

November 6, 2013

REDWOOD
TRUST

Redwood Trust Reports Third Quarter 2013 Results

MILL VALLEY, Calif., Nov. 6, 2013 /PRNewswire/ -- Redwood Trust, Inc. (NYSE:RWT) today reported net income for the third quarter of 2013 of \$22 million, or \$0.25 per fully diluted share. This compares to net income of \$66 million, or \$0.71 per fully diluted share, for the second quarter of 2013, and net income of \$40 million, or \$0.48 per fully diluted share, for the third quarter of 2012.

Redwood also reported estimated REIT taxable income of \$20 million, or \$0.24 per share, for the third quarter of 2013. This compares to estimated REIT taxable income of \$20 million, or \$0.25 per share, for the second quarter of 2013 and REIT taxable income of \$15 million, or \$0.19 per share, for the third quarter of 2012.

At September 30, 2013, Redwood reported a book value per share of \$14.65, as compared to \$14.69 at June 30, 2013.

Additional information on Redwood's business, financial results, and taxable income can be found in The Redwood Review, a quarterly publication available on Redwood's website at www.redwoodtrust.com. In order to complete the formatting of its Quarterly Report on Form 10-Q with eXtensible Business Reporting Language (XBRL) tags, Redwood plans to file the Quarterly Report with the Securities and Exchange Commission by Thursday, November 7, 2013, and also make it available on Redwood's website.

Redwood will host an earnings call tomorrow, November 7, 2013 at 5:30 am Pacific Time / 8:30 am Eastern Time to discuss its third quarter 2013 financial results. The number to dial in order to listen to the conference call is (877) 795-3648 in the U.S. and Canada. International callers must dial (719) 325-4886. Callers should reference call ID# 3513788. A replay of the call will be available through midnight on November 21, 2013, and can be accessed by dialing (877) 870-5176 in the U.S. and Canada or (858) 384-5517 internationally and entering access code 3513788. Live audio of the conference call will also be accessible over the internet at www.redwoodtrust.com, where a link to the call will be posted on Redwood's home page. To listen to the call over the internet, go to the Redwood website at least 15 minutes before the call to register and to download and install any needed audio software. An audio replay of the call will also be available on Redwood's website following the call.

Cautionary Statement: This press release and the related conference call contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements related to estimates of taxable income and the filing of our Quarterly Report on Form 10-Q. Forward-looking statements involve

numerous risks and uncertainties. Our actual results may differ from our beliefs, 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 most recent Annual Report on Form 10-K under the caption "Risk Factors." Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the Securities and Exchange Commission, including reports on Forms 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.

REDWOOD TRUST, INC.

Consolidated Income Statements ⁽¹⁾

| | Third | Second | First | Fourth | Third |
|--|-------------|-------------|-------------|-------------|-------------|
| (\$ in millions, except share data) | Quarter | Quarter | Quarter | Quarter | Quarter |
| | 2013 | 2013 | 2013 | 2012 | 2012 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Interest income | \$ 58 | \$ 58 | \$ 54 | \$ 53 | \$ 60 |
| Interest expense | (22) | (21) | (18) | (33) | (28) |
| Net interest income | <hr/> 36 | <hr/> 36 | <hr/> 35 | <hr/> 20 | <hr/> 31 |
| (Provision for) reversal of provision for loan losses | (2) | 3 | (2) | (3) | (1) |
| Other market valuation adjustments, net | - | (6) | - | 2 | 1 |
| Net interest income after provision and other market valuation adjustments | <hr/> 34 | <hr/> 33 | <hr/> 33 | <hr/> 19 | <hr/> 31 |
| Mortgage banking activities, net | (6) | 59 | 46 | 21 | 12 |
| Operating expenses | (22) | (24) | (20) | (18) | (17) |
| Realized gains, net | 10 | 1 | 12 | 20 | 14 |
| Benefit from (provision for) income taxes | 5 | (3) | (11) | - | (1) |
| Net Income | <hr/> \$ 22 | <hr/> \$ 66 | <hr/> \$ 61 | <hr/> \$ 42 | <hr/> \$ 40 |
| Average diluted shares (thousands) | 84,422 | 96,172 | 87,345 | 82,498 | 80,764 |
| Diluted earnings per share | \$ 0.25 | \$ 0.71 | \$ 0.69 | \$ 0.50 | \$ 0.48 |
| Regular dividends declared per common share | \$ 0.28 | \$ 0.28 | \$ 0.28 | \$ 0.25 | \$ 0.25 |

(1) Certain totals may not foot due to rounding.

