



# Redwood Trust, Inc.

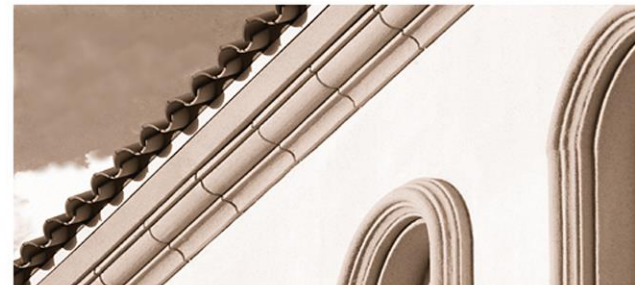
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Investor Day  
*March 14, 2019*



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# Agenda & Safe Harbor

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Lisa Hartman

*Senior Vice President, Head of Investor Relations*



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# Investor Day Agenda - Session 1

| Time    | Topic                                   | Speakers  |
|---------|---|---|
| 9:00am  | Agenda and Safe Harbor                  | Lisa Hartman, Head of Investor Relations                            |
| 9:05am  | Welcome                                 | Rick Baum, Chairman   |
| 9:10am  | Our Company and Vision                  | Chris Abate, Chief Executive Officer                                |
| 9:25am  | Our Forward Progress and Strategic Path | Dash Robinson, President  |
| 9:40am  | Founders Fireside Chat                  | Moderated by Garnet Kanouse, Managing Director, Head of Residential |
| 9:55am  | Q&A                                     |   |
| 10:00am | Break                                   |   |

# Investor Day Agenda - Session 2



| Time    | Topic                                 | Speakers   |
|---------|---------------------------------------|--|
| 10:10am | Evolution of the Investment Portfolio | Bo Stern, Chief Investment Officer   |
| 10:25am | Delivering Shareholder Value          | Collin Cochrane, Chief Financial Officer   |
| 10:40am | The Seller's Perspective              | David Hrobon, Chief Executive Officer, Wintrust Mortgage<br><br>Carlene Graham, Managing Director, Pre-Purchase Operations<br><br>Jon Groesbeck, Managing Director, Business Development |
| 10:55am | Q&A                                   |  |
| 11:00am | Break                                 |  |

# Investor Day Agenda - Session 3



| Time    | Topic  | Speakers   |
|---------|--|--|
| 11:10am | Building Organizational Capability Through Human Capital | Sasha Macomber, Chief Human Resources Officer  |
| 11:20am | Insights on Housing Finance Reform – Panel Discussion    | <p>Michael Bright, former head of Ginnie Mae and current CEO of the Structured Finance Industry Group</p> <p>Armando Falcon, former lead regulator of Fannie Mae and Freddie Mac and current CEO of Falcon Capital Advisors</p> <p>Chrissi Johnson, Vice President, Federal Policy and External Affairs, Quicken Loans</p> <p>Blake Eger, Managing Director, Portfolio Manager</p> |
| 11:40am | Mortgage Banking   | Matthew Tomiak, Managing Director, Capital Markets   |
| 11:50am | Closing Remarks  | Chris Abate, Chief Executive Officer   |
| 11:55am | Q&A  |  |

# Disclaimers



This presentation contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements relating to Redwood’s business, growth, and prospects. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as “anticipate,” “estimate,” “will,” “should,” “expect,” “believe,” “intend,” “seek,” “plan,” and similar expressions or their negative forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2018 under the caption “Risk Factors.” Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are described below and may be described from time to time in reports we file with the Securities and Exchange Commission, including reports on Forms 10-K, 10-Q, and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Additional detail regarding the important factors that may affect our actual results are described in the Annex to these presentation materials.

This presentation also contains non-GAAP financial metrics, including non-GAAP core earnings and non-GAAP economic net interest income. Core earnings and economic net interest income should not be utilized in isolation, nor should they be considered as alternatives to GAAP net income, GAAP net interest income, or other measurements of results of operations computed in accordance with GAAP. A reconciliation of GAAP net income to non-GAAP core earnings and a reconciliation of GAAP net interest income to non-GAAP economic net interest income, along with additional information about Redwood’s non-GAAP financial metrics, is included in the Annex to these presentation materials.

Additionally, this presentation contains estimates and information concerning our industry, including market size and growth rates of the markets in which we participate, that are based on industry publications and reports. This information involves many assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the data contained in these industry publications and reports. The industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors, including those referred to above, that could cause results to differ materially from those expressed in these publications and reports.



# Welcome

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Rick Baum  
*Chairman of the Board*



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# Our Company and Vision

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Chris Abate  
*Chief Executive Officer*



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*“Whenever a non-Agency residential loan changes hands in the United States, we participate.”*



*“Whenever a non-Agency residential loan changes hands in the United States, we ~~participate~~ (make money).”*



## A 10 Year Head Start...

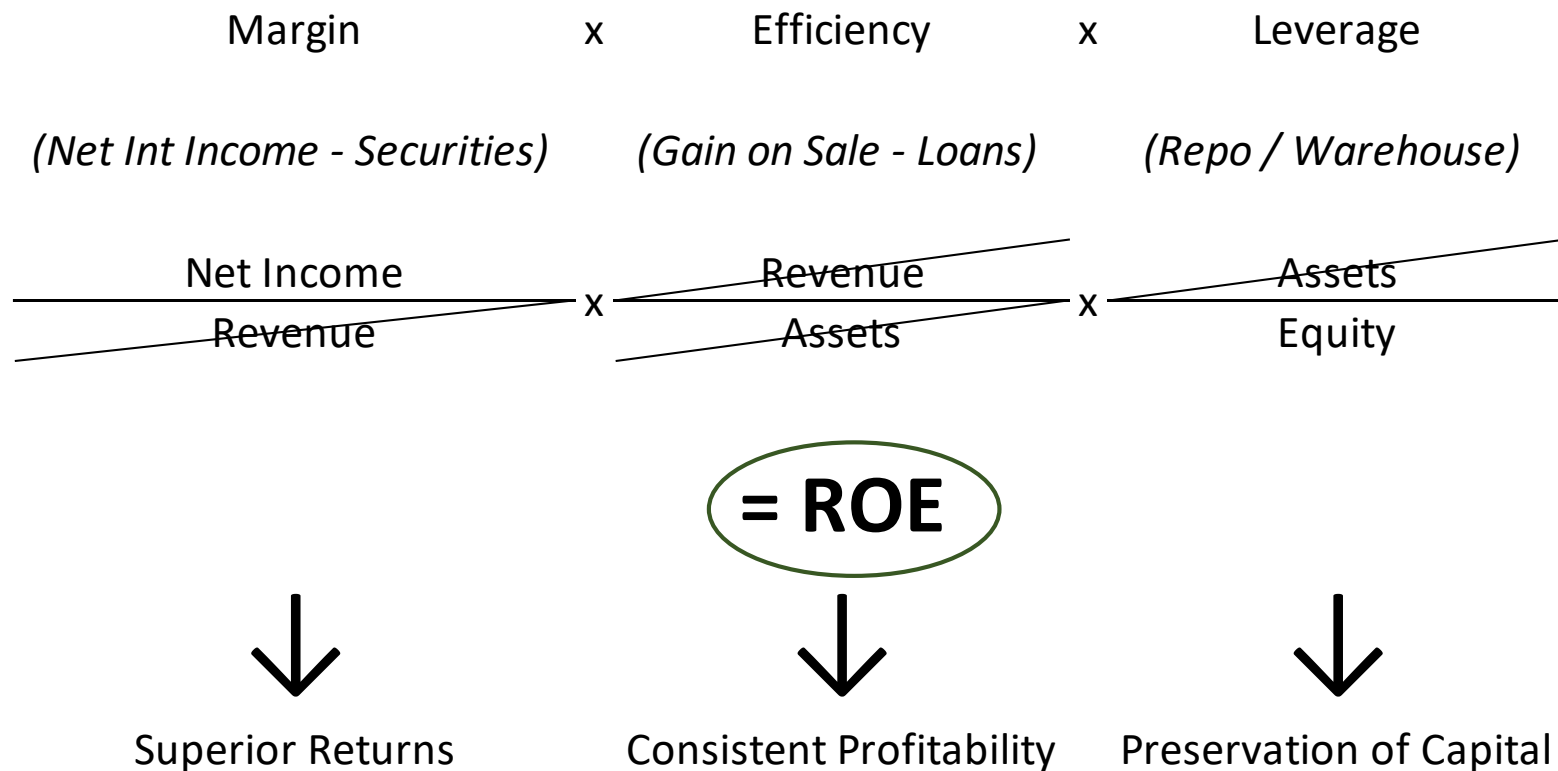
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- Unrivaled Sourcing Capabilities - 185+ sellers, unrivaled diversity
- Distribution - 50+ Post Crisis Securitizations Completed
- True Intermediary - Non-Depository, Non-Homeowner Facing
  - Trust
  - Consistency
  - Significant Brand Value
  - Innovation



1. Preservation of Capital
2. Consistent Profitability
3. Superior Returns

# The Wonk Slide





# What are we rooting for?

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- Homeownership up or down is fine, as long as it's for the right reasons
  - “The marginal buyer in housing”
- Continued evolution of passive mortgage investors through new and existing structures “stamped” by Redwood (already happening)
- Empirical credit tiering – everyone's been right the last 7-8 years, we spend more \$ than others to be prepared when that changes
- Balance in the banks' business model – dampen uneconomic demand for mortgages or permit private capital risk transfers
- Enactment of housing reform consistent with the 2019 Crapo Outline (i.e., establishment of non-bank private guarantors)



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# Our Forward Progress and Strategic Path

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Dash Robinson  
*President*



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# Executing on our strategic initiatives

## Deepen partnerships to expand investment opportunities

- Active investor across various Freddie Mac single- and multifamily programs
- Completed three capital-solution investments with originators/servicers

## Deliver innovative solutions through Mortgage Banking

- Year-on-year growth of 170% in Redwood Choice
- Sequoia securitization program

## Address opportunities driven by secular shifts in housing

- Substantial progress in business-purpose lending initiatives
  - 5 Arches acquisition and emerging interest from third-party originators

