016 by reducing the mortgage loan and advancing an additional $15 million.

On September 9, 2015, we acquired the real estate of a general acute care hospital under development located in Valencia, Spain. The acquisition was effected through a newly-formed joint venture between us and clients of AXA Real Estate, in which we will own a 50% interest. Our expected share of the aggregate purchase and development price is €21.4 million. Upon completion, the facility will be leased to a Spanish operator of acute care hospitals, pursuant to a long-term lease. We expect construction to be complete on this facility in the second quarter of 2017.

On August 31, 2015, we closed on a $30 million mortgage loan transaction with Prime for the acquisition of Lake Huron Medical Center, a 144-bed general acute care hospital located in Port Huron, Michigan. The loan provided for consumer-priced indexed interest increases, subject to a floor. The mortgage loan had a five-year term with conversion rights to our standard sale leaseback agreement, which we exercised on December 31, 2015, when we acquired the real estate of Lake Huron Medical Center for $20 million, which reduced the mortgage loan accordingly. The facility is being leased to Prime under our master lease agreement.

On June 16, 2015, we acquired the real estate of two facilities in Lubbock, Texas, a 60-bed inpatient rehabilitation hospital and a 37-bed LTACH, for an aggregate purchase price of $31.5 million. We entered into a 20-year lease with Ernest for the rehabilitation hospital, which provides for three five-year extension options, and separately entered into a lease with Ernest for the long-term acute care hospital that has a final term ending December 31, 2034. In connection with the transaction, we funded an acquisition loan to Ernest of approximately $12.0 million. Ernest operates the rehabilitation hospital in a joint venture with Covenant Health System. Effective July 18, 2016, we amended the lease of the rehabilitation hospital to include the long-term acute care hospital. Ernest's plans are to convert the long-term acute care facility into a rehabilitation facility by the second quarter of 2017.

On February 27, 2015, we acquired an inpatient rehabilitation hospital in Weslaco, Texas for $10.7 million. We have leased this hospital to Ernest pursuant to the 2012 master lease, which had a remaining 17-year fixed term at that time and three extension options of five years each. This lease provides for consumer-priced-indexed annual rent increases, subject to a floor and a cap. In addition, we funded an acquisition loan in the amount of $5 million.

On February 13, 2015, we acquired two general acute care hospitals in the Kansas City area for $110 million. Prime is the tenant and operator pursuant to a new master lease that has similar terms and security enhancements as the other master lease agreements entered into in 2013. This master lease has a 10-year initial fixed term with two extension options of five years each. The lease provides for consumer-price-indexed annual rent increases, subject to a specified floor. In addition, we funded a mortgage loan in the amount of $40 million, which has a 10-year term.

From the respective acquisition dates in 2015 through that year end, the properties and mortgage loans acquired in 2015 contributed $102.7 million and $87.7 million of revenue and income (excluding related acquisition expenses), respectively, for the year ended December 31, 2015. In addition, we incurred $58 million of acquisition related costs on the 2015 acquisitions for the year ended December 31, 2015.

## 2014 ACTIVITY

### MEDIAN TRANSACTION

On October 15, 2014, we entered into definitive agreements pursuant to which we would acquire substantially all the real estate assets of MEDIAN. The transaction was structured using a two step process in partnership with affiliates of Waterland. In the first step, an affiliate of Waterland acquired 94.9% of the outstanding equity interest in MEDIAN pursuant to a stock purchase agreement with MEDIAN's current owners. We indirectly

acquired the remaining 5.1% of the outstanding equity interest and provided or committed to provide interim acquisition loans to Waterland and MEDIAN in aggregate amounts of approximately €425 million, of which €349 million had been advanced at December 31, 2014. These interim loans bore interest at a rate similar to the initial lease rate under the planned sale and leaseback transactions. See "2015 and 2016 Activity" for an update on the second step of this transaction – the sale-leaseback of the real estate.

## OTHER ACQUISITIONS

In the fourth quarter of 2014, we acquired three RHM (now MEDIAN) rehabilitation facilities in Germany for an aggregate purchase price of €63.6 million (approximately $81 million based on currency exchange rates at that time) including approximately €3.0 million (or approximately $3.6 million) of transfer and other taxes that have been expensed as acquisition costs. These facilities included: Bad Mergentheim (211 beds), Bad Tolz (248 beds), and Bad Liebenstein (271 beds). All three properties are included under our initial master lease agreement with MEDIAN in 2013.

On October 31, 2014, we acquired a 237-bed acute care hospital, associated medical office buildings, and a behavioral health facility in Sherman, Texas for $32.5 million. Alecto Healthcare Services ("Alecto") is the tenant and operator pursuant to a 15-year lease agreement with three five-year extension options. In addition, we funded a working capital loan of $7.5 million, and we obtained a 20% interest in the operator of the facility.

On September 19, 2014, we acquired an acute care hospital in Fairmont, West Virginia for an aggregate purchase price of $15 million from Alecto. The facility was simultaneously leased back to the seller under a 15-year initial term with three five-year extension options. In addition, we made a $5 million working capital loan to the tenant with a five year term and a commitment to fund up to $5 million in capital improvements. Finally, we obtained a 20% interest in the operator of this facility.

On July 1, 2014, we acquired an acute care hospital in Peasedown St. John, United Kingdom from Circle Health Ltd. ("Circle"), through its subsidiary Circle Hospital (Bath) Ltd. The sale/leaseback transaction, excluding any transfer taxes, was valued at approximately £28.3 million (or approximately $48.0 million based on exchange rates at that time). The lease has an initial term of 15-years with a tenant option to extend the lease for an additional 15 years. The lease includes annual rent increases, which will equal the year-over-year change in the retail price index with a floor of 2% and a cap of 5%. With the transaction, we incurred approximately £1.1 million (approximately $1.9 million) of transfer and other taxes that have been expensed as acquisition costs.

On March 31, 2014, we acquired a general acute care hospital and an adjacent parcel of land for an aggregate purchase price of $115 million from a joint venture of LHP Hospital Group, Inc. and Hackensack University Medical Center Mountainside. The facility was simultaneously leased back to the seller under a lease with a 15-year initial term with a 3-year extension option, followed by a further 12-year extension option at fair market value. The lease provides for consumer price-indexed annual rent increases, subject to a specified floor and ceiling. The lease includes a customary right of first refusal with respect to a subsequent proposed sale of the facility.

From the respective acquisition dates in 2014 through that year end, the 2014 acquisitions contributed $12.4 million and $8.7 million of revenue and income (excluding related acquisition and financing expenses) for the period ended December 31, 2014. In addition, we incurred $26.4 million of acquisition related expenses in 2014, of which $25.2 million (including $5.8 million in transfer taxes as part of our MEDIAN and Circle transactions) related to acquisitions consummated as of December 31, 2014.

## PRO FORMA INFORMATION

The following unaudited supplemental pro forma operating data is presented below as if each acquisition was completed on January 1, 2015 and January 1, 2014 for the year ended December 31, 2016 and 2015, respectively. The unaudited supplemental pro forma operating data is not necessarily indicative of what the actual would have been assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods (in thousands, except per share amounts).

| | For the Year Ended December 31, (unaudited) | |
|---|---|---|
| | 2016 | 2015 |
| Total revenues | $ 627,583 | $ 624,443 |
| Net income | 310,019 | 306,756 |
| Net income per share | $ 0.97 | $ 0.96 |

## DEVELOPMENT ACTIVITIES

### 2016 ACTIVITY

During 2016, we completed construction and began recording rental income on the following facilities:

- Adeptus Health Inc. ("Adeptus Health") – We completed 19 acute care facilities for this tenant during 2016. These facilities are leased pursuant to the master leases entered into in both 2014 and 2015 and are cross-defaulted with each other and with the original master lease executed in 2013.

- Ernest Toledo – This $18.4 million inpatient rehabilitation facility located in Toledo, Ohio opened on April 1, 2016 and is being leased to Ernest pursuant to the original 2012 master lease.

On August 23, 2016, we entered into an agreement to finance the development of and lease an inpatient rehabilitation facility in Flagstaff, Arizona, for $28.1 million, which will be leased to Ernest pursuant to a stand-alone lease, which has terms generally similar to the original master lease. The facility is expected to be completed in the third quarter of 2017.

## 2015 ACTIVITY

During 2015, we completed construction and began recording rental income on the following facilities:

- Adeptus Health – We completed 17 acute care facilities for this tenant during 2015 totaling $102.6 million. Fourteen of these facilities are leased pursuant to the master lease entered into in 2014 and are cross-defaulted with the original master lease executed with Adeptus Health in 2013. Three properties are leased pursuant to the master lease entered into in 2015 and are cross-defaulted with the master leases entered into in 2014 and 2013.

- UAB Medical West – This $8.6 million acute care facility and medical office building located in Birmingham, Alabama is leased to Medical West, an affiliate of The University of Alabama at Birmingham, for 15 years and contains four renewal options of five years each. The rent increases 2% annually.

In April 2015, we executed an agreement with Adeptus Health that provides for the acquisition and development of general acute care hospitals and free standing emergency facilities with an aggregate commitment of $250 million. These facilities will be leased to Adeptus Health pursuant to the terms of the 2014 and 2015 master lease agreements that have a 15-year initial term with three extension options of five years each that provide for annual rent increases based on changes in the CPI with a 2% minimum. With this commitment, along with similar agreements entered into in 2014 and 2013, we have committed to fund up to $500 million in acute care facilities with Adeptus Health. At December 31, 2016, we have 54 completed and open facilities and five still under construction. See table below for an update on our remaining commitments to Adeptus Health.