REDWOOD TRUST, INC.Consolidated Income Statements ⁽¹⁾

(\$ in millions, except share data)

Nine Months Ended September 30,

| | 2013 | 2012 |
|---|---------|---------|
| Interest income | \$ 169 | \$ 178 |
| Interest expense | (62) | (88) |
| Net interest income | 107 | 90 |
| Provision for loan losses | - | - |
| Other market valuation adjustments, net | (6) | - |
| Net interest income after provision and other market valuation adjustments | 100 | 90 |
| Mortgage banking activities, net | 99 | 14 |
| Operating expenses | (65) | (47) |
| Realized gains, net | 23 | 35 |
| Provision for income taxes | (9) | (1) |
| Net income | \$ 148 | \$ 90 |
| Average diluted shares (thousands) | 93,234 | 80,176 |
| Diluted earnings per share | \$ 1.65 | \$ 1.09 |
| Regular dividends declared per common share | \$ 0.84 | \$ 0.75 |

(1) Certain totals may not foot due to rounding.

REDWOOD TRUST, INC.

| <u>Consolidated Balance Sheets</u> ⁽¹⁾ | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| (\$ in millions, except share data) | 2013 | 2013 | 2013 | 2012 | 2012 |
| Residential loans | \$ 2,593 | \$ 3,219 | \$ 2,965 | \$ 2,836 | \$ 3,495 |
| Commercial loans | 380 | 495 | 401 | 313 | 298 |
| Real estate securities | 1,325 | 1,314 | 1,231 | 1,109 | 1,313 |
| Mortgage servicing rights | 60 | 43 | 18 | 5 | 3 |
| Cash and cash equivalents | 205 | 208 | 79 | 81 | 39 |
| Other assets | 98 | 156 | 103 | 101 | 149 |
| Total Assets | \$ 4,660 | \$ 5,435 | \$ 4,797 | \$ 4,444 | \$ 5,297 |
| Short-term debt | \$ 838 | \$ 1,446 | \$ 721 | \$ 552 | \$ 522 |
| Other liabilities | 81 | 122 | 80 | 83 | 156 |
| Asset-backed securities issued | 2,062 | 2,214 | 2,365 | 2,529 | 3,429 |
| Long-term debt | 472 | 444 | 444 | 140 | 140 |
| Total liabilities | 3,452 | 4,226 | 3,609 | 3,304 | 4,247 |
| Stockholders' equity | 1,207 | 1,209 | 1,188 | 1,140 | 1,050 |
| Total Liabilities and Equity | \$ 4,660 | \$ 5,435 | \$ 4,797 | \$ 4,444 | \$ 5,297 |
| Shares outstanding at period end (thousands) | 82,389 | 82,332 | 81,706 | 81,716 | 81,526 |
| GAAP book value per share | \$ 14.65 | \$ 14.69 | \$ 14.54 | \$ 13.95 | \$ 12.88 |

(1) Certain totals may not foot due to rounding. See notes to consolidating balance sheet on page 6.

REDWOOD TRUST, INC.

The following tables show the estimated effect that Redwood (Parent) and our Consolidated Sequoia Entities had on GAAP income for the three and nine months ended September 30, 2013.

Consolidating Income Statement⁽¹⁾

Three Months Ended September 30, 2013

(\$ in millions)

| | Redwood | Consolidated | Redwood |
|--|----------|--------------|--------------|
| | (Parent) | Sequoia | Redwood |
| | (2) | Entities | Consolidated |
| | | | |
| Interest income | \$ 41 | \$ 10 | \$ 51 |
| Net discount (premium) amortization | 9 | (2) | 7 |
| Total interest income | 50 | 8 | 58 |
| Interest expense | (16) | (6) | (22) |
| Net interest income | 34 | 2 | 36 |
| Provision for loan losses | (1) | (1) | (2) |
| Other market valuation adjustments, net | 1 | - | - |
| Net interest income after provision and other market valuation adjustments | 34 | 1 | 34 |
| Mortgage banking activities, net | (6) | - | (6) |
| Operating expenses | (22) | - | (22) |
| Realized gains, net | 10 | - | 10 |
| Benefit from income taxes | 5 | - | 5 |
| Net Income | \$ 21 | \$ 1 | \$ 22 |