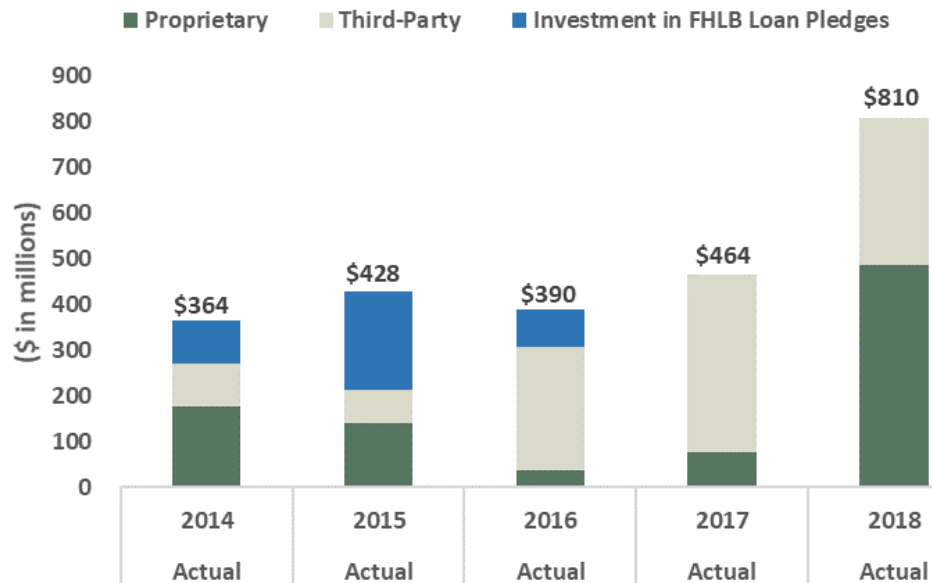
# Investment Portfolio:

## The evolution of our capital deployment

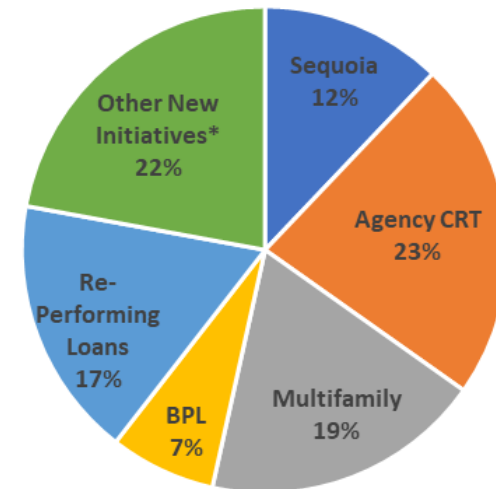


- We have expanded our investment capabilities through growth in Mortgage Banking and deepening industry partnerships
- This results in differentiated investments that preserve our ability to control credit and structure

Annual Capital Deployment



2018 Capital Deployment by Investment Type



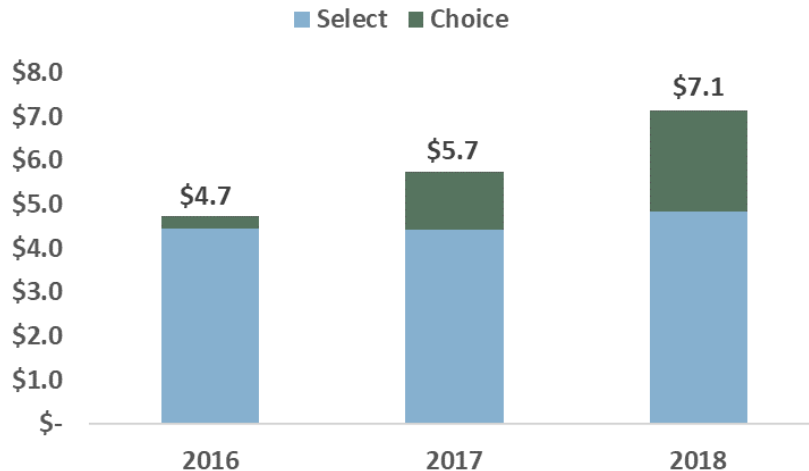
\*Includes warehouse participation investment, legacy servicing investment, and multifamily servicing investment

# Mortgage Banking: Diversification drives profitability

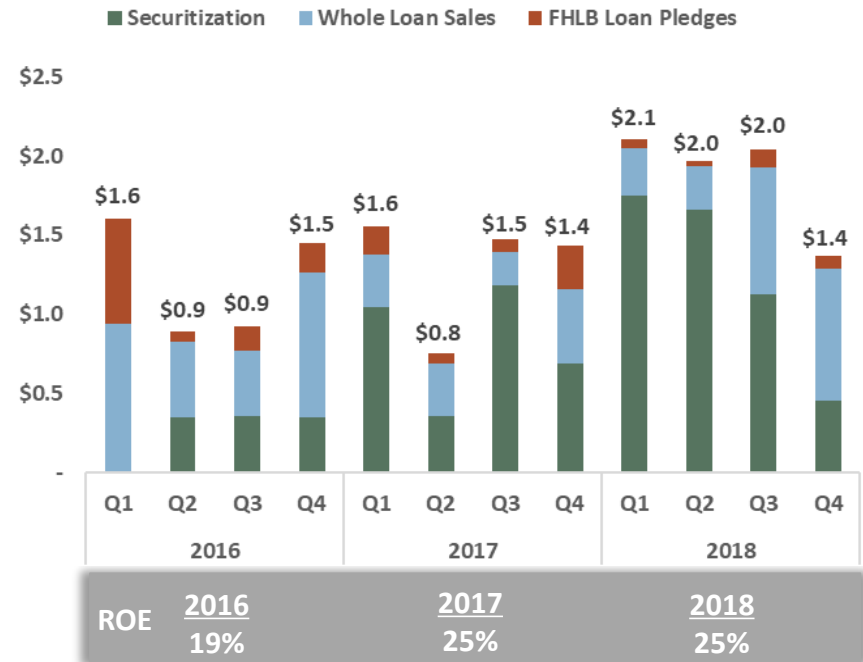


- A focus on production quality deepens dialogue with our sellers
- Demand for new-production non-agency credit is growing, much of it from capital sources that cannot purchase whole loans directly

Whole Loan Sourcing (\$ in billions)



Whole Loan Distribution (\$ in billions)



# Mortgage Banking: Redwood Remains The Most Consistent Issuer Post-Crisis



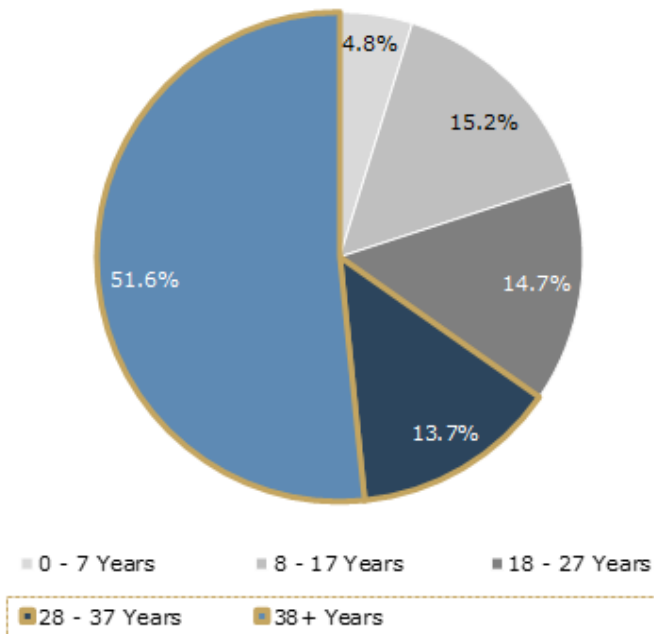
| Prime/Expanded Prime Securitization<br>(\$ in billions) |           |                    |                 |                   |
|---|-----------|--------------------|-----------------|-------------------|
| Issuer <sup>1</sup>                                     |           | Issuance<br>Volume | No. of<br>Deals | No. of<br>Issuers |
| <b>Redwood</b>  | <b>\$</b> | <b>20</b>          | <b>53</b>       | <b>1</b>          |
| Depositories  |           | 26                 | 47              | 4                 |
| Non-depositories  |           | 32                 | 90              | 28                |
| <b>Total</b>  | <b>\$</b> | <b>78</b>          | <b>190</b>      | <b>33</b>         |



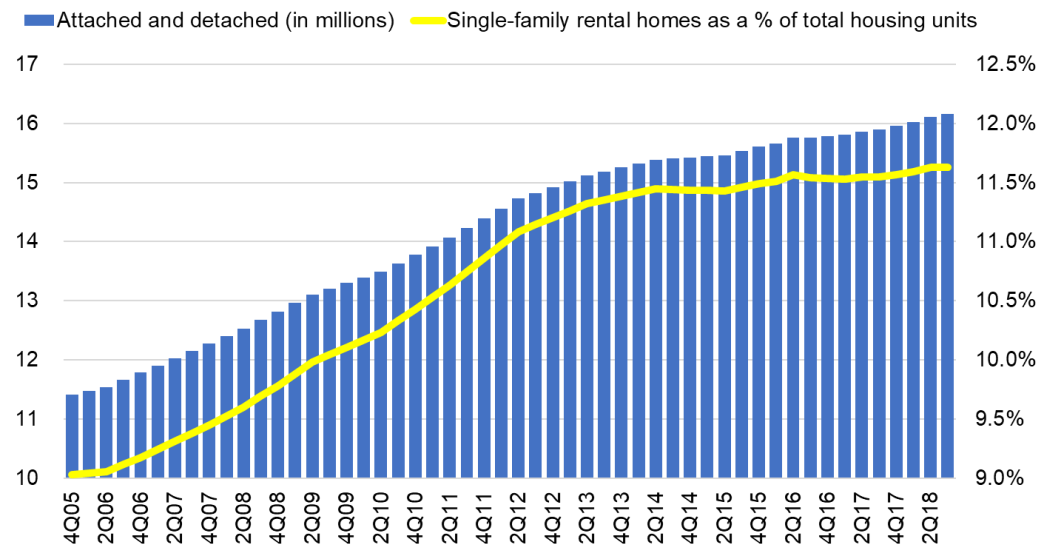
# The evolving role of housing investors