## 2014 ACTIVITY

During 2014, we completed construction and began recording rental income on the following facilities:

- Northern Utah Rehabilitation Hospital – This $19 million inpatient rehabilitation facility located in South Ogden, Utah is leased to Ernest pursuant to the 2012 master lease.

- Oakleaf Surgical Hospital – This approximately $30 million acute care facility located in Altoona, Wisconsin. This facility is leased to National Surgical Hospitals for 15 years and contains two renewal options of five years each plus an additional option for nearly another five years, and the rent increases annually based on changes in the consumer price-index.

- Adeptus Health – We completed 17 acute care facilities for this tenant during 2014 totaling approximately $83.0 million. These facilities are leased pursuant to the master lease entered into in 2013.

See table below for a status update on our current development projects (in thousands):

| Operator | Commitment | Costs Incurred as of 12/31/16 | Estimated Completion Date |
|---|---|---|---|
| Adeptus Health | $ 5,848 | $ 2,710 | 1Q 2017 |
| Adeptus Health | 67,185 | 44,948 | 2Q 2017 |
| Ernest | 28,067 | 4,342 | 4Q 2017 |
| Adeptus Health | 7,804 | 1,648 | 1Q 2018 |
| Adeptus Health | 53,866 | – | Various |
| | $ 162,770 | $ 53,648 | |

## DISPOSALS

## 2016 ACTIVITY

### CAPELLA DISPOSAL TRANSACTION

On March 21, 2016, we entered into definitive agreements with RegionalCare, an affiliate of certain funds managed by affiliates of Apollo Global Management, LLC (together with its consolidated subsidiaries, "Apollo"), under which our investment in the operations of Capella would be merged with RegionalCare, forming RCCH Healthcare Partners ("RCCH").

On April 29, 2016, this transaction closed and funded, effective April 30, 2016. As part of the transaction, we received net proceeds of approximately $550 million including approximately $492 million for our equity investment and loans made as part of the original Capella acquisition that closed on August 31, 2015. In addition, we received $210 million in prepayment of two mortgage loans for hospitals in Russellville, Arkansas, and Lawton, Oklahoma, that we made to subsidiaries of Capella in connection with the Capella transaction on August 31, 2015. We made a new $93.3 million loan for a hospital property in Olympia, Washington (which was subsequently converted to real estate on July 22, 2016 as previously disclosed). Additionally, we and an Apollo affiliate invested $50 million each in unsecured senior notes issued by RegionalCare, which we sold to a large institution on June 20, 2016 at par. The proceeds from this transaction represented the recoverability of our investment in full, except for transaction costs incurred of $6.3 million.

We maintained our ownership of five Capella hospitals in Hot Springs, Arkansas; Camden, South Carolina; Hartsville, South Carolina; Muskogee, Oklahoma; and McMinnville, Oregon. Pursuant to the transaction described above, the underlying leases, one of which is a master lease covering all but one property, was amended to shorten the initial fixed lease term (to 13.5 years for the master lease and 11.5 years for the other stand-alone lease), increase the security deposit, and eliminate the lessees' purchase option provisions. Due to this lease amendment, we reclassified the lease of the properties under the master lease from a DFL to an operating lease. This reclassification resulted in a write-off of $2.6 million in unbilled DFL rent in the 2016 second quarter.

## POST ACUTE TRANSACTION

On May 23, 2016, we sold five properties (three of which were in Texas and two in Louisiana) that were leased and operated by Post Acute Medical. As part of this transaction, our outstanding loans of $4 million were paid in full, and we recovered our investment in the operations. Total proceeds from this transaction were $71 million, resulting in a net gain of approximately $15 million.

## CORINTH TRANSACTION

On June 17, 2016, we sold the Atrium Medical Center real estate located in Corinth, Texas, which was leased and operated by Corinth Investor Holdings. Total proceeds from the transaction were $28 million, resulting in a gain on the sale of real estate of approximately $8 million. This gain on real estate was offset by approximately $9 million of non-cash charges that included the write-off of our investment in the operations of the facility, straight-line rent receivables, and a lease intangible.

## HEALTHSOUTH TRANSACTION

On July 20, 2016, we sold three inpatient rehabilitation hospitals located in Texas and operated by HealthSouth Corporation for $111.5 million, resulting in a net gain of approximately $45 million.

## SUMMARY OF OPERATIONS FOR DISPOSED ASSETS IN 2016

The properties sold during 2016 did not meet the definition of discontinued operations. However, the following represents the operating results (excluding gain on sale, transaction costs, and impairment or other non-cash charges) from these properties (excluding loans repaid in the Capella Disposal Transaction) for the periods presented (in thousands):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Revenues | $ 7,851 | $ 18,112 | $ 18,225 |
| Real estate depreciation and amortization | (1,754) | (3,795) | (3,789) |
| Property-related expenses | (114) | (121) | (60) |
| Other income (expense) | (23) | 1,079 | 462 |
| Income from real estate dispositions, net | $ 5,960 | $ 15,275 | $ 14,838 |

## 2015 ACTIVITY

On July 30, 2015, we sold a long-term acute care facility in Luling, Texas for approximately $9.7 million, resulting in a gain of $1.5 million. Due to this sale, we wrote off $0.9 million of straight-line receivables. On August 5, 2015, we sold six wellness centers in the U.S. for total proceeds of approximately $9.5 million (of which $1.5 million is in the form of a promissory note), resulting in a gain of $1.7 million. Due to this sale, we wrote off $0.9 million of billed rent receivables. With these disposals, we accelerated the amortization of the related lease intangible assets resulting in approximately $0.7 million of additional expense.

The sale of the Luling facility and the six wellness centers were not strategic shifts in our operations, and therefore the results of operations related to these facilities were not reclassified as discontinued operations.

## 2014 ACTIVITY

On December 31, 2014, we sold our La Palma facility for $12.5 million, resulting in a gain of $2.9 million. Due to this sale, we wrote-off $1.3 million of straight-line rent receivables.

On May 20, 2014, the tenant of our Bucks facility gave notice of their intent to exercise the lease's purchase option. Pursuant to this purchase option, the tenant acquired the facility on August 6, 2014 for $35 million. We wrote down this facility to fair market value less cost to sell, resulting in a $3.1 million real estate impairment charge in the 2014 second quarter.

The sale of the Bucks and La Palma facilities was not a strategic shift in our operations, and therefore the results of the Bucks and La Palma operations were not reclassified as discontinued operations.

## INTANGIBLE ASSETS

At December 31, 2016 and 2015, our intangible lease assets were $296.2 million ($263.8 million, net of accumulated amortization) and $257.0 million ($231.7 million, net of accumulated amortization), respectively.

We recorded amortization expense related to intangible lease assets of $13.4 million, $9.1 million, and $7.0 million in 2016, 2015, and 2014, respectively, and expect to recognize amortization expense from existing lease intangible assets as follows (amounts in thousands):

| For the Year Ended December 31: | |
|---|---|
| 2017 | $ 22,130 |
| 2018 | 22,069 |
| 2019 | 22,021 |
| 2020 | 21,818 |
| 2021 | 21,751 |

As of December 31, 2016, capitalized lease intangibles have a weighted average remaining life of 22.1 years.

## LEASING OPERATIONS

All of our leases are accounted for as operating leases, except we are accounting for 15 Ernest facilities and ten Prime facilities as DFLs. The components of our net investment in DFLs consisted of the following (in thousands):

| | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| Minimum lease payments receivable | $ 2,207,625 | $ 2,587,912 |
| Estimated residual values | 407,647 | 393,097 |
| Less unearned income | (1,967,170) | (2,354,013) |
| Net investment in direct financing leases | $ 648,102 | $ 626,996 |

Minimum rental payments due to us in future periods under operating leases and DFLs, which have non-cancelable terms extending beyond one year at December 31, 2016, are as follows (amounts in thousands):

| | Total Under Operating Leases | Total Under DFLs | Total |
|---|---|---|---|
| 2017 | $ 386,058 | $ 62,419 | $ 448,477 |
| 2018 | 388,808 | 63,668 | 452,476 |
| 2019 | 392,577 | 64,941 | 457,518 |
| 2020 | 395,339 | 66,240 | 461,579 |
| 2021 | 400,607 | 67,565 | 468,172 |
| Thereafter | 7,077,794 | 1,673,600 | 8,751,394 |
| | $ 9,041,183 | $ 1,998,433 | $ 11,039,616 |

## ADEPTUS HEALTH

On November 1, 2016, Adeptus Health announced their 2016 third quarter results showing a decline in net income over the prior year and disclosing collection issues associated with a third party billing agent among other things. At December 31, 2016, we have no outstanding receivables due from this tenant. Furthermore, Adeptus Health is current on its rent obligations to us through February 2017. In addition, we currently hold letters of credit approximating $12.4 million. At December 31, 2016, we have approximately $400 million invested in 59 properties (including five properties still under development) that are leased, pursuant to master lease agreements, to Adeptus Health, along with additional funding commitments as disclosed earlier. This investment represents approximately 7% of our total assets at December 31, 2016. At December 31, 2016, we believe this investment is fully recoverable; however, no assurances can be made that we will not have any impairment charges related to this investment in the future.

## HOBOKEN FACILITY

In the 2015 third quarter, a subsidiary of the operator of our Hoboken facility acquired 10% of our subsidiary that owns the real estate for $5 million, which is reflected in the non-controlling interest line of our consolidated balance sheets.