Consolidating Income Statement⁽¹⁾

Nine Months Ended September 30, 2013

(\$ in millions)

| | Redwood | Consolidated | Redwood |
|--|----------|--------------|--------------|
| | (Parent) | Sequoia | Redwood |
| | (2) | Entities | Consolidated |
| | | | |

| | | | |
|--|--------|-------|--------|
| Interest income | \$ 115 | \$ 33 | \$ 148 |
| Net discount (premium) amortization | 27 | (6) | 21 |
| Total interest income | 142 | 27 | 169 |
| Interest expense | (41) | (20) | (62) |
| Net interest income | 101 | 6 | 107 |
| (Provision for) reversal of provision for loan losses | (2) | 2 | - |
| Other market valuation adjustments, net | (6) | - | (6) |
| Net interest income after provision and other market valuation adjustments | 92 | 8 | 100 |
| Mortgage banking activities, net | 99 | - | 99 |
| Operating expenses | (65) | - | (65) |
| Realized gains, net | 23 | - | 23 |
| Provision for income taxes | (9) | - | (9) |
| Net Income | \$ 140 | \$ 8 | \$ 148 |

(1) Certain totals may not foot due to rounding.

(2) The interest income and interest expense related to the residential securitization we engaged in during the third quarter of 2011 and the commercial securitization we engaged in during the fourth quarter of 2012 are included in Redwood (Parent).

REDWOOD TRUST, INC.

We present this table to highlight the estimated effect that Redwood (Parent) and our Consolidated Sequoia Entities had on our GAAP balance sheet at September 30, 2013.

Consolidating Balance Sheet ⁽¹⁾

September 30, 2013

| (\$ in millions) | Redwood (Parent) ⁽²⁾ | Consolidated Sequoia Entities | Redwood Consolidated |
|--------------------------------|--|--------------------------------------|-----------------------------|
| | _____ | _____ | _____ |
| Residential loans | \$ 728 | \$ 1,865 | \$ 2,593 |
| Commercial loans | 380 | - | 380 |
| Real estate securities | 1,325 | - | 1,325 |
| Mortgage servicing rights | 60 | - | 60 |
| Cash and cash equivalents | 205 | - | 205 |
| Total earning assets | 2,697 | 1,865 | 4,562 |
| Other assets | 89 | 9 | 98 |
| Total Assets | \$ 2,786 | \$ 1,874 | \$ 4,660 |
| Short-term debt | \$ 838 | \$ - | \$ 838 |
| Other liabilities | 79 | 1 | 81 |
| Asset-backed securities issued | 271 | 1,791 | 2,062 |
| Long-term debt | 472 | - | 472 |
| Total liabilities | 1,660 | 1,792 | 3,452 |
| Stockholders' equity | 1,126 | 82 | 1,207 |
| Total Liabilities and Equity | \$ 2,786 | \$ 1,874 | \$ 4,660 |

(1) Certain totals may not foot due to rounding. Certain Sequoia securitization entities, the residential resecuritization we engaged in during the third quarter of 2011, and the commercial securitization we engaged in during the fourth quarter of 2012 are treated as secured borrowing transactions for GAAP and we are required under GAAP to consolidate the assets and liabilities of these securitization entities. The securitized assets and liabilities are legally not ours, and we own only the securities and interests that we acquired from these entities. The liabilities of these entities are obligations payable only from the cash flow generated by their securitized assets.

(2) The consolidating balance sheet presents the assets and liabilities of the residential resecuritization we engaged in during the third quarter of 2011 under Redwood (Parent), although these assets and liabilities are owned by the residential resecuritization entity and are legally not ours and we own only the securities and interests that we acquired from the residential resecuritization entity. At September 30, 2013, the residential resecuritization accounted for \$276 million of real estate securities and other assets and \$112 million of asset-backed securities issued and other liabilities.

The consolidating balance sheet presents the assets and liabilities of the commercial securitization we engaged in during the fourth quarter of 2012 under Redwood (Parent), although these assets and liabilities are owned by the commercial securitization entity and are legally not ours and we own only the securities and interests that we acquired from the commercial securitization entity. At September 30, 2013, the commercial securitization accounted for \$271 million of commercial loans and other assets and \$159 million of asset-backed securities issued and other liabilities.

SOURCE Redwood Trust, Inc.