- Aging housing inventory creates demand for remodeled homes, with most prospective owner-occupants still seeking a finished house
- Recent uptick in homeownership coincides with steady demand for rental stock

Mix of Owner-Occupied Units by Age



Count and Concentration of Single-Family Rentals



JBREC estimates using 2010 Census figures and trending data from ACS/HVS.  
Sources: U.S. Census Bureau ACS; John Burns Real Estate Consulting, LLC  
(Data: 3Q18, updated quarterly†)

Source: US Census Bureau – 2017 American Housing Survey

# 5 Arches Acquisition – Strategic & Complementary

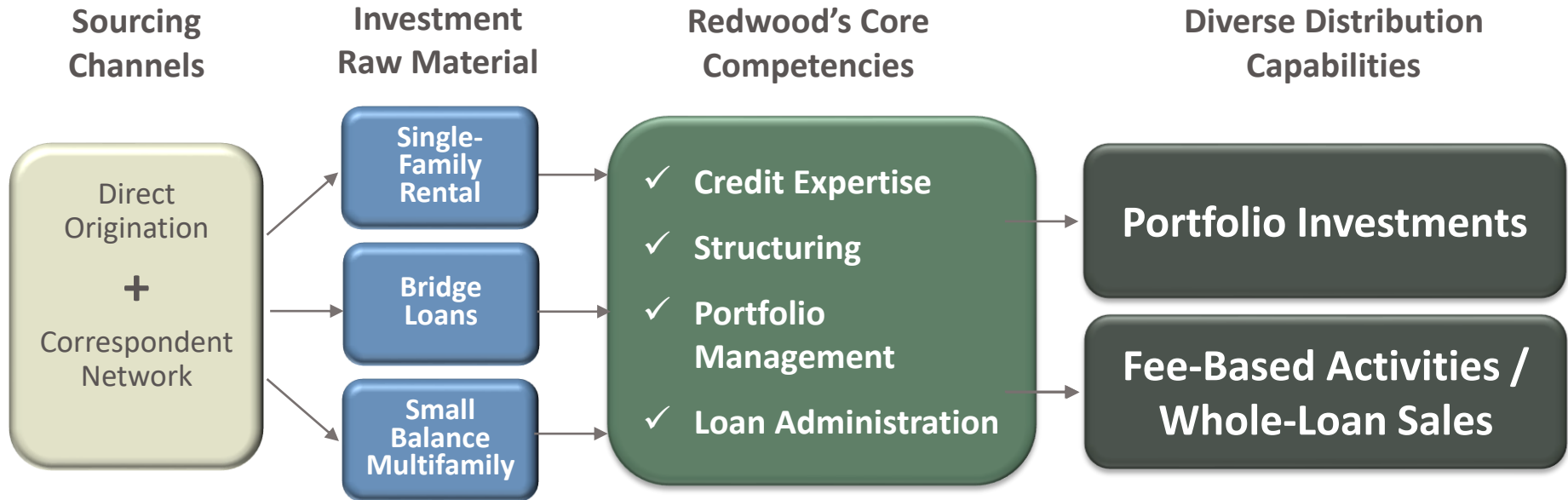


| Core Strengths                      | Redwood Trust | 5 Arches |
|-------------------------------------|---------------|----------|
| Strong credit culture               | ✓             | ✓        |
| Market-leading securitization brand | ✓             |          |
| Top correspondent platform          | ✓             |          |
| Mature Operating Platform           | ✓             | ✓        |
| Substantial Market Footprint        | ✓             | ✓        |
| BPL fee-generation activities       |               | ✓        |
| Direct loan administration          |               | ✓        |

**Accretive to  
5 Arches**

**Accretive to  
Redwood**

# Business-Purpose Real Estate Lending: Potential Future State





# A Culture of Risk Management



- A naturally evolving approach to risk, underpinned by consistent core principles

- ✓ Controlling production quality
- ✓ Centralized decision-making
- ✓ Rigorous liquidity management
- ✓ Modest financial leverage
- ✓ Culture of transparency and integrity

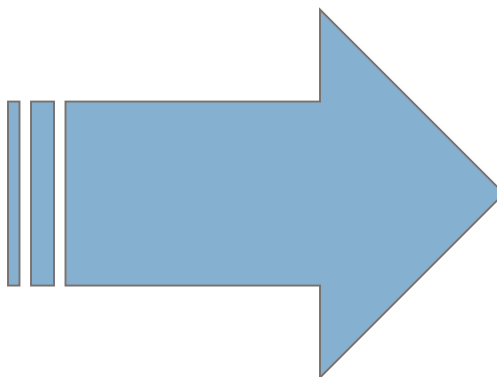
# A Path to Continued Earnings and Book Value Growth



**Diversification of  
portfolio revenue  
sources**

**Expansion of  
capital light fee-  
based  
opportunities**

**Efficiently scaling  
our operating  
platform**



**Continued  
growth of  
earnings and  
book value**



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# Founders Fireside Chat

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Moderated by

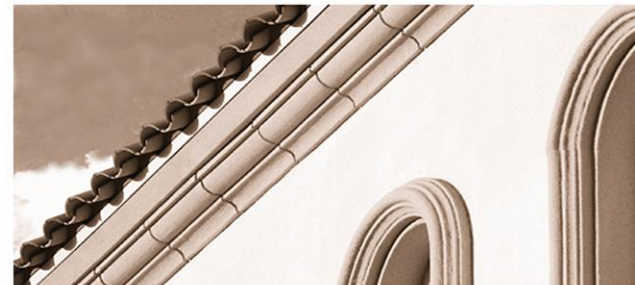
Gar Kanouse

*Managing Director, Head of Residential*



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## Q&A

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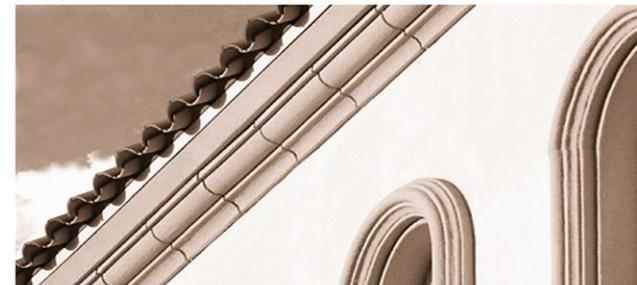


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# Evolution of the Investment Portfolio

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Bo Stern  
*Chief Investment Officer*



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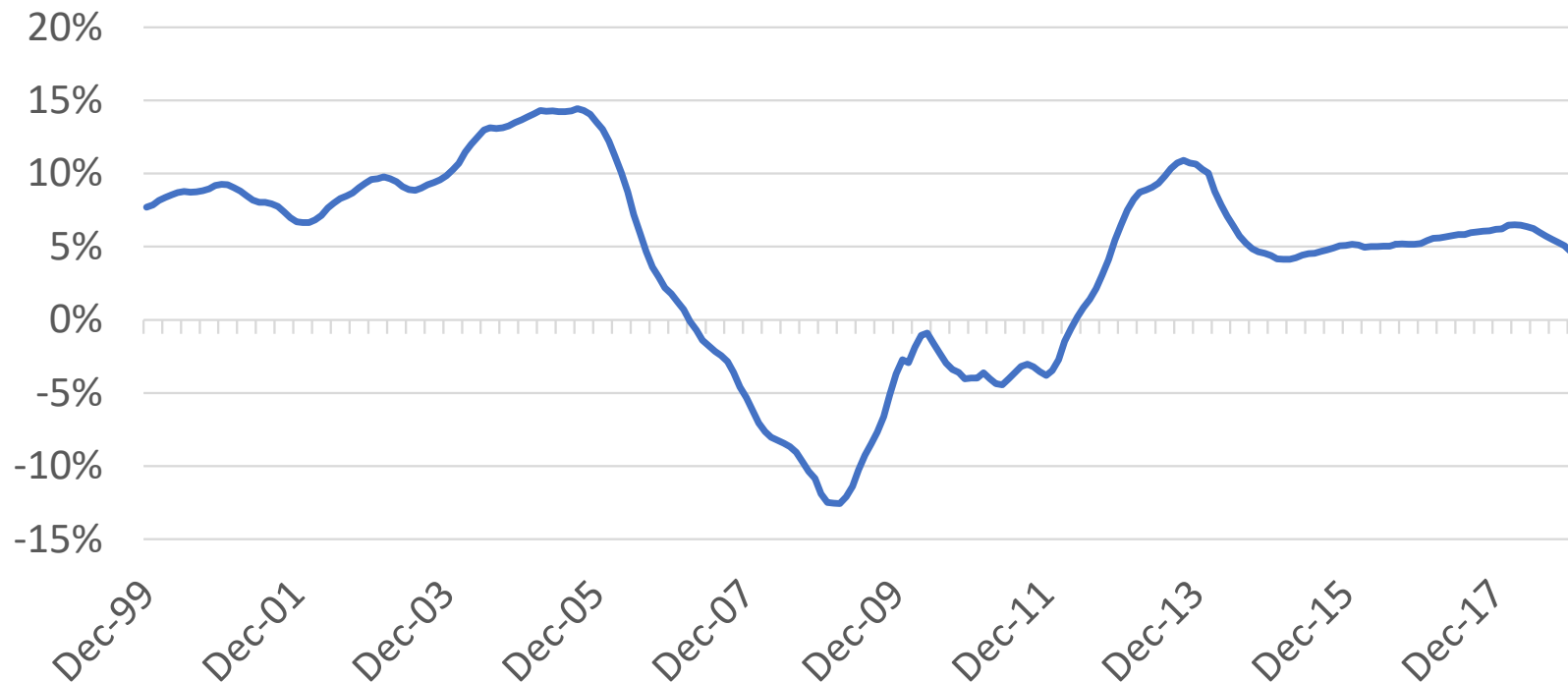
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# Home Price Appreciation (HPA) Is Slowing, But Positive



- National home prices are still increasing at a healthy clip though the rate of change has slowed notably