## TWELVE OAKS FACILITY

In the third quarter of 2015, we sent notice of termination of the lease to the tenant at our Twelve Oaks facility. As a result of the lease terminating, we recorded a charge of $1.9 million to reserve against the straight-line rent receivables. In addition, we accelerated the amortization of the related lease intangible asset resulting in $0.5 million of additional expense during 2015. This former tenant has continued to occupy the facility. During the third quarter of 2016, the tenant paid us approximately $2.5 million representing substantially all of amounts owed to us and agreed to general terms of a new lease, which we expect to execute in 2017. The tenant is current on all of its obligations to us through February 2017. Although no assurances can be made that we will not have any impairment charges in the future, we believe our real estate investment in Twelve Oaks at December 31, 2016 is fully recoverable.

## MONROE FACILITY

During 2014, the previous operator of our Monroe facility continued to underperform and became further behind on payments to us as required by the real estate lease agreement and working capital loan agreement. In August 2014, this operator filed for bankruptcy. Based on these developments and the fair value of our real estate and the underlying collateral of our loan (using Level 2 inputs), we recorded a $47.0 million impairment charge in 2014. Effective December 31, 2014, the bankruptcy court approved the purchase by Prime of the assets of the prior operator. Prime leases the facility from us pursuant to terms under an existing master lease. Prime has been current on its rent since lease inception. At December 31, 2016, our investment in Monroe is approximately $36 million, which we believe is fully recoverable.

## LOANS

The following is a summary of our loans ($ amounts in thousands):

| | As of December 31, 2016 | | As of December 31, 2015 | |
|---|---|---|---|---|
| | Balance | Weighted Average Interest Rate | Balance | Weighted Average Interest Rate |
| Mortgage loans | $ 1,060,400 | 8.8% | $ 757,581 | 9.5% |
| Acquisition loans | 121,464 | 13.7% | 610,469 | 9.1% |
| Working capital and other loans | 34,257 | 9.0% | 54,353 | 10.2% |
| | $ 1,216,121 | | $ 1,422,403 | |

Our mortgage loans cover 12 of our properties with four operators. The increase in mortgage loans relates to the loans made to Steward totaling $600 million for four properties in October 2016, partially offset by the repayment of two loans for $210 million by RCCH (formally Capella) and the conversion of a $100 million mortgage loan to Prime into a sale/leaseback of the property – See "2016 Activity" under the Disposal and Acquisition sections for more details.

Other loans typically consist of loans to our tenants for acquisitions and working capital purposes. At December 31, 2016, acquisition loans include our $115 million of loans to Ernest. The Capella acquisition loans of approximately $489 million at December 31, 2015 were paid in full during 2016 – See "2016 Activity" under the Disposal section for more details.

On March 1, 2012, pursuant to our convertible note agreement, we converted $1.7 million of our $5.0 million convertible note into a 9.9% equity interest in the operator of our Hoboken University Medical Center facility. On October 1, 2016, we converted the remaining $3.3 million of our convertible note into a 15.1% of equity interest in the operator for a total 25% equity interest in the operator.

## CONCENTRATION OF CREDIT RISKS

### REVENUE BY OPERATOR

*($ amounts in thousands)*

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Operators (A) | Total Revenue | Percentage of Total Revenue | Total Revenue | Percentage of Total Revenue |
| Prime | $ 120,558 | 22.3% | $ 104,325 | 23.6% |
| MEDIAN | 93,425 | 17.3% | 78,540 | 17.8% |
| Ernest | 67,742 | 12.5% | 61,988 | 14.0% |
| RCCH | 52,720 | 9.7% | 28,567 | 6.4% |
| Other Operators | 206,692 | 38.2% | 168,458 | 38.2% |
| Total | $ 541,137 | 100.0% | $ 441,878 | 100.0% |

*(A) Steward is not included herein as the Steward transaction closed on October 3, 2016.*

### REVENUE BY U.S. STATE AND COUNTRY

*($ amounts in thousands)*

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| U.S. States and Other Countries | Total Revenue | Percentage of Total Revenue | Total Revenue | Percentage of Total Revenue |
| Texas | $ 96,992 | 17.9% | $ 87,541 | 19.8% |
| California | 66,197 | 12.2% | 66,120 | 15.0% |
| New Jersey | 39,084 | 7.2% | 27,688 | 6.3% |
| Massachusetts | 26,098 | 4.8% | 69 | 0.0% |
| Arizona | 23,798 | 4.4% | 21,188 | 4.8% |
| Other States | 187,363 | 34.7% | 156,256 | 35.3% |
| Total U.S. | $ 439,532 | 81.2% | $ 358,862 | 81.2% |
| Germany | $ 97,382 | 18.0% | $ 78,540 | 17.8% |
| United Kingdom, Italy and Spain | 4,223 | 0.8% | 4,476 | 1.0% |
| Total International | $ 101,605 | 18.8% | $ 83,016 | 18.8% |
| Total | $ 541,137 | 100.0% | $ 441,878 | 100.0% |

From an asset perspective, approximately 80% of our total assets are in the U.S., while 20% reside in Europe (primarily Germany) as of December 31, 2016, consistent with December 31, 2015.

### RELATED PARTY TRANSACTIONS

Lease and interest revenue earned from tenants in which we have an equity interest in were $282.9 million, $215.4 million and $101.8 million in 2016, 2015 and 2014, respectively.

## 4. DEBT

The following is a summary of debt ($ amounts in thousands):

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Revolving credit facility | $ 290,000 | $ 1,100,000 |
| Term loans | 263,101 | 263,400 |
| Senior Unsecured Notes due 2016 | — | 125,000 |
| 6.875% Senior Unsecured Notes due 2021 | — | 450,000 |
| 6.375% Senior Unsecured Notes due 2022: | | |
| Principal amount | 350,000 | 350,000 |
| Unamortized premium | 1,814 | 2,168 |
| | 351,814 | 352,168 |
| 5.750% Senior Unsecured Notes due 2020 (A) | 210,340 | 217,240 |
| 4.000% Senior Unsecured Notes due 2022 (A) | 525,850 | 543,100 |
| 5.500% Senior Unsecured Notes due 2024 | 300,000 | 300,000 |
| 6.375% Senior Unsecured Notes due 2024 | 500,000 | — |
| 5.250% Senior Unsecured Notes due 2026 | 500,000 | — |
| | $ 2,941,105 | $ 3,350,908 |
| Debt issue costs, net | (31,764) | (28,367) |
| | $ 2,909,341 | $ 3,322,541 |

As of December 31, 2016, principal payments due on our debt (which exclude the effects of any discounts, premiums, or debt issue costs recorded) are as follows ($ amounts in thousands):

| | |
|---|---|
| 2017 | $ 320 |
| 2018 | 302,781 |
| 2019 | 250,000 |
| 2020 | 210,340 |
| 2021 | — |
| Thereafter | 2,175,850 |
| Total | $ 2,939,291 |

*(A) These notes are Euro-denominated and reflect the exchange rates at December 31, 2016 and 2015, respectively.*

### REVOLVING CREDIT FACILITY

On June 19, 2014, we closed on our unsecured credit facility ("Credit Facility") for $900 million. The Credit Facility was comprised of a $775 million senior unsecured revolving credit facility (the "Revolving credit facility") and a $125 million senior unsecured term loan facility (the "Term Loan"). The Credit Facility had an accordion feature that allowed us to expand the size of the facility by up to $250 million through increases to the Revolving credit facility, Term Loan, both or as a separate term loan tranche. The Credit Facility replaced our previous $400 million unsecured revolving credit facility and $100 million unsecured term loan. This transaction resulted in a refinancing charge of approximately $0.3 million in the 2014 second quarter.

On October 17, 2014, we entered into an amendment to our Credit Facility to exercise the $250 million accordion on the Revolving credit facility. This amendment increased the Credit Facility to $1.15 billion and added a new accordion feature that allowed us to expand our credit facility by another $400 million.

On August 4, 2015, we entered into an amendment to our Revolving credit facility and Term Loan agreement to further increase the current aggregate committed size to $1.25 billion and amend certain covenants in order to permit us to consummate and finance the acquisition of Capella.

On September 30, 2015, we further amended our Credit Facility to, among other things, increase the aggregate commitment under our Revolving credit facility to $1.3 billion and increase the Term Loan portion to $250 million. In addition, this amendment included a new accordion feature that allowed us to expand the Credit Facility by another $400 million for a total commitment of $1.95 billion. This amendment resulted in a $0.1 million expense in the 2015 third quarter.

The Revolving credit facility matures in June 2018 and can be extended for an additional 12 months at our option. The Revolving credit facility's interest rate was originally set as (1) the higher of the "prime rate", federal funds rate plus 0.50%, or Eurodollar rate plus 1.00%, plus a spread that was adjustable from 0.70% to 1.25% based on current total leverage, or (2) LIBOR plus a spread that was adjustable from 1.70% to 2.25% based on current total leverage. In addition to interest expense, we were required to pay a quarterly commitment fee on the undrawn portion of the revolving credit facility, ranging from 0.25% to 0.35% per year.

In November 2014, we received an upgrade to our credit rating resulting in an improvement in our interest rate spreads and commitment fee rates. Effective December 10, 2014, the Revolving credit facility's interest rate is (1) the higher of the "prime rate", federal funds rate plus 0.50%, or Eurodollar rate plus 1.00% plus a fixed spread of 0.40% or (2) LIBOR plus a fixed spread of 1.40%. In regards to commitment fees, we now pay based on the total facility at a rate of 0.30% per year.