Case-Shiller National Annual HPA

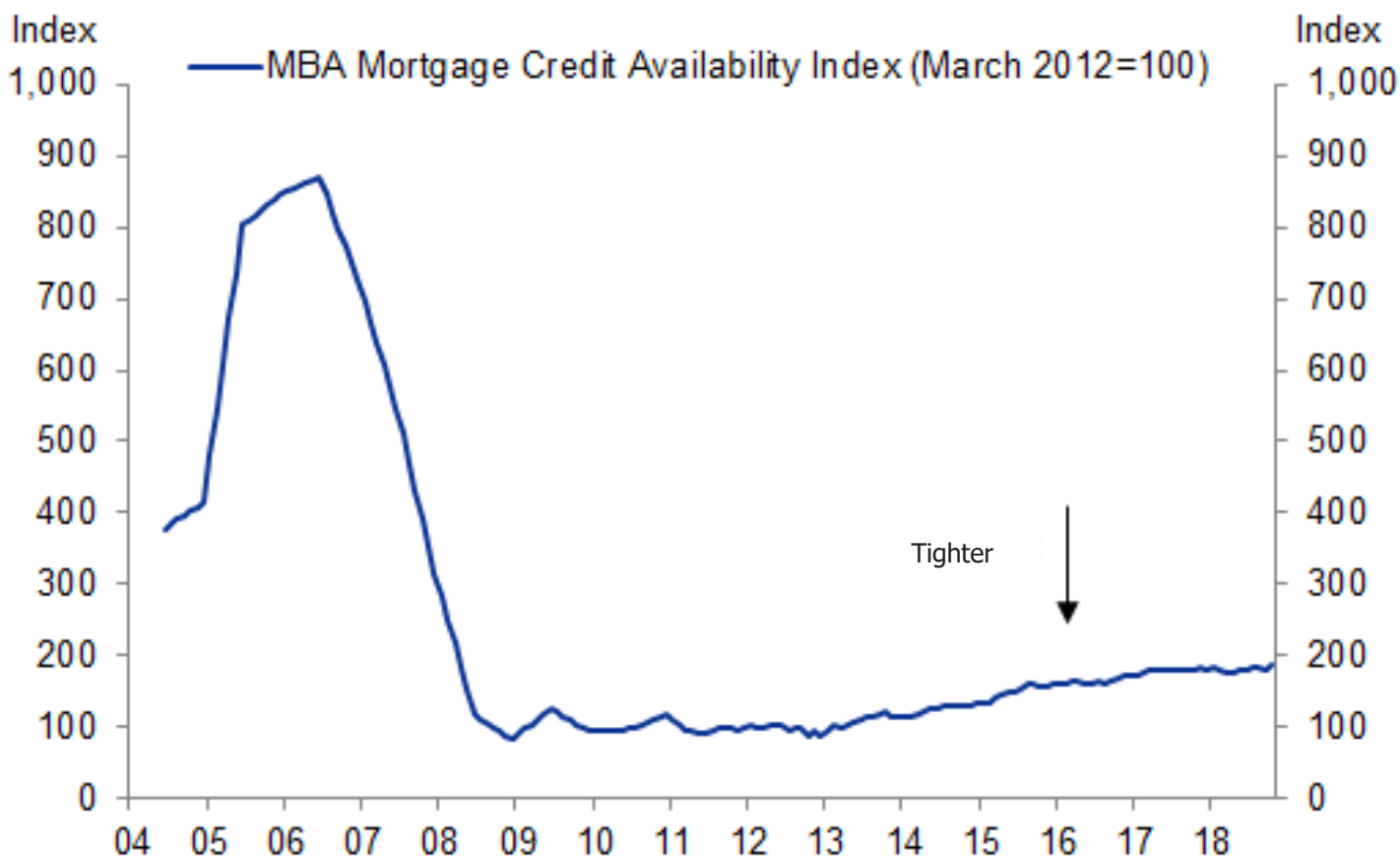






# Underwriting Has Loosened But Is Still Tight

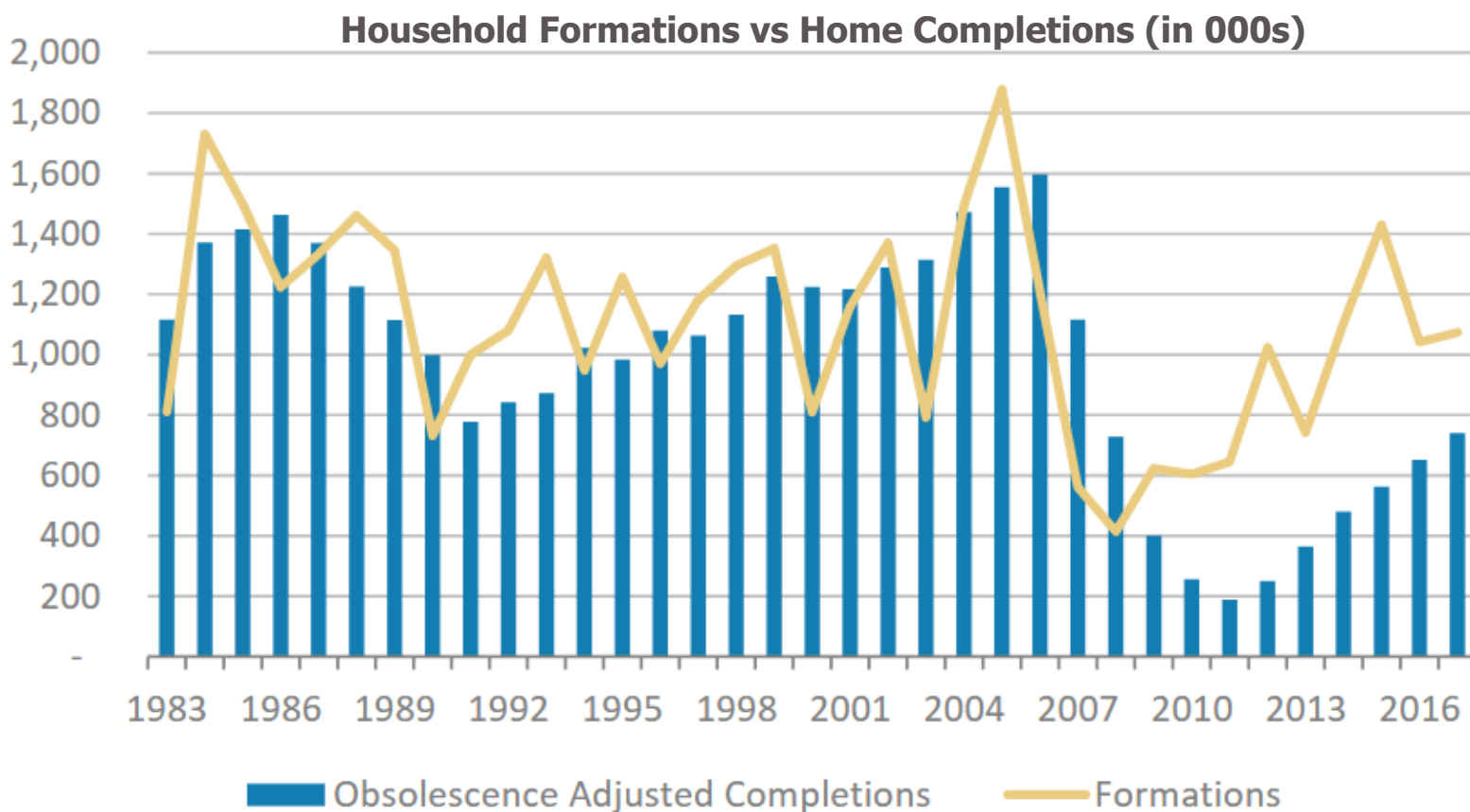
- Credit availability is still a fraction of what it was leading up to the crisis





# There is Still A Housing Shortage

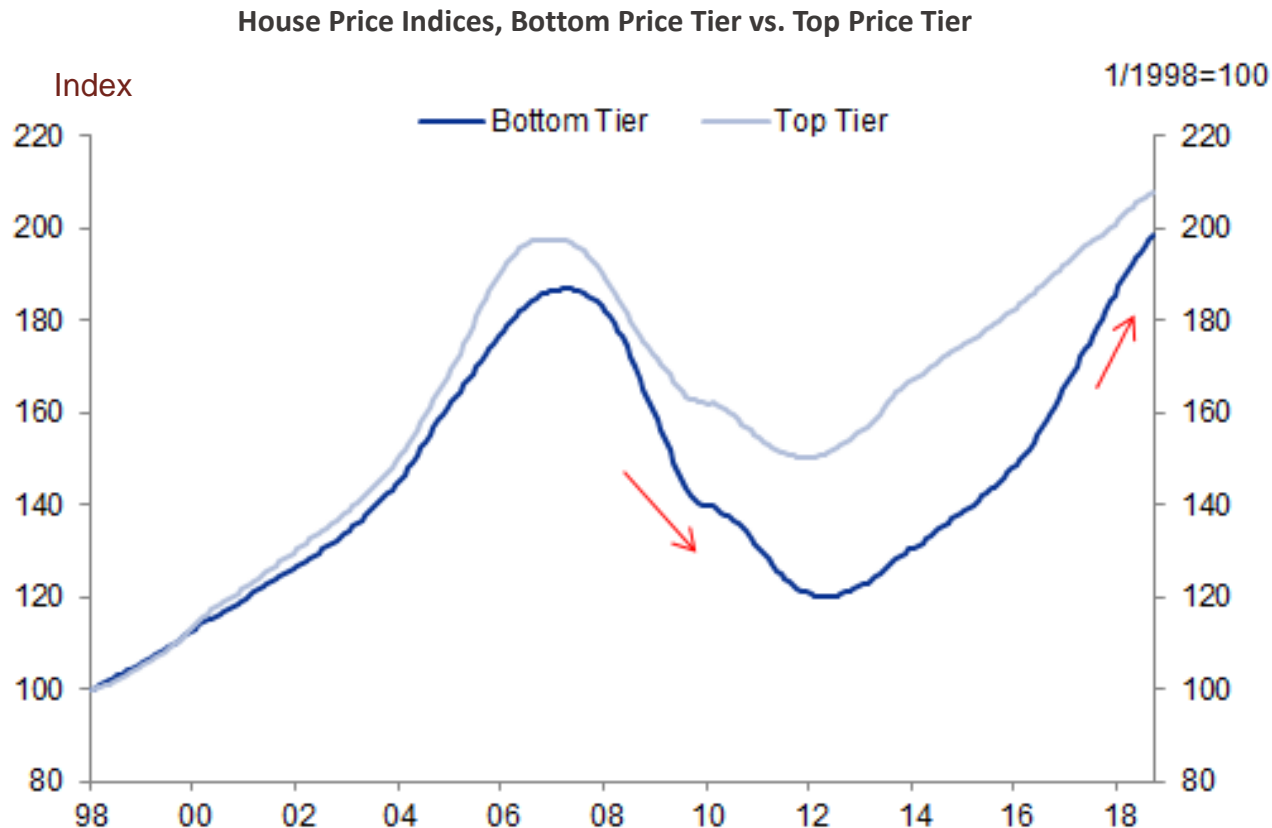
- Driven by Millennials, net household formation is expected to be ~1.2 million annually over the next several years