At December 31, 2016 and 2015, we had $290 million and $1.1 billion, respectively, outstanding on the Revolving credit facility.

At December 31, 2016, our availability under our Revolving credit facility was $1 billion. The weighted average interest rate on this facility was 2.0% and 1.7% for 2016 and 2015, respectively.

See Note 13 for subsequent event activity impacting our Credit Facility.

## TERM LOANS

As noted above in the Revolving Credit Facility section, we closed on the Term Loan for $125 million in the second quarter of 2014. Furthermore, as noted above, we amended the credit facility to increase the Term Loan portion to $250 million in the third quarter of 2015. The Term Loan matures in June 2019. The Term Loan's initial interest rate was (1) the higher of the "prime rate", federal funds rate plus 0.50%, or Eurodollar rate plus 1.00%, plus a spread that was adjustable from 0.60% to 1.20% based on current total leverage, or (2) LIBOR plus a spread that was adjustable from 1.60% to 2.20% based on current total leverage. With the upgrade to our credit rating as discussed above, the Term Loan's interest rate, effective December 10, 2014, improved to (1) the higher of the "prime rate", federal funds rate plus 0.50%, or Euro dollar rate plus 1.00% plus a fixed spread of 0.65%, or (2) LIBOR plus a fixed spread of 1.65%. At December 31, 2016 and 2015, the interest rate in effect on the Term Loan was 2.36% and 2.05%, respectively.

In connection with our acquisition of the Northland LTACH Hospital on February 14, 2011, we assumed a $14.6 million mortgage. The Northland mortgage loan requires monthly principal and interest payments based on a 30-year amortization period. The Northland mortgage loan has a fixed interest rate of 6.2%, matures on January 1, 2018 and can be prepaid, subject to a certain prepayment premium. At December 31, 2016, the remaining balance on this term loan was $13.1 million. The loan is collateralized by the real estate of the Northland LTACH Hospital, which had a net book value of $16.4 million and $16.9 million at December 31, 2016 and 2015, respectively.

See Note 13 for subsequent activity impacting our Credit Facility.

## SENIOR UNSECURED NOTES DUE 2016

During 2006, we issued $125.0 million of senior unsecured notes (the "Senior Unsecured Notes due 2016"). One of the issuances of the Senior Unsecured Notes due 2016 totaling $65.0 million paid interest quarterly at a floating annual rate of three-month LIBOR plus 2.30% and could be called at par value by us at any time. This portion of the Senior Unsecured Notes due 2016 matured in July 2016. The remaining issuances of Senior Unsecured Notes due 2016 paid interest quarterly at a floating annual rate of three-month LIBOR plus 2.30% and could also be called at par value by us at any time. These remaining notes matured in October 2016.

During the second quarter 2010, we entered into an interest rate swap to manage our exposure to variable interest rates by fixing $65 million of our $125 million Senior Unsecured Notes due 2016, which started July 31, 2011 (date on which the interest rate turned variable) through maturity date (or July 2016), at a rate of 5.507%. We also entered into an interest rate swap to fix $60 million of our Senior Unsecured Notes due 2016 which started October 31, 2011 (date on which the related interest rate turned variable) through the maturity date (or October 2016) at a rate of 5.675%. At December 31, 2015, the fair value of the interest rate swaps was $2.9 million, which is reflected in accounts payable and accrued expenses on the consolidated balance sheets. These interest rate swaps expired in 2016 in connection with the maturity of the related notes. We accounted for our interest rate swaps as cash flow hedges. We did not have any hedge ineffectiveness from inception of our interest rate swaps through their expiration in 2016; and therefore, there was no income statement effect recorded during the years ended December 31, 2016, 2015, and 2014.

### 6.875% SENIOR UNSECURED NOTES DUE 2021

On April 26, 2011, we closed on a private placement of $450 million senior notes (the "6.875% Senior Unsecured Notes due 2021") to qualified institutional buyers in reliance on Rule 144A under the Securities Act. The notes were subsequently registered under the Securities Act pursuant to an exchange offer. Interest on the notes was payable semi-annually on May 1 and November 1 of each year. The notes paid interest in cash at a rate of 6.875% per year, would have matured on May 1, 2021, and offered a redemption option to redeem some or all of the notes at a premium, plus accrued and unpaid interest to, but not including, the redemption date.

On July 22, 2016, we used the net proceeds from the 5.250% Senior Unsecured Notes due 2026 offering (see discussion below for further details on these notes) to redeem our $450 million 6.875% Senior Unsecured Notes due 2021. This redemption resulted in a $22.5 million debt refinancing charge during the 2016 third quarter, consisting of a $15.5 million redemption premium along with the write-off of deferred debt issuance costs associated with the redeemed notes.

### 6.375% SENIOR UNSECURED NOTES DUE 2022

On February 17, 2012, we completed a $200 million offering of senior unsecured notes ("6.375% Senior Unsecured Notes due 2022"), and on August 20, 2013, we completed a $150 million tack on to the notes. These 6.375% Senior Unsecured Notes due 2022 accrue interest at a fixed rate of 6.375% per year and mature on February 15, 2022. The 2013 tack on offering, was issued at a premium (price of 102%), resulting in an effective rate of 5.998%. Interest on these notes is payable semi-annually on February 15 and August 15 of each year. We may redeem some or all of the notes at a premium that will decrease over time, plus accrued and unpaid interest to, but not including, the redemption date. In the event of a change of control, each holder of the 6.375% Senior Unsecured Notes due 2022 may require us to repurchase some or all of its notes at a repurchase price equal to 101% of the aggregate principal amount plus accrued and unpaid interest to the date of purchase.

### 5.750% SENIOR UNSECURED NOTES DUE 2020

On October 10, 2013, we completed a €200 million offering of senior unsecured notes ("5.750% Senior Unsecured Notes due 2020"). Interest on the notes is payable semi-annually on April 1 and October 1 of each year. The 5.750% Senior Unsecured Notes due 2020 pay interest in cash at a rate of 5.750% per year. The notes mature on October 1, 2020. We may redeem some or all of the notes at any time at a "make-whole" redemption price that will decrease over time. In the event of a change of control, each holder of the notes may require us to repurchase some or all of our notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase. See Note 13 for subsequent event activity related to these notes.

### 4.000% SENIOR UNSECURED NOTES DUE 2022

On August 19, 2015, we completed a €500 million senior unsecured notes offering ("4.000% Senior Unsecured Notes due 2022"). Interest on the notes is payable annually on August 19 of each year. The notes pay interest in cash at a rate of 4.00% per year. The notes mature on August 19, 2022. We may redeem some or all of the 4.000% Senior Unsecured Notes due 2022 at any time. If the notes are redeemed prior to 90 days before maturity, the redemption price will be 100% of their principal amount, plus a make-whole premium, plus accrued and unpaid interest to, but excluding, the applicable redemption date. Within the period beginning on or after 90 days before maturity, the notes may be redeemed, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the applicable redemption date. The 4.000% Senior Unsecured Notes due 2022 are fully and unconditionally guaranteed on an unsecured basis by us. In the event of a change of control, each holder of the notes may require us to repurchase some or all of our notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of the purchase.

### 5.500% SENIOR UNSECURED NOTES DUE 2024

On April 17, 2014, we completed a $300 million senior unsecured notes offering ("5.500% Senior Unsecured Notes due 2024"). Interest on the notes is payable semi-annually on May 1 and November 1 of each year. The notes pay interest in cash at a rate of 5.50% per year. The notes mature on May 1, 2024. We may redeem some or all of the notes at any time prior to May 1, 2019 at a "make-whole" redemption price. On or after May 1, 2019, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to May 1, 2017, we may redeem up to 35% of the aggregate principal amount of the notes using the proceeds of one or more equity offerings. In the event of a change of control, each holder of the notes may require us to repurchase some or all of our notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

### 6.375% SENIOR UNSECURED NOTES DUE 2024

On February 22, 2016, we completed a $500 million senior unsecured notes offering ("6.375% Senior Unsecured Notes due 2024"). Interest on the notes is payable on March 1 and September 1 of each year. Interest on the notes is paid in cash at a rate of 6.375% per year. The notes mature on March 1, 2024. We may redeem some or all of the notes at any time prior to March 1, 2019 at a "make whole" redemption price. On or after March 1, 2019, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to March 1, 2019, we may redeem up to 35% of the notes at a redemption price equal to 106.375% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, using proceeds from one or more equity offerings. In the event of a change in control, each holder of the notes may require us to repurchase some or all of the notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

### 5.250% SENIOR UNSECURED NOTES DUE 2026

On July 22, 2016, we completed a $500 million senior unsecured notes offering ("5.250% Senior Unsecured Notes due 2026"). Interest on the notes is payable on February 1 and August 1 of each year, commencing on February 1, 2017. Interest on the notes is to be paid in cash at a rate of 5.25% per year. The notes mature on August 1, 2026. We may redeem some or all of the notes at any time prior to August 1, 2021 at a "make whole" redemption price. On or after August 1, 2021, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to August 1, 2019, we may redeem up to 35% of the notes at a redemption price equal to 105.25% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, using proceeds from one or more equity offerings. In the event of a change in control, each holder of the notes may require us to repurchase some or all of the notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

### OTHER FINANCING

On July 27, 2015, we received a commitment to provide a senior unsecured bridge loan facility in the original principal amount of $1.0 billion to fund the acquisition of Capella pursuant to a commitment letter from JPMorgan Chase Bank, N.A. and Goldman, Sachs & Co. Funding under the bridge facility was not necessary as we funded the acquisition through a combination of an equity issuance and other borrowings. We incurred and expensed certain customary structuring and underwriting fees of $3.9 million in the 2015 third quarter related to the bridge commitment.