# And There is a Severe Shortage of Starter Homes



- With increasing demand and not enough supply, starter homes have seen a strong increase in price





# Portfolio Allocation

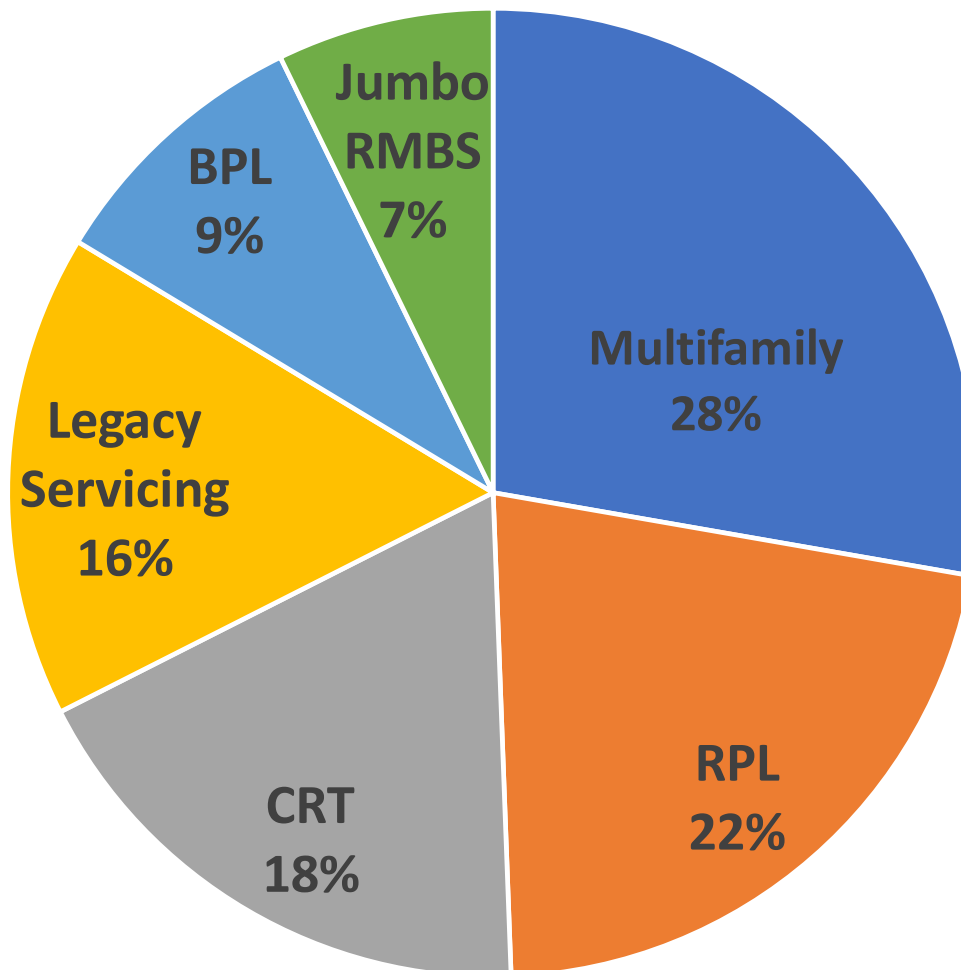
- We initiated investment in several asset classes recently that have grown to become sizable parts of the portfolio

|                                | % of Invested Capital <sup>1</sup> |
|--------------------------------|------------------------------------|
| Residential Loans with FHLB    | 25%                                |
| Jumbo RMBS (ex IO)             | 21%                                |
| <b><i>CRT</i></b>              | <b><i>13%</i></b>                  |
| <b><i>Multifamily</i></b>      | <b><i>12%</i></b>                  |
| <b><i>RPL</i></b>              | <b><i>10%</i></b>                  |
| Residential MSR and IO         | 8%                                 |
| <b><i>Legacy Servicing</i></b> | <b><i>3%</i></b>                   |
| <b><i>BPL</i></b>              | <b><i>3%</i></b>                   |
| Other                          | 5%                                 |



## 2nd Half 2018 Capital Deployment

- Multifamily and RPL have been strong growth areas in the portfolio





# Attractive Returns And Limited Leverage

- Given the complexity and the illiquidity of many of our investments, our use of repo debt is low relative to the industry

|                                 | Leverage <sup>1</sup><br>(Recourse Debt/Equity) | Targeted Yields <sup>3</sup> |
|---------------------------------|---|------------------------------|
| <b>Recent Investments</b>       |   |                              |
| RPL                             | 1.5x  | 10-13%                       |
| Single-family Bridge Loans/Subs | 1.9x / 0.0x <sup>2</sup>                        | 10-13% / 13-15% <sup>2</sup> |
| Legacy Servicing                | 0.0x  | 9-14%                        |
| Multifamily Subs                | 0.0x / 0.0x <sup>2</sup>                        | 8-9% / 11-12% <sup>2</sup>   |
| Multifamily Excess Servicing    | 0.0x  | 11-13%                       |
| <b>Ongoing Initiatives</b>      |   |                              |
| Single-family Rental Subs       | 0.0x  | 10-12%                       |

1. For each asset class presented, represents Redwood's target use of leverage.

2. Alternative scenario represents potential (re-) securitization for the applicable asset class.

3. Expectations regarding targeted yields are based on our current market observations, estimates, and assumptions, including our assumptions regarding the use of leverage, credit losses, prepayment speeds, and market interest rates. Actual returns may differ based on these or other factors.

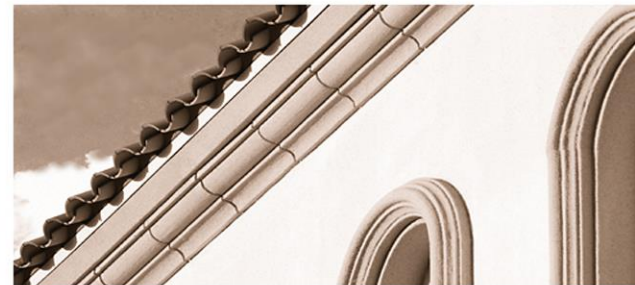


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# Delivering Shareholder Value

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Collin Cochrane  
*Chief Financial Officer*



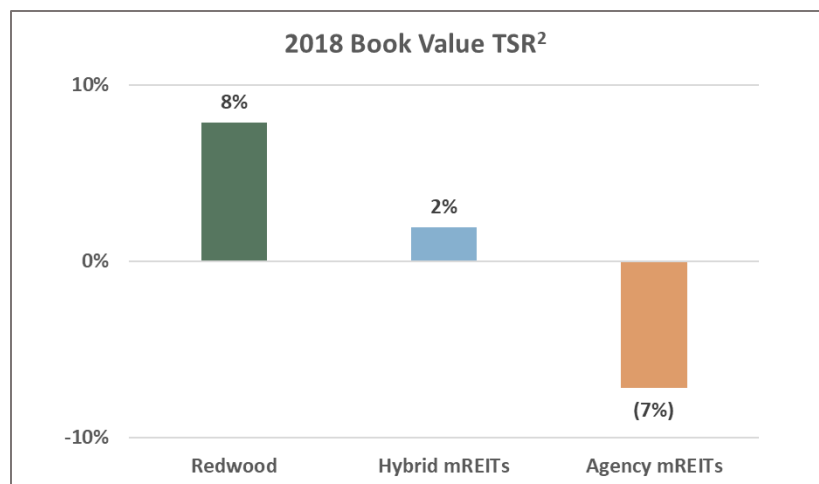
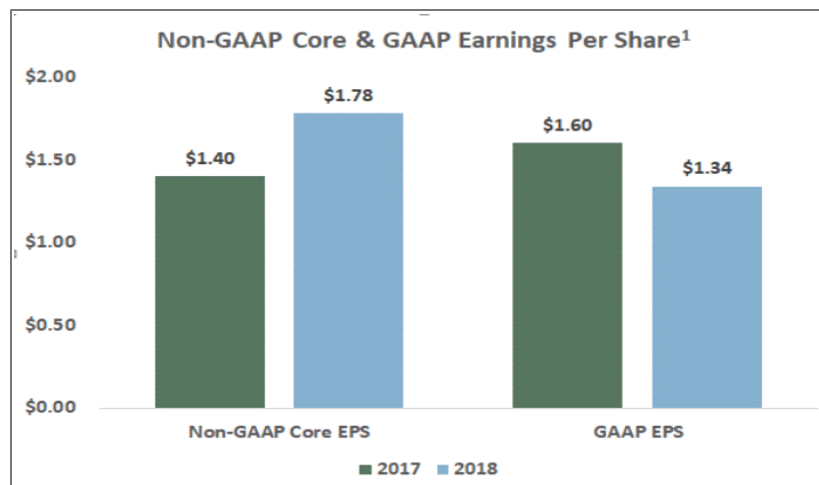
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# 2018 Financial Recap



## 2018 Financial Highlights:

- ✓ Strong core earnings growth
- ✓ Book value TSR outperformance relative to sector
- ✓ Increased quarterly dividend by 7% to \$0.30 per share
- ✓ Record high capital deployment of \$810 million
- ✓ Increased loan purchase volume by 20% to a total of \$7.1 billion

# What Makes Us Different – A Unique Platform



Investment portfolio focused exclusively on mortgage credit across the entire housing spectrum

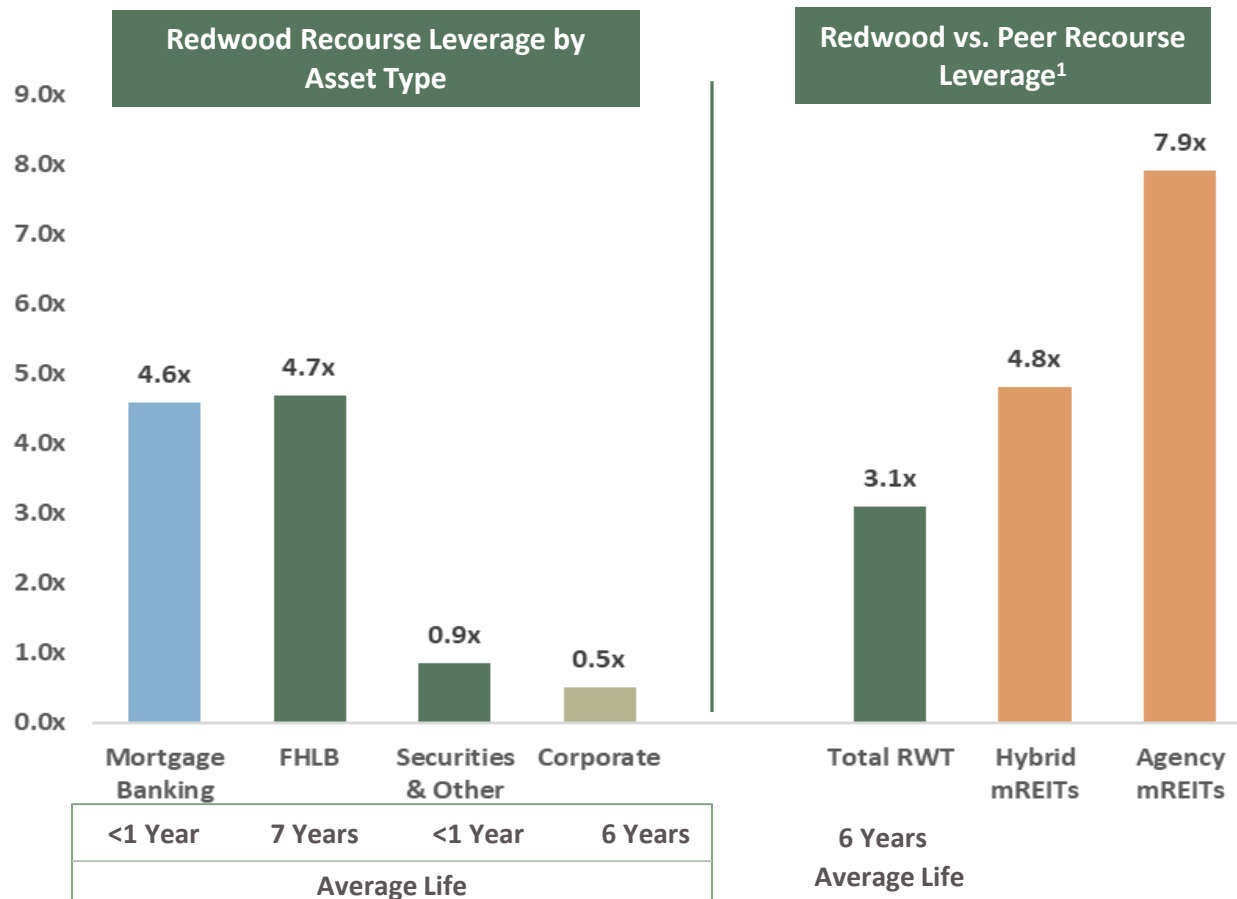
Complementary mortgage banking platform that adds diversified fee stream and creates investments for our portfolio

How we make money, simplified:

| Business Segments      | 2018 Average Equity | GAAP Income  | 2018 ROE  |
|------------------------|---------------------|--------------|-----------|
| Investment Portfolio   | \$1,081             | \$112        | 10%       |
| Mortgage Banking       | \$199               | \$48         | 24%       |
| Corporate <sup>1</sup> | —                   | (\$40)       | (3%)      |
| <b>Totals</b>          | <b>\$1,280</b>      | <b>\$120</b> | <b>9%</b> |



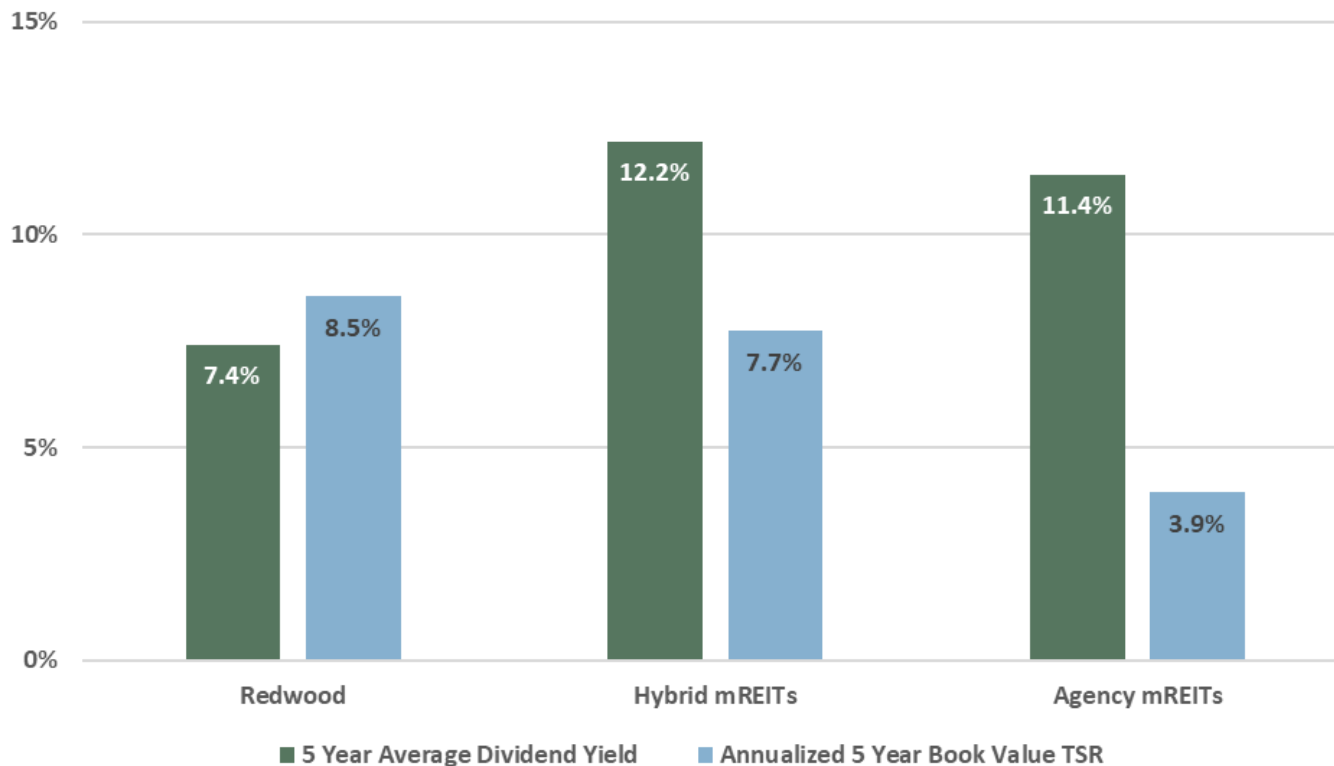
# What Makes Us Different – Leverage Profile



**Lower relative leverage and longer term borrowings reduce book value volatility and risk profile**



# What Makes us Different – Book Value TSR<sup>1</sup>



**Our unique platform combines dividend yield and book value growth, driving long-term shareholder value**



## Focused on Growing Profitably

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To continue growing profitably, we are focused on:



Deploying capital accretively into portfolio investments to generate higher returns and support higher dividends



Improving mortgage banking capital efficiency to drive higher overall returns



Leveraging our infrastructure to scale the business, improving operating efficiency and bottom line returns

# Investment Portfolio Opportunities

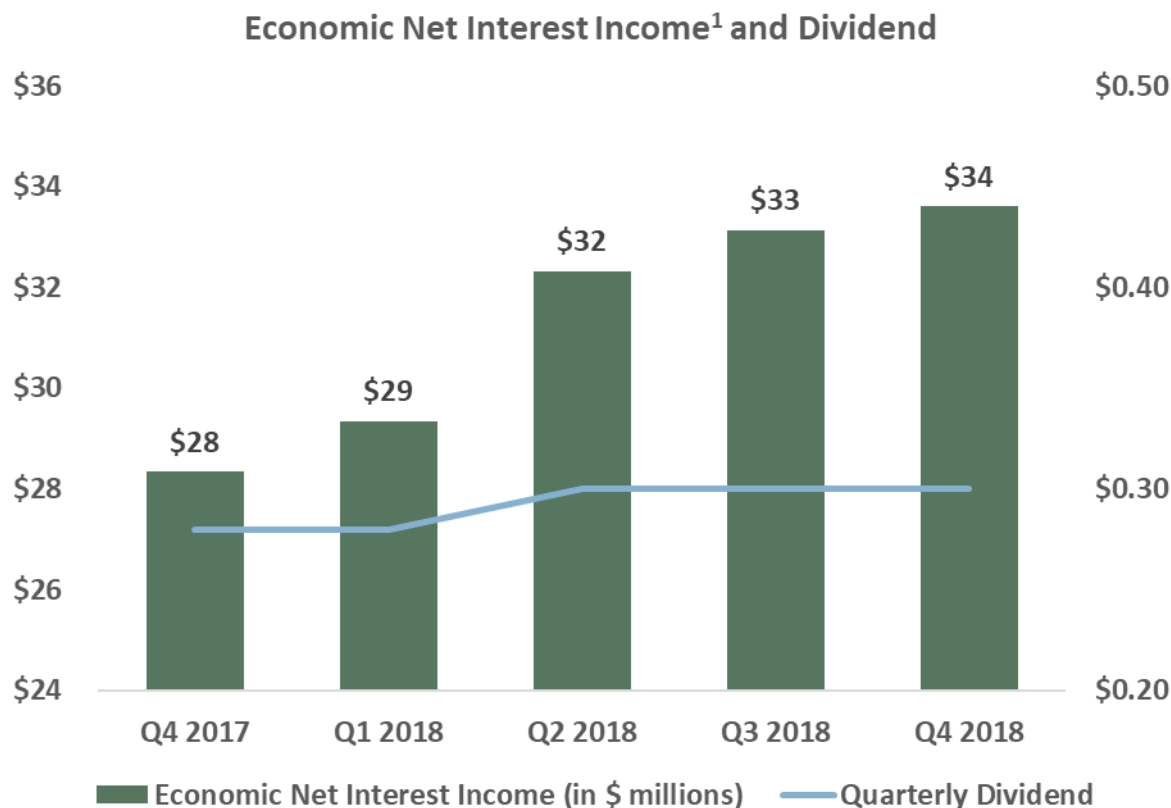


| Investment Portfolio Return Analysis    |           |             |
|---|-----------|-------------|
| (\$ in millions, except per share data) |           |             |
| Capital allocated                       | \$        | 2,000       |
| Increase in weighted average return     |           | 0.50%       |
| Benefit to net income                   | \$        | 10          |
| <b>Approximate EPS benefit</b>          | <b>\$</b> | <b>0.10</b> |