### COVENANTS

Our debt facilities impose certain restrictions on us, including restrictions on our ability to: incur debts; create or incur liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or consolidations; enter into affiliated transactions; dispose of real estate or other assets; and change our business. In addition, the credit agreements governing our Credit Facility limit the amount of dividends we can pay as a percentage of normalized adjusted funds from operations, as defined in the agreements, on a rolling four quarter basis. Through 2016, the dividend restriction was 95% of normalized adjusted funds from operations ("FFO"). The indentures governing our senior unsecured notes also limit the amount of dividends we can pay based on the sum of 95% of FFO, proceeds of equity issuances and certain other net cash proceeds. Finally, our senior unsecured notes require us to maintain total unencumbered assets (as defined in the related indenture) of not less than 150% of our unsecured indebtedness.

In addition to these restrictions, the Credit Facility contains customary financial and operating covenants, including covenants relating to our total leverage ratio, fixed charge coverage ratio, secured leverage ratio, consolidated adjusted net worth, unsecured leverage ratio, and unsecured interest coverage ratio. This Credit Facility also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with our covenants. If an event of default occurs and is continuing under the Credit Facility, the entire outstanding balance may become immediately due and payable. At December 31, 2016, we were in compliance with all such financial and operating covenants.

## 5. INCOME TAXES

We have maintained and intend to maintain our election as a REIT under the Code of 1986, as amended. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our taxable income to our stockholders. As a REIT, we generally will not be subject to U.S. federal income tax if we distribute 100% of our taxable income to our stockholders and satisfy certain other requirements. Income tax is paid directly by our stockholders on the dividends distributed to them. If our taxable income exceeds our dividends in a tax year, REIT tax rules allow us to designate dividends from the subsequent tax year in order to avoid current taxation on undistributed income. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates, including any applicable alternative minimum tax. Taxable income from non-REIT activities managed through our TRSs is subject to applicable U.S. federal, state and local income taxes. Our international subsidiaries are also subject to income taxes in the jurisdictions in which they operate.

From our TRSs and our foreign operations, income tax (benefit) expense were as follows (in thousands):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Current income tax expense: | | | |
| Domestic | $ 42 | $ 147 | $ 114 |
| Foreign | 1,856 | 1,614 | 225 |
| | 1,898 | 1,761 | 339 |
| Deferred income tax (benefit) expense: | | | |
| Domestic | 147 | (360) | (23) |
| Foreign | (8,875) | 102 | 24 |
| | (8,728) | (258) | 1 |
| Income tax (benefit) expense | $ (6,830) | $ 1,503 | $ 340 |

The foreign provision (benefit) for income taxes is based on foreign loss before income taxes of $23.5 million in 2016 as compared with foreign loss before income taxes of $29.4 million in 2015, and foreign loss before income taxes of $7.5 million in 2014.

The domestic provision (benefit) for income taxes is based on a loss before income taxes of $1.4 million in 2016 from our taxable REIT subsidiaries as compared with income before income taxes of $7.1 million in 2015, and a loss before income taxes of $20.9 million in 2014.

At December 31, 2016 and 2015, components of our deferred tax assets and liabilities were as follows (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Deferred tax liabilities: | | |
| Property and equipment | $ (3,781) | $ (1,636) |
| Unbilled rent | (7,045) | (4,495) |
| Partnership investments | (5,103) | (3,362) |
| Other | (6,757) | (6,141) |
| Total deferred tax liabilities | $ (22,686) | $ (15,634) |
| Deferred tax assets: | | |
| Operating loss and interest deduction carry forwards | $ 28,289 | $ 19,016 |
| Other | 10,085 | 10,314 |
| Total deferred tax assets | 38,374 | 29,330 |
| Valuation allowance | (15,975) | (23,005) |
| Total net deferred tax assets | $ 22,399 | $ 6,325 |
| Net deferred tax (liability) | $ (287) | $ (9,309) |

At December 31, 2016, our U.S. net operating losses ("NOLs") consisted of $60 million of federal NOLs and $113.5 million of state NOLs available as offsets to future years' taxable income. We have federal and state capital loss carryforwards of $8.1 million. The NOLs primarily expire between 2021 and 2035 and the capital loss carryforward expires in 2022. We have alternative minimum tax credits of $0.3 million as of December 31, 2016, which may be carried forward indefinitely. At December 31, 2016, we had foreign NOLs of $13.3 million that may be carried forward indefinitely.

In the evaluation of the need for a valuation allowance on the U.S. deferred income tax assets, we considered all available positive and negative evidence, including scheduled reversals of deferred income tax liabilities, carryback of future period losses to prior periods, projected future taxable income, tax planning strategies and recent financial performance. Based on our review of all positive and negative evidence, including a three year U.S. cumulative pre-tax loss, we concluded that a valuation allowance should remain against those deferred income tax assets that are not expected to be realized through future sources of taxable income generated from scheduled reversals of deferred income tax liabilities. As a result, a valuation allowance continues to be recorded to reflect the portion of the U.S. federal and state deferred income tax assets that are not likely to be realized based upon all available evidence. If we later determine that we will more likely than not realize all, or a portion, of the deferred income tax assets, we will reverse the valuation allowance in a future period. All future reversals of the valuation allowance would result in a tax benefit in the period recognized.

We also evaluated the need for a valuation allowance on our foreign deferred income tax assets. In doing so, we considered all available evidence to determine whether it is more likely than not that the foreign deferred income tax assets will be realized. When comparing 2016 results to prior periods, we noted a significant increase in positive evidence, which included a strong positive trend in foreign earnings and forecasted foreign income projections in 2017 and future periods. For instance, several of our initial foreign subsidiaries achieved a cumulative pre-tax income position as of the 2016 fourth quarter, and we expect the majority of our remaining foreign subsidiaries to be in a cumulative pre-tax income position within the next 12-18 months. Current year earnings resulted in the use of $2 million of beginning of the year valuation allowances on deferred tax assets which offset corresponding current tax expense. The positive evidence noted above resulted in our conclusion to make a one-time release of $4 million of the valuation allowance on our foreign deferred income tax assets in the 2016 fourth quarter. We also noted that sufficient objective positive evidence did not exist for a portion of foreign deferred income tax assets at December 31, 2016 due to the lack of future sources of taxable income to utilize these deferred income tax assets. A valuation allowance of $2.2 million has remained to reserve against these foreign deferred tax assets.

We have no uncertain tax position liabilities and related interest or penalties recorded at December 31, 2016.

A reconciliation of the income tax (benefit) expense at the statutory income tax rate and the effective tax rate for income from continuing operations before income taxes for the years ended December 31, 2016, 2015, and 2014 is as follows (in thousands):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income from continuing operations (before-tax) | $ 219,108 | $ 141,430 | $ 51,138 |
| Income tax at the US statutory federal rate (35%) | 76,688 | 49,501 | 17,898 |
| Increase (decrease) resulting from: | | | |
| Rate differential | 1,434 | 5,047 | 1,145 |
| State income taxes, net of federal benefit | 66 | (601) | (337) |
| Dividends paid deduction | (84,927) | (57,109) | (27,873) |
| Equity investments | 4,297 | — | — |
| Change in valuation allowance | (6,104) | 6,174 | 8,988 |
| Other items, net | 1,716 | (1,509) | 519 |
| Total income tax (benefit) expense | $ (6,830) | $ 1,503 | $ 340 |

We have met the annual REIT distribution requirements by payment of at least 90% of our estimated taxable income in 2016, 2015, and 2014. Earnings and profits, which determine the taxability of such distributions, will differ from net income reported for financial reporting purposes due primarily to differences in cost basis, differences in the estimated useful lives used to compute depreciation, and differences between the allocation of our net income and loss for financial reporting purposes and for tax reporting purposes.

A schedule of per share distributions we paid and reported to our stockholders is set forth in the following:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Common share distribution | $ 0.900000 | $ 0.870000 | $ 0.840000 |
| Ordinary income | 0.619368 | 0.769535 | 0.520692 |
| Capital gains(1) | 0.102552 | — | 0.000276 |
| Unrecaptured Sec. 1250 gain | 0.045432 | — | 0.000276 |
| Return of capital | 0.178080 | 0.100465 | 0.319032 |

*(1) Capital gains include unrecaptured Sec. 1250 gains.*

## 6. EARNINGS PER SHARE

Our earnings per share were calculated based on the following (amounts in thousands):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Numerator: | | | |
| Income from continuing operations | $ 225,938 | $ 139,927 | $ 50,798 |
| Non-controlling interests' share in continuing operations | (889) | (329) | (274) |
| Participating securities' share in earnings | (559) | (1,029) | (894) |
| Income from continuing operations, less participating securities' share in earnings | 224,490 | 138,569 | 49,630 |
| Income (loss) from discontinued operations attributable to MPT common stockholders | (1) | — | (2) |
| Net income, less participating securities' share in earnings | $ 224,489 | $ 138,569 | $ 49,628 |
| Denominator: | | | |
| Basic weighted-average common shares | 260,414 | 217,997 | 169,999 |
| Dilutive potential common shares | 658 | 307 | 541 |
| Diluted weighted-average common shares | 261,072 | 218,304 | 170,540 |

## 7. STOCK AWARDS

### STOCK AWARDS

Our Equity Incentive Plan authorizes the issuance of common stock options, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance units and awards of interests in our Operating Partnership. Our Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. We have reserved 8,196,770 shares of common stock for awards under the Equity Incentive Plan and 5,265,916 shares remain available for future stock awards as of December 31, 2016. The Equity Incentive Plan contains a limit of 5,000,000 shares as the maximum number of shares of common stock that may be awarded to an individual in any fiscal year. Awards under the Equity Incentive Plan are subject to forfeiture due to termination of employment prior to vesting. In the event of a change in control, outstanding and unvested options will immediately vest, unless otherwise provided in the participant's award or employment agreement, and restricted stock, restricted stock units, deferred stock units and other stock-based awards will vest if so provided in the participant's award agreement. The term of the awards is set by the Compensation Committee, though Incentive Stock Options may not have terms of more than ten years. Forfeited awards are returned to the Equity Incentive Plan and are then available to be re-issued as future awards.

The following awards have been granted pursuant to our Equity Incentive Plan (and its predecessor plan):

### RESTRICTED EQUITY AWARDS

These stock-based awards are in the form of service-based awards and performance awards based on certain market conditions. The service-based awards vest as the employee provides the required service (typically three to five years). Service based awards are valued at the average price per share of common stock on the date of grant. In 2016, 2015, and 2014, the Compensation Committee granted performance – based awards to employees which vest based on us achieving certain total shareholder returns or comparisons of our total shareholder returns to peer total return indices. Generally, dividends are not paid on performance awards until the award is earned. See below for details of such performance award grants:

2016 performance awards – The 2016 performance awards were granted in two parts:

1) One-half of the 2016 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2016 to December 31, 2018. The minimum total shareholder return needed to earn a portion of this award is 27.0% with 100% of the award earned if our total shareholder return reaches 35.0%. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2019, 2020, and 2021. The fair value of this award was estimated on the dates of grant using a Monte Carlo valuation model that assumed the following: risk free interest rates of 1.0%; expected volatility of 24.4%; expected dividend yield of 7.0%; and expected service period of 5 years.

2) The remainder of the 2016 performance awards will be earned if our total shareholder return outpaces that of the MSCI U.S. REIT Index ("Index") over the cumulative period from January 1, 2016 to December 31, 2018. Our total shareholder return must be within 3% of the Index to earn the minimum number of shares under this award, while it must exceed the Index by 3% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2019, 2020, and 2021. The fair value of this award was estimated on the dates of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.0%; expected volatility of 24.4%; expected dividend yield of 7.0%; and expected service period of 5 years.

No 2016 performance awards were earned and vested in 2016, and 2,400 performance awards were forfeited in 2016. At December 31, 2016, we have 797,404 of 2016 performance awards remaining to be earned.

2015 performance awards – The 2015 performance awards were granted in three parts:

1) Approximately 40% of the 2015 performance awards were based on us achieving a simple 9.0% annual total shareholder return. For the three-year period from January 1, 2015 through December 31, 2017, one-third of the awards will be earned annually (until the award is fully earned) if a 9.0% total shareholder return is achieved. If total shareholder return does not reach 9.0% in a particular year, shares for that year can be earned in a future period (during the three-year period) if the cumulative total shareholder return is equal to or greater than a 9.0% annual return for such cumulative period. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of

1.1%; expected volatility of 20%; expected dividend yield of 7.2%; and expected service period of 3 years.

2) Approximately 30% of the 2015 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2015 to December 31, 2017. The minimum total shareholder return needed to earn a portion of this award is 27.0% with 100% of the award earned if our total shareholder return reaches 35.0%. If any shares are earned from this award, the shares will vest in equal annual amounts on December 31, 2017, 2018, and 2019. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.1%; expected volatility of 20%; expected dividend yield of 7.2%; and expected service period of 5 years.

3) The remainder of the 2015 performance awards will be earned if our total shareholder return outpaces the Index over the cumulative period from January 1, 2015 to December 31, 2017. Our total shareholder return must exceed that of the Index to earn the minimum number of shares under this award, while it must exceed the Index by 6% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on December 31, 2017, 2018, and 2019. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.1%; expected volatility of 20%; expected dividend yield of 7.2%; and expected service period of 5 years.

In 2016, 98,526 shares were earned and vested, and 66,792 performance awards were forfeited in 2016. No 2015 performance awards were earned and vested in 2015, and 4,500 performance awards were forfeited in 2015. At December 31, 2016, we have 702,070 of 2015 performance awards remaining to be earned.

2014 performance awards – The 2014 performance awards were granted in three parts:

1) Approximately 40% of the 2014 performance awards were based on us achieving a simple 9.0% annual total shareholder return. For the five-year period from January 1, 2014 through December 31, 2018, one-third of the awards will be earned annually (until the award is fully earned) if a 9.0% total shareholder return is achieved. If total shareholder return does not reach 9.0% in a particular year, shares for that year can be earned in a future period (during the five-year period) if the cumulative total shareholder return is equal to or greater than a 9.0% annual return for such cumulative period. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.7%; expected volatility of 27%; expected dividend yield of 8.0%; and expected service period of 3 years.

2) Approximately 30% of the 2014 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2014 to December 31, 2016. The minimum total shareholder return needed to earn a portion of this award is 27.0% with 100% of the award earned if our total shareholder return reaches 35.0%. If any shares are earned from this award, the shares will vest in equal annual amounts on December 31, 2016, 2017, and 2018. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.8%; expected volatility of 27%; expected dividend yield of 8.0%; and expected service period of 5 years.

3) The remainder of the 2014 performance awards were to be earned if our total shareholder return outpaced that of the Index over the cumulative period from January 1, 2014 to December 31, 2016. Our total shareholder return must exceed that of the Index to earn the minimum number of shares under this award, while it must exceed the Index by 6% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on December 31, 2016, 2017, and 2018. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 0.8%; expected volatility of 27%; expected dividend yield of 8.0%; and expected service period of 5 years.

In 2014 and 2016, 108,261 and 99,959 shares were earned and vested under the 2014 performance awards, respectively. No such awards were earned and vested in 2015. In 2016, 500,000 shares, which related to the latter two parts of the award as described above, were forfeited as the three-year cumulative total shareholder return hurdles from January 1, 2014 to December 31, 2016 were not met. An additional 72,003 performance shares were forfeited prior to the measurement date in 2016. At December 31, 2016, we have 99,935 of 2014 performance awards remaining to be earned.

The following summarizes restricted equity award activity in 2016 and 2015 (which includes awards granted in 2016, 2015, 2014, and any applicable prior years), respectively:

For the Year Ended December 31, 2016:

| | Vesting Based on Service | | Vesting Based on Market/ Performance Conditions | |
|---|---|---|---|---|
| | Shares | Weighted Average Value at Award Date | Shares | Weighted Average Value at Award Date |
| Nonvested awards at beginning of the year | 509,634 | $ 13.25 | 2,331,152 | $ 6.38 |
| Awarded | 254,574 | $ 13.07 | 799,804 | $ 7.30 |
| Vested | (349,356) | $ 13.07 | (671,983) | $ 6.50 |
| Forfeited | (67,724) | $ 13.06 | (647,298) | $ 6.28 |
| Nonvested awards at end of year | 347,128 | $ 13.35 | 1,811,675 | $ 6.78 |

For the Year Ended December 31, 2015:

| | Vesting Based on Service | | Vesting Based on Market/ Performance Conditions | |
|---|---|---|---|---|
| | Shares | Weighted Average Value at Award Date | Shares | Weighted Average Value at Award Date |
| Nonvested awards at beginning of the year | 452,263 | $ 12.11 | 2,428,518 | $ 5.81 |
| Awarded | 407,969 | $ 13.94 | 871,888 | $ 6.62 |
| Vested | (343,904) | $ 12.56 | (406,970) | $ 4.94 |
| Forfeited | (6,694) | $ 13.08 | (562,284) | $ 5.33 |
| Nonvested awards at end of year | 509,634 | $ 13.25 | 2,331,152 | $ 6.38 |

The value of stock-based awards is charged to compensation expense over the vesting periods. In the years ended December 31, 2016, 2015, and 2014, we recorded $7.9 million, $11.1 million, and $9.2 million, respectively, of non-cash compensation expense. The remaining unrecognized cost from restricted equity awards at December 31, 2016, is $12.4 million, which will be recognized over a weighted average period of 2.78 years. Restricted equity awards that vested in 2016, 2015, and 2014 had a value of $12.7 million, $10.2 million, and $10.2 million, respectively.

## 8. COMMITMENTS AND CONTINGENCIES

### COMMITMENTS

On July 20, 2016, we entered into definitive agreements to acquire 20 rehabilitation hospitals in Germany for an aggregate purchase price to us of approximately €215.7 million. Upon closing, the facilities will be leased to affiliates of MEDIAN, pursuant to a new master lease with a term of approximately 27 years. Closing of the transaction, which began during the fourth quarter of 2016, is subject to customary real estate, regulatory and other closing conditions. As discussed in Note 3, we have closed seven of the 20 facilities in the amount of €49.5 million on December 31, 2016.

On September 9, 2016, we entered into definitive agreements to acquire six rehabilitation hospitals in Germany for an aggregate purchase price to us of approximately €44.1 million. Upon closing, the facilities will be leased to affiliates of MEDIAN, pursuant to the existing long-term master lease. Closing of the transaction, which began during the fourth quarter of 2016, is subject to customary real estate, regulatory and other closing conditions. As discussed in Note 3, we have closed on five of the six facilities in the amount of €35.7 million as of December 31, 2016. We closed on the final property on January 27, 2017, in the amount of €8.4 million.