- New investment opportunities provide accretive returns<sup>1</sup>
- As we deploy capital (from recent issuance and from continued portfolio optimization) average portfolio returns should increase



# Portfolio Earnings Support our Dividend



**Stable and growing economic net interest income supports stable and growing dividends**



# Mortgage Banking Opportunities

| (\$ in millions, except per share data) |         |         |        |      |
|---|---------|---------|--------|------|
| Business Segment                        | Capital | Returns | Income |      |
| Current                                 |         |         |        |      |
| Mortgage Banking                        | \$ 200  | 18%     | \$     | 36   |
| Optimized <sup>1</sup>                  |         |         |        |      |
| Assuming improved efficiency            |         |         |        |      |
| Mortgage Banking                        | \$ 150  | 24%     | \$     | 36   |
| Investment Portfolio                    | 50      | 12%     |        | 6    |
| Combined return                         | \$ 200  | 21%     | \$     | 42   |
| Benefit to net income                   |         |         | \$     | 6    |
| Approximate EPS benefit                 |         |         | \$     | 0.06 |

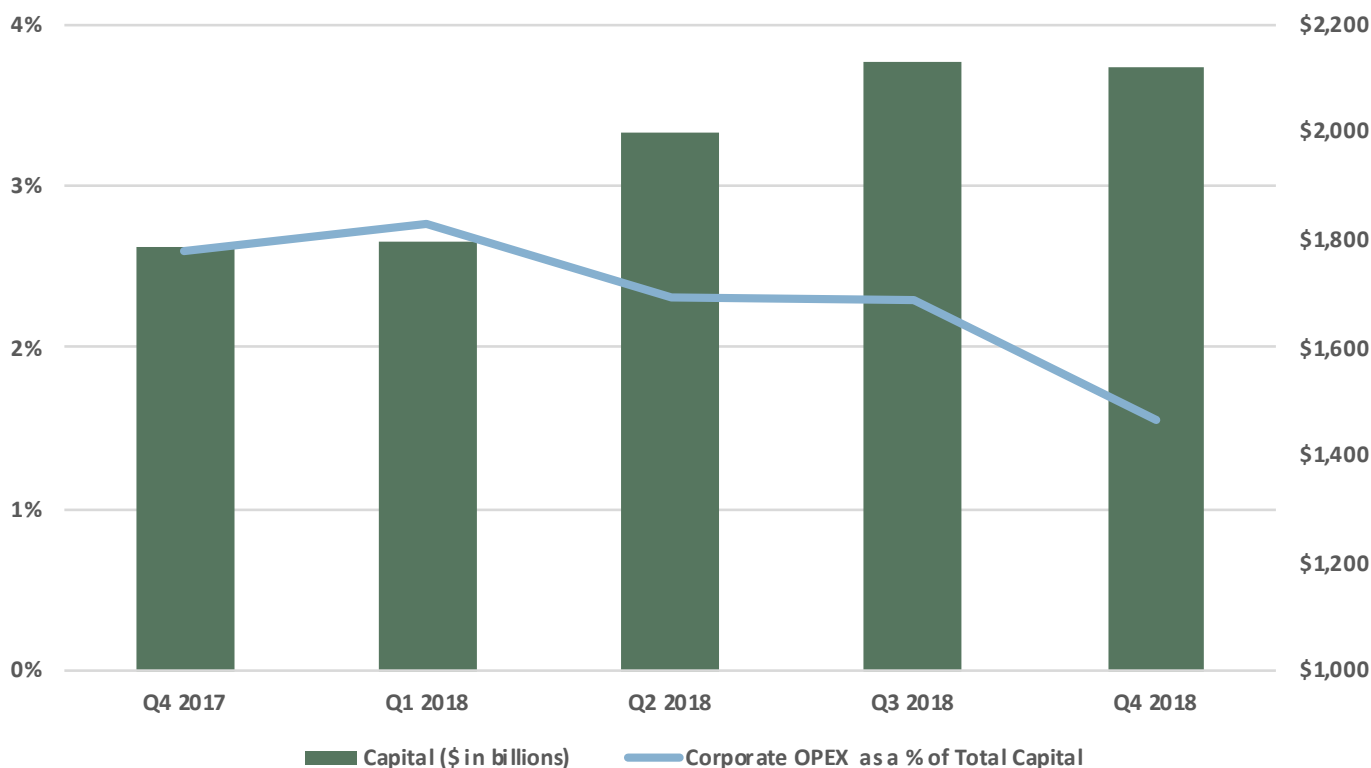
- By selling loans faster and securitizing more efficiently, we can utilize less capital
- Freed-up capital will be redeployed into our Investment Portfolio to generate higher overall returns
- Additionally, we will be responsive to market conditions and reallocate capital between our Portfolio and Mortgage Banking business to maximize overall returns



# Operating Efficiency



Corporate Operating Expenses (OPEX) as a % of Total Capital<sup>1</sup>



**Growing our capital base while maintaining cost discipline drives bottom-line returns**

# Looking Forward

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- **Unique Platform Provides Differentiation and Value**
- **Opportunities for Higher Portfolio Returns and Dividends**
- **Opportunities for Higher Mortgage Banking Returns**
- **5 Arches Adds New Source of Diversified Fee Income and Investment Creation**
- **Continued Focus on Scaling Accretively**



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# The Seller's Perspective

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# The Seller's Perspective

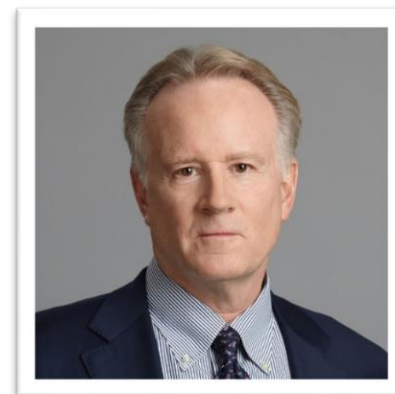
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**Carlene Graham**  
*Managing Director,  
Pre-Purchase Operations*



**David Hrobon,**  
*Chief Executive Officer,  
Wintrust Mortgage*



**Jon Groesbeck**  
*Managing Director,  
Business Development*



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## Q&A

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# Building Organizational Capability Through Human Capital

Sasha Macomber  
*Chief Human Resources Officer*



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At Redwood Trust, we are committed to best in class human capital practices that have a positive impact on shareholders, our company, our people, and the communities in which we do business.



- Redwood people are a group of talented and diverse individuals that have propelled the organization into a period of growth and innovation
- We recognize that our people are our greatest asset and we are proud to hire and retain top talent with a variety of expertise:

Investment  
Portfolio

Capital  
Markets

Mortgage  
Operations

Legal

Human  
Resources

Investor  
Relations

Tax, Finance  
& Accounting

IT



# Redwood Diversity



- At Redwood the diverse experiences and backgrounds of our people are a key component to fostering a strong culture and organizational performance and we are committed to promoting an inclusive environment
- We consider diversity across a spectrum, including:

Gender Diversity

Age Diversity

Diversity of  
Thought

Ethnic Diversity

Diverse  
Professional &  
Educational  
Experience

National Origin  
Diversity



# Developing Talent for Today & Tomorrow

## Strategic Workforce Planning

Analyze current and future organizational needs  
against business strategy

Create and execute robust succession and  
development plans to meet future needs

## Career Experiences

Focus on diverse experiences to build skill

Career Lattice vs. Career Ladder

Stretch assignments and rotations

RWT's Targeted Learning &  
Development programs  
prepare the RWT workforce  
for current business and  
future growth

## Targeted Learning Programs

Agile and just in time training

Mixed training modalities

Validated programs and methodologies

## Leadership Development

Customized leadership development plans

Coaching and mentoring

Executive sponsorship and involvement

# Redwood Culture

- A **growth oriented** firm
- **Passion and results** driven
- **Empowered and inclusive** in our ways of working
- **Unified** across functions and offices
- Comfortable taking **informed risks**
- Invested in **accountable people practices**





# Redwood Community



- An important part of our culture is giving back to the communities in which we do business
- Our Redwood Employee Foundation drives corporate giving and volunteerism efforts in our communities



A photograph of an office interior. In the center, a woman with blonde hair, wearing a maroon top and black pants, smiles while holding a large sheet of paper. She is surrounded by three other people: a man in a light blue shirt and grey pants to her left, a woman in a dark blue top behind him, and a man in a light blue shirt and khaki pants to her right. They are in a hallway with large windows in the background, looking out onto a bright, sunny day. The office has wooden cubicle walls and computer monitors are visible in the background.