On September 28, 2016, we entered into definitive agreements to acquire two acute care hospitals in Washington and Idaho for an aggregate purchase price to us of approximately $105 million. Upon closing, the facilities will be leased to RCCH, pursuant to the current master lease. Closing of the transaction, which is expected to be completed in the first half of 2017, is subject to customary real estate, regulatory and other closing conditions.

Operating leases, in which we are the lessee, primarily consist of ground leases on which certain of our facilities or other related property reside along with corporate office and equipment leases. The ground leases are long-term leases (almost all having terms of 30 years or more), some of which contain escalation provisions and one contains a purchase option. Properties subject to these ground leases are subleased to our tenants. Lease and rental expense (which is recorded on the straight-line method) for 2016, 2015 and 2014, respectively, were $6.8 million, $4.6 million, and $2.3 million, which was offset by sublease rental income of $4.2 million, $2.3 million, and $0.3 million for 2016, 2015, and 2014, respectively.

Fixed minimum payments due under operating leases with non-cancelable terms of more than one year and amounts to be received in the future from non-cancelable subleases at December 31, 2016 are as follows:
(amounts in thousands)

| | Fixed minimum payments | Amounts to be received from subleases | Net payments |
|---|---|---|---|
| 2017 | $ 7,328 | $ (4,725) | $ 2,603 |
| 2018 | 7,249 | (4,731) | 2,518 |
| 2019 | 6,925 | (4,755) | 2,170 |
| 2020 | 6,944 | (4,860) | 2,084 |
| 2021 | 6,024 | (4,966) | 1,058 |
| Thereafter | 251,981 | (249,662) | 2,319 |
| | $ 286,451 | $ (273,699) | $ 12,752 |

### CONTINGENCIES

We are a party to various legal proceedings incidental to our business. In the opinion of management, after consultation with legal counsel, the ultimate liability, if any, with respect to these proceedings is not presently expected to materially affect our financial position, results of operations or cash flows.

## 9. COMMON STOCK

### 2016 ACTIVITY

On October 7, 2016, we sold 10.3 million shares of common stock in a private placement to an affiliate of Cerberus, the controlling member of Steward, and certain members of Steward management. We sold these shares at a price per share of $14.50, equal to the public offering price of our September 2016 equity offering, generating total proceeds of $150 million.

On September 30, 2016, we completed an underwritten public offering of 57.5 million shares (including the exercise of the underwriters' 30-day option to purchase an additional 7.5 million shares) of our common stock, resulting in net proceeds of $799.5 million, after deducting estimated offering expenses.

On March 1, 2016, we updated our at-the-market equity offering program, which gave us the ability to sell up to $227 million of stock with a commission rate of 1.25%. During 2016, we sold approximately 15 million shares of our common stock under this program, resulting in net proceeds of approximately $224 million, after

deducting approximately $2.8 million of commissions. We have no capacity to sell additional shares under this at-the-market equity offering program.

### 2015 ACTIVITY

On August 11, 2015, we completed an underwritten public offering of 28.75 million shares (including the exercise of the underwriters' 30-day option to purchase an additional 3.8 million shares) of our common stock, resulting in net proceeds of approximately $337 million, after deducting estimated offering expenses.

On August 4, 2015, we filed Articles of Amendment to our charter with the Maryland State Department of Assessments and Taxation increasing the number of authorized shares of common stock, par value $0.001 per share available for issuance from 250,000,000 to 500,000,000.

On January 14, 2015, we completed an underwritten public offering of 34.5 million shares (including the exercise of the underwriters' 30-day option to purchase an additional 4.5 million shares) of our common stock, resulting in net proceeds of approximately $480 million, after deducting estimated offering expenses.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

We have various assets and liabilities that are considered financial instruments. We estimate that the carrying value of cash and cash equivalents, and accounts payable and accrued expenses approximate their fair values. Included in our accounts payable and accrued expenses at December 31, 2015, were our interest rate swaps, which were recorded at fair value based on Level 2 observable market assumptions using standardized derivative pricing models. We estimate the fair value of our interest and rent receivables using Level 2 inputs such as discounting the estimated future cash flows using the current rates at which similar receivables would be made to others with similar credit ratings and for the same remaining maturities. The fair value of our mortgage and working capital loans are estimated by using Level 2 inputs such as discounting the estimated future cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. We determine the fair value of our senior unsecured notes, using Level 2 inputs such as quotes from securities dealers and market makers. We estimate the fair value of our Revolving credit facility and term loans using Level 2 inputs based on the present value of future payments, discounted at a rate which we consider appropriate for such debt.

Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of significant judgment. Settlement of such fair value amounts may not be possible and may not be a prudent management decision. The following table summarizes fair value estimates for our financial instruments (in thousands):

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Asset (Liability) | Book Value | Fair Value | Book Value | Fair Value |
| Interest and rent receivables | $ 57,698 | $ 57,707 | $ 46,939 | $ 46,858 |
| Loans(1) | 986,987 | 1,017,428 | 508,851 | 543,859 |
| Debt, net | (2,909,341) | (2,966,759) | (3,322,541) | (3,372,773) |

*(1) Excludes loans related to Ernest and Capella (2015 only) since they are recorded at fair value as discussed below.*

### ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Our equity interest in Ernest, Capella (2015 only) and related loans, as discussed in Note 2, are being measured at fair value on a recurring basis as we elected to account for these investments using the fair value option method. We have elected to account for these investments at fair value due to the size of the investments and because we believe this method is more reflective of current values. We have not made a similar election for other equity interests or loans in or prior to 2016.

At December 31, 2016, the amounts recorded under the fair value option method were as follows (in thousands):

| Asset (Liability) | Fair Value | Cost | Asset Type Classification |
|---|---|---|---|
| Mortgage loan | $ 112,836 | $ 112,836 | Mortgage loans |
| Acquisition and other loans | 116,298 | 116,298 | Other loans |
| Equity investment | 3,300 | 3,300 | Other assets |
| | $ 232,434 | $ 232,434 | |

At December 31, 2015, the amounts recorded under the fair value option method were as follows (in thousands):

| Asset (Liability) | Fair Value | Cost | Asset Type Classification |
|---|---|---|---|
| Mortgage loan | $ 310,000 | $ 310,000 | Mortgage loans |
| Acquisition and other loans | 603,552 | 603,552 | Other loans |
| Equity investment | 7,349 | 7,349 | Other assets |
| | $ 920,901 | $ 920,901 | |

Our mortgage and other loans with Ernest and Capella (2015 only) are recorded at fair value based on Level 2 inputs by discounting the estimated cash flows using the market rates which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. Our equity investments in Ernest and Capella (2015 only) are recorded at fair value based on Level 3 inputs, by using a discounted cash flow model, which requires significant estimates of our investee such as projected revenue and expenses and appropriate consideration of the underlying risk profile of the forecasted assumptions associated with the investee. We classify the equity investments as Level 3, as we use certain unobservable inputs to the valuation methodology that are significant to the fair value measurement, and the valuation requires management judgment due to the absence of quoted market prices. For these cash flow models, our observable inputs include use of a capitalization rate, discount rate (which is based on a weighted-average cost of capital), and

market interest rates, and our unobservable input includes an adjustment for a marketability discount ("DLOM") on our equity investment of 40% at December 31, 2016.

In regards to the underlying projection of revenues and expenses used in the discounted cash flow model, such projections are provided by Ernest and Capella (2015 only), respectively. However, we will modify such projections (including underlying assumptions used) as needed based on our review and analysis of their historical results, meetings with key members of management, and our understanding of trends and developments within the healthcare industry.

In arriving at the DLOM, we started with a DLOM range based on the results of studies supporting valuation discounts for other transactions or structures without a public market. To select the appropriate DLOM within the range, we then considered many qualitative factors including the percent of control, the nature of the underlying investee's business along with our rights as an investor pursuant to the operating agreement, the size of investment, expected holding period, number of shareholders, access to capital marketplace, etc. To illustrate the effect of movements in the DLOM, we performed a sensitivity analysis below by using basis point variations (dollars in thousands):

| Basis Point Change in Marketability Discount | Estimated Increase (Decrease) In Fair Value |
|---|---|
| +100 basis points | $ (49) |
| -100 basis points | 49 |

Because the fair value of Ernest and Capella (2015 only) investments noted above approximate their original cost, we did not recognize any unrealized gains/losses during 2016, 2015, or 2014. To date, we have not received any distribution payments from our equity investment in Ernest. In regards to the Capella investment, we sold this investment in 2016 at our original cost (see Note 3 for further details of this disposal).

## 11. OTHER ASSETS

The following is a summary of our other assets (in thousands):

| | At December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Debt issue costs, net(1) | $ 4,478 | $ 7,628 |
| Equity investments | 177,430 | 129,337 |
| Other corporate assets | 77,580 | 31,547 |
| Prepaids and other assets | 44,285 | 27,028 |
| Total other assets | $ 303,773 | $ 195,540 |

*(1) Relates to Revolving credit facility*

Equity investments have increased over the prior year primarily due to our new investment in Steward – see Note 3 for further details. Other corporate assets include leasehold improvements associated with our corporate office space, furniture and fixtures, equipment, software, deposits, etc. Included in prepaids and other assets is prepaid insurance, prepaid taxes, goodwill, deferred income tax assets (net of valuation allowances, if any), and lease inducements made to tenants, among other items.

## 12. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 2016 and 2015: (amounts in thousands, except for per share data)

| | For the Three Month Periods in 2016 Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenues | $ 134,999 | $ 126,300 | $ 126,555 | $ 153,283 |
| Income from continuing operations | 58,226 | 53,924 | 70,543 | 43,245 |
| Net income | 58,225 | 53,924 | 70,543 | 43,245 |
| Net income attributable to MPT common stockholders | 57,927 | 53,724 | 70,358 | 43,039 |
| Net income attributable to MPT common stockholders per share – basic | $ 0.24 | $ 0.23 | $ 0.29 | $ 0.13 |
| Weighted average shares outstanding – basic | 237,510 | 238,082 | 246,230 | 319,833 |
| Net income attributable to MPT common stockholders per share – diluted | $ 0.24 | $ 0.22 | $ 0.28 | $ 0.13 |
| Weighted average shares outstanding – diluted | 237,819 | 239,008 | 247,468 | 319,994 |

| | For the Three Month Periods in 2015 Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenues | $ 95,961 | $ 99,801 | $ 114,570 | $ 131,546 |
| Income from continuing operations | 35,976 | 22,489 | 23,123 | 58,339 |
| Net income | 35,976 | 22,489 | 23,123 | 58,339 |
| Net income attributable to MPT common stockholders | 35,897 | 22,407 | 23,057 | 58,237 |
| Net income attributable to MPT common stockholders per share – basic | $ 0.18 | $ 0.11 | $ 0.10 | $ 0.24 |
| Weighted average shares outstanding – basic | 202,958 | 208,071 | 223,948 | 237,011 |
| Net income attributable to MPT common stockholders per share – diluted | $ 0.17 | $ 0.11 | $ 0.10 | $ 0.24 |
| Weighted average shares outstanding – diluted | 203,615 | 208,640 | 223,948 | 237,011 |

## 13. SUBSEQUENT EVENTS

On February 1, 2017, we replaced our Credit Facility with a new revolving credit and term loan agreement. The new agreement includes a $1.3 billion unsecured revolving loan facility, a $200 million unsecured term loan facility, and a €200 million unsecured term loan facility. The new unsecured revolving loan facility matures in February 2021 and can be extended for an additional 12 months at our option. The $200 million unsecured term loan facility matures on February 1, 2022 and the €200 million unsecured term loan facility matures on January 31, 2020, and can be extended for an additional 12 months at our option. The commitment fee on the total facility is paid at a rate of 0.25%. The term loan and/or revolving loan commitments may be increased in an aggregate amount not to exceed $500 million.

At our election, loans under the new credit facility may be made as either ABR Loans or Eurodollar Loans. The applicable margin for term loans that are ABR Loans is adjustable on a sliding scale from 0.00% to 0.95% based on our current credit rating. The applicable margin for term loans that are Eurodollar Loans is adjustable on a sliding scale from 0.90% to 1.95% based on our current credit rating. The applicable margin for revolving loans that are ABR Loans is adjustable on a sliding scale from 0.00% to 0.65% based on our current credit rating. The applicable margin for revolving loans that are Eurodollar Loans is adjustable on a sliding scale from 0.875% to 1.65% based on our current credit rating. The facility fee is adjustable on a sliding scale from 0.125% to 0.30% based on our current credit rating and is payable on the revolving loan facility.

On February 2, 2017, we delivered an irrevocable notice of full redemption to the holders of the €200 million aggregate principal amount of our 5.750% Senior Notes due 2020 and set a redemption date of March 4, 2017. To fund such redemption, including any premium and accrued interest, we plan to use the proceeds of the new euro term loan together with cash on hand.

With the new revolving credit facility and term loans along with the redemption of the 5.750% Senior Notes due 2020, we expect to incur a one-time debt refinancing charge of approximately $13 million in the 2017 first quarter (of which approximately $9 million relates to the redemption premium).

## CONTROLS AND PROCEDURES

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As required by Rule 13a-15(b), under the Securities Exchange Act of 1934, as amended, we have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be disclosed by us in the reports that we file with the SEC.

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Medical Properties Trust, Inc. has prepared the consolidated financial statements and other information in our Annual Report in accordance with accounting principles generally accepted in the United States of America and is responsible for its accuracy. The financial statements necessarily include amounts that are based on management's best estimates and judgments. In meeting its responsibility, management relies on internal accounting and related control systems. The internal control systems are designed to ensure that transactions are properly authorized and recorded in our financial records and to safeguard our assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management of Medical Properties Trust, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of our annual financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016. The assessment was based upon the framework described in the "Integrated Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") based on criteria established in Internal Control – Integrated Framework (2013) . Management's assessment included an evaluation of the design of internal control over financial reporting and testing of the operational effectiveness of internal control over financial reporting. We have reviewed the results of the assessment with the Audit Committee of our Board of Directors.

Based on our assessment under the criteria set forth in COSO, management has concluded that, as of December 31, 2016, Medical Properties Trust, Inc. maintained effective internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2016, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

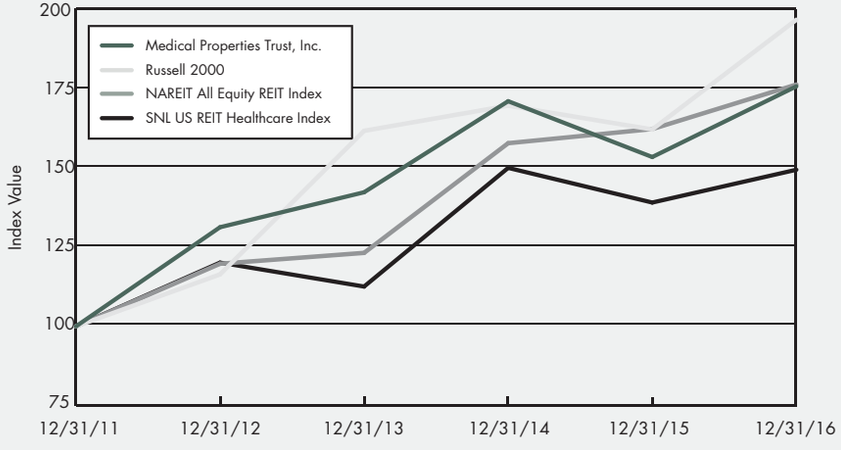
### CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There has been no change in Medical Properties Trust, Inc.'s internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PERFORMANCE GRAPH

The following graph provides comparison of cumulative total stockholder return for the period from December 31, 2011 through December 31, 2016, among us, the Russell 2000 Index, NAREIT All Equity REIT Index, and SNL US REIT Healthcare Index. The stock performance graph assumes an investment of $100 in us and the three indices, and the reinvestment of dividends. The historical information below is not indicative of future performance.

### TOTAL RETURN PERFORMANCE




| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| Index | 12/31/11 | 12/31/12 | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 |
| Medical Properties Trust, Inc. | 100.00 | 131.19 | 142.19 | 170.84 | 153.28 | 175.50 |
| Russell 2000 | 100.00 | 116.35 | 161.52 | 169.43 | 161.95 | 196.45 |
| NAREIT All Equity REIT Index | 100.00 | 119.70 | 123.12 | 157.63 | 162.08 | 176.07 |
| SNL US REIT Healthcare | 100.00 | 120.06 | 112.53 | 149.86 | 138.96 | 149.27 |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# CORPORATE AND SHAREHOLDER INFORMATION

## OFFICERS

Edward K. Aldag, Jr. – Chairman, President and Chief Executive Officer
R. Steven Hamner – Executive Vice President and Chief Financial Officer
Emmett E. McLean – Executive Vice President, Chief Operating Officer, Treasurer and Secretary
J. Kevin Hanna - Vice President, Controller and Chief Accounting Officer

## DIRECTORS

Edward K. Aldag, Jr. – Chairman, President and Chief Executive Officer
G. Steven Dawson – Private Investor
R. Steven Hamner – Executive Vice President and Chief Financial Officer
Robert E. Holmes, PhD – Retired Dean, School of Business and Wachovia Chair of Business Administration at the University of Alabama at Birmingham School of Business
Sherry A. Kellett – Former Corporate Controller, BB&T Corporation
William G. McKenzie – President and Chief Executive Officer of Gilliard Health Services, Inc.
D. Paul Sparks, Jr. – Retired Senior Vice President, Energen Corporation
Michael G. Stewart – Private Investor
C. Reynolds Thompson, III – Chairman and Chief Investment Officer of Select Strategies Realty

## LEGAL COUNSEL

Baker, Donelson, Bearman, Caldwell & Berkowitz, PC – Birmingham, AL
Goodwin Procter, LLP – New York, NY

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP – Birmingham, AL

## ANNUAL MEETING

The Annual Meeting of Shareholders of Medical Properties Trust, Inc. is scheduled for May 25, 2017 at 10:30 am C.D.T. at City Club Birmingham, 1901 Sixth Avenue North, Suite 3100, Birmingham, AL 35203.

## CERTIFICATIONS

Medical Properties Trust, Inc.'s Chief Executive Officer and Chief Financial Officer have filed their certifications required by the SEC regarding the quality of the company's public disclosure (these are included in the 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission). Further, the company's Chief Executive Officer has certified to the NYSE that he is not aware of any violation by Medical Properties Trust, Inc. of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE listing standards.

## TRANSFER AGENT AND REGISTRAR

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6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449
info@amstock.com
www.amstock.com
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## CORPORATE OFFICE

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