## Core Values

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Our Redwood Values are  
front and center in our  
work together



# Redwood's Core Values



**GROWTH**

**INTEGRITY**



**PASSION**

**CHANGE**



**RELATIONSHIPS**

**RESULTS**



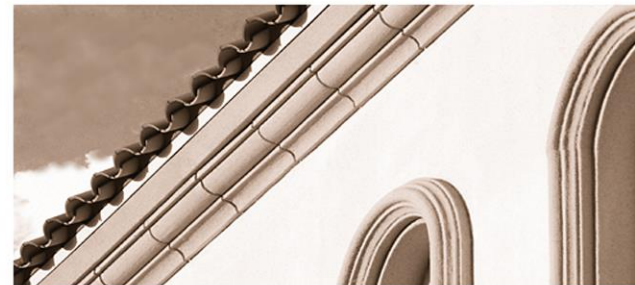


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# Insights on Housing Finance Reform

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Moderated by

*Blake Eger*  
*Managing Director, Portfolio Manager*



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# Housing Finance Reform Panel



Michael Bright  
*former head of  
Ginnie Mae and  
current CEO of the  
Structured Finance  
Industry Group*



Blake Eger  
*Managing  
Director, Portfolio  
Manager*



Chrissi Johnson  
*Vice President,  
Federal Policy and  
External Affairs,  
Quicken Loans*



Armando Falcon  
*former lead  
regulator of Fannie  
Mae and Freddie  
Mac and current  
CEO of Falcon  
Capital Advisors*



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# Mortgage Banking

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Matthew Tomiak  
*Managing Director, Capital Markets*



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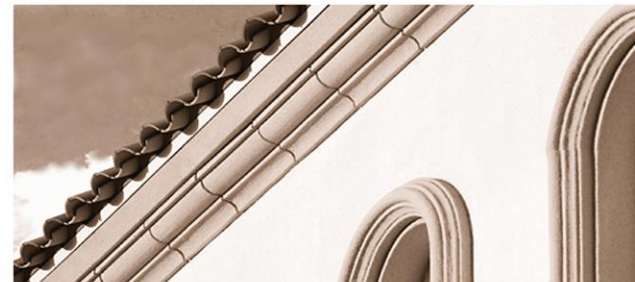


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# Closing Remarks

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Chris Abate  
*Chief Executive Officer*



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## Q&A

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# ANNEX TO 2019 INVESTOR DAY PRESENTATION



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# Forward-Looking Statements

As noted above under the heading “Disclaimers”, this presentation contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements relating to Redwood’s business, growth, and prospects. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as “anticipate,” “estimate,” “will,” “should,” “expect,” “believe,” “intend,” “seek,” “plan,” and similar expressions or their negative forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2018 under the caption “Risk Factors.” Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are described below and may be described from time to time in reports we file with the Securities and Exchange Commission, including reports on Forms 10-K, 10-Q, and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Important factors, among others, that may affect our actual results include: the pace at which we redeploy our available capital into new investments; interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans; changes in the demand from investors for residential mortgages and investments, and our ability to distribute residential mortgages through our whole-loan distribution channel; our ability to finance our investments in securities and our acquisition of residential mortgages with short-term debt; changes in the values of assets we own; general economic trends, the performance of the housing, real estate, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers; federal and state legislative and regulatory developments, and the actions of governmental authorities, including the new U.S. presidential administration, and in particular those affecting the mortgage industry or our business (including, but not limited to, the Federal Housing Finance Agency’s rules relating to FHLB membership requirements and the implications for our captive insurance subsidiary’s membership in the FHLB); strategic business and capital deployment decisions we make; developments related to the fixed income and mortgage finance markets and the Federal Reserve’s statements regarding its future open market activity and monetary policy; our exposure to credit risk and the timing of credit losses within our portfolio; the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own; our exposure to adjustable-rate mortgage loans; the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks; changes in credit ratings on assets we own and changes in the rating agencies’ credit rating methodologies; changes in interest rates; changes in mortgage prepayment rates; changes in liquidity in the market for real estate securities and loans; our ability to finance the acquisition of real estate-related assets with short-term debt; the ability of counterparties to satisfy their obligations to us; our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions; exposure to claims and litigation, including litigation arising from our involvement in securitization transactions; litigation against various trustees of RMBS transactions; whether we have sufficient liquid assets to meet short-term needs; our ability to successfully compete and retain or attract key personnel; our ability to adapt our business model and strategies to changing circumstances; changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities; our exposure to a disruption or breach of the security of our technology infrastructure and systems; exposure to environmental liabilities; our failure to comply with applicable laws and regulations; our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures; the impact on our reputation that could result from our actions or omissions or from those of others; changes in accounting principles and tax rules; our ability to maintain our status as a REIT for tax purposes; limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940; decisions about raising, managing, and distributing capital; and other factors not presently identified.

# Non-GAAP Financial Metrics



As noted above under the heading “Disclaimers”, this presentation contains non-GAAP financial metrics, including non-GAAP core earnings and non-GAAP economic net interest income.

Core earnings is a non-GAAP measure of Redwood’s earnings and results of operations. Specifically, management has defined core earnings as: GAAP net income adjusted to (i) eliminate the impact of quarterly mark-to-market changes on the fair value of long-term investments (and associated derivatives) related to changes in benchmark interest rates and credit spreads, (ii) include the cumulative net gains or losses on long-term investments accounted for as trading securities under GAAP that were sold during the period presented, net of any gains or losses from derivatives associated with the investments sold, and (iii) include the hypothetical income taxes associated with core earnings adjustments. Management utilizes this core earnings measure internally as one way of analyzing Redwood’s performance over multiple periods, as it believes it provides useful comparative results absent the impact of certain quarterly mark-to-market changes and other items that management believes are not reflective of core results.

Economic net interest income is a non-GAAP measure of Redwood’s net interest income. Management has defined economic net interest income as GAAP net interest income adjusted to include: i) the change in basis for fair value investments (loans held-for-investment at fair value and real estate securities classified as trading), and ii) net interest received or paid on hedges associated with fair value investments. Management utilizes economic net interest income internally as an additional metric to analyze the performance of its investments, as it believes it presents a more comprehensive view of an investment’s current return, by including the impact of hedges it uses to manage interest rate risk on an investment and also including the change in basis of an investment that factors into its economic yield.

Core earnings and economic net interest income should not be utilized in isolation, nor should they be considered as alternatives to GAAP net income, GAAP net interest income, or other measurements of results of operations computed in accordance with GAAP. A reconciliation of GAAP net income to non-GAAP core earnings and a reconciliation of GAAP net interest income to non-GAAP economic net interest income is set forth below and on the following slide. See the appendix of the quarterly Redwood Review at [www.redwoodtrust.com](http://www.redwoodtrust.com) for additional information.

| <b><i>Reconciliation to Economic Net Interest Income (\$ in thousands)</i></b> | <b>2018<br/>Q4</b> | <b>2018<br/>Q3</b> | <b>2018<br/>Q2</b> | <b>2018<br/>Q1</b> | <b>2017<br/>Q4</b> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| GAAP net interest income   | \$ 34,764          | \$ 35,046          | \$ 34,763          | \$ 35,105          | \$ 35,360          |
| Change in basis of fair value investments                                      | (2,015)            | (2,458)            | (2,465)            | (2,875)            | (4,097)            |
| Interest component of hedges   | 857                | 550                | 22                 | (2,884)            | (2,927)            |
| Non-GAAP economic net interest income  | \$ 33,606          | \$ 33,138          | \$ 32,320          | \$ 29,346          | \$ 28,336          |

# Non-GAAP Financial Metrics



|  | Twelve Months<br>2018 | Twelve Months<br>2017 |
|--|-----------------------|-----------------------|
| <b>GAAP Earnings per Common Share ("EPS"):</b>   |                       |                       |
| Net (loss) income attributable to Redwood  | \$ 119,600            | \$ 140,406            |
| Less: Dividends and undistributed earnings allocated to participating securities                     | (3,754)               | (3,632)               |
| <b>Net (loss) income allocated to common shareholders for GAAP basic EPS</b>                         | <b>115,846</b>        | <b>136,774</b>        |
| Incremental adjustment to dividends and undistributed earnings allocated to participating securities | (529)                 | (204)                 |
| Add back: Interest expense on convertible notes for the period, net of tax (2)                       | 32,653                | 26,898                |
| <b>Net (loss) income allocated to common shareholders for GAAP diluted EPS</b>                       | <b>\$ 147,970</b>     | <b>\$ 163,468</b>     |
| Basic weighted average common shares outstanding   | 78,725                | 76,793                |
| Net effect of dilutive equity awards   | 189                   | 185                   |
| Net effect of assumed convertible notes conversion to common shares (2)                              | 31,114                | 24,997                |
| Diluted weighted average common shares outstanding   | 110,028               | 101,975               |
| <b>GAAP Basic Earnings per Common Share</b>  | <b>\$ 1.47</b>        | <b>\$ 1.78</b>        |
| <b>GAAP Diluted Earnings per Common Share</b>  | <b>\$ 1.34</b>        | <b>\$ 1.60</b>        |
| <b>Non-GAAP Core Earnings per Common Share:</b>  |                       |                       |
| Non-GAAP core earnings   | \$ 168,287            | \$ 119,281            |
| Less: Dividends and undistributed earnings allocated to participating securities                     | (5,243)               | (3,330)               |
| <b>Non-GAAP core earnings allocated to common shareholders for core basic EPS</b>                    | <b>163,044</b>        | <b>115,951</b>        |
| Incremental adjustment to dividends and undistributed earnings allocated to participating securities | (114)                 | (446)                 |
| Add back: Interest expense on convertible notes for the period, net of tax (2)                       | 32,653                | 26,898                |
| <b>Non-GAAP core earnings allocated to common shareholders for core diluted EPS</b>                  | <b>\$ 195,583</b>     | <b>\$ 142,403</b>     |
| Basic weighted average common shares outstanding   | 78,725                | 76,793                |
| Net effect of dilutive equity awards   | 189                   | 185                   |
| Net effect of assumed convertible notes conversion to common shares (2)                              | 31,114                | 24,997                |
| Diluted weighted average common shares outstanding   | 110,028               | 101,975               |
| <b>Non-GAAP Core Basic Earnings per Common Share</b>   | <b>\$ 2.07</b>        | <b>\$ 1.51</b>        |
| <b>Non-GAAP Core Diluted Earnings per Common Share</b>   | <b>\$ 1.78</b>        | <b>\$ 1.40</b>        |



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