

# NEWSTAR FINANCIAL

## Q4 and FY 2016 Overview

February 14, 2017

## Forward Looking Statements

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*This presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future performance, including expectations regarding credit performance and origination, future dividends, expected growth and anticipated benefits from a strategic relationship with GSO and Franklin Square. All statements other than statements of historical fact included in this release are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, strategic plans, the market price for NewStar’s stock prevailing from time to time, the nature of other investment opportunities presented to NewStar from time to time, objectives, future performance, dividend policy, financing plans and business. As such, they are subject to material risks and uncertainties, including our limited operating history; the general state of the economy; our ability to compete effectively in a highly competitive industry; and the impact of federal, state and local laws and regulations that govern non-depository commercial lenders and businesses generally.*

*More detailed information about these and other risk factors can be found in NewStar's filings with the Securities and Exchange Commission (the "SEC"), including Item 1A ("Risk Factors") of our 2016 Annual Report on Form 10-K as may be updated or supplemented by any Risk Factors contained in our subsequent Quarterly Reports on Form 10-Q. NewStar is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.*



# Q4 and FY2016 HIGHLIGHTS

# Q4 2016 Highlights

## Market Conditions

- Overall middle market loan issuance improved in Q4, but was down 9% from last year.
- US mid-market, sponsored loan issuance rebounded in Q4, up 38% from the prior quarter and 31% year-over-year
- US mid-market institutional yields tightened to 6.4% in Q4 after widening to 6.7% in Q3, reflecting a challenging pricing environment

## Investment Activity

- Funded \$671 million of new credit investments in Q4 compared to \$427 million in the prior quarter and \$705 million in Q4 2015
- Increase was due primarily to an increase in loan demand amid a more active market environment.
- Managed loans and investments increased slightly to approximately \$6.7 billion as new investments outpaced pre-payments

## Credit Performance

- Credit costs remained within expected ranges with provision expense of \$2.6 million, which was \$0.9 million lower than last quarter and \$1.0 million lower than Q4 2015.
- Non-accruing loans increased to \$99.2 million in Q4 2016, or 2.99% of loans due to a legacy impaired loan that was placed on non-accrual status on a discretionary basis following a restructuring in the fourth quarter until the company demonstrates further progress on its turnaround strategy.

## Capital Management

- Fully-redeemed 2007 vintage CLO.
- Book value per share increased by \$0.74 to \$15.12 at December 31, 2016 due primarily to retained earnings and \$34.1 million of accretive share repurchases in the fourth quarter .
- Adopted new quarterly dividend policy and declared \$0.02 dividend payable to on March 17, 2017 to holders of record on March 2, 2017, marking the first dividend paid in the company's history.

## Strategic Initiatives

- Sold equipment finance platform and related assets for \$105 million in cash and recognized a gain of \$6.7 million in the fourth quarter.
- Achieved 33% reduction in run-rate expenses compared to Q1 baseline through divestitures and other cost saving initiatives.
- Closed new \$505 million managed fund and launched new co-mingled fund targeting up to \$500 million of equity commitments, which may be levered up to 1x.

## FY 2016 Highlights

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Made significant progress on key priorities in 2016 as we took important steps to streamline operations, reduce costs and reposition NewStar as a credit-oriented asset manager...

- Divested non-core businesses, generating net cash proceeds of \$222 million
- Added two new managed funds and a separate account with target investment portfolios of approximately \$1 billion
- Launched 'flagship' co-mingled fund targeting \$500 million
- Sponsored three new CLOs totaling more than \$1.25 billion in 2016
- Doubled asset management fee revenue
- Originated \$1.9 billion in new funded credit investments
- Achieved 33% target run-rate expense savings in the fourth quarter compared to Q1 2016 baseline through combination of divestitures and operational changes
- Returned \$43 million of capital to shareholders, which represented 6.5% of our average equity base in 2016
- Increased book value per share by \$0.95 to \$15.12 through accretive share repurchases and earnings retention
- Adopted quarterly dividend policy and declared first dividend

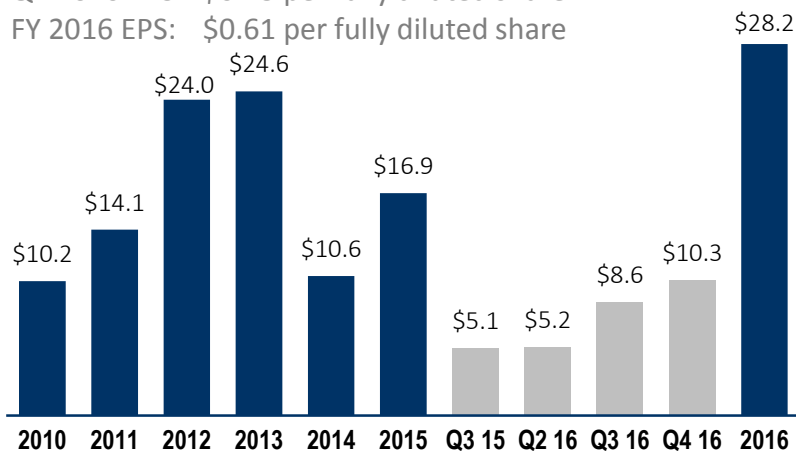
# Operating performance trends

## Net Income

\$MM

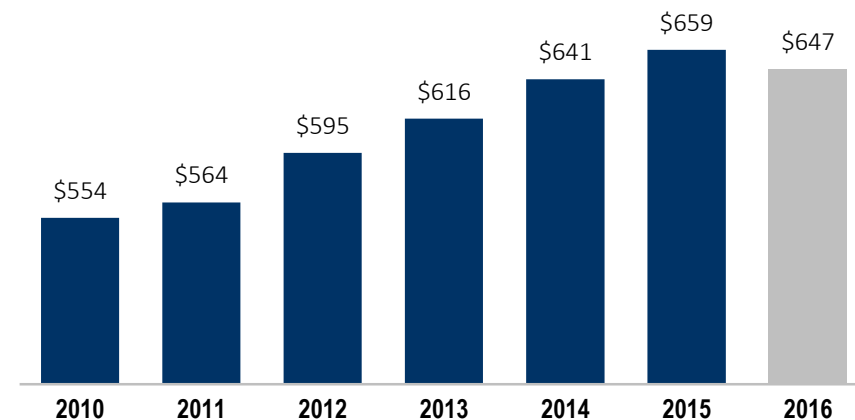
Q4 2016 EPS: \$0.23 per fully diluted share

FY 2016 EPS: \$0.61 per fully diluted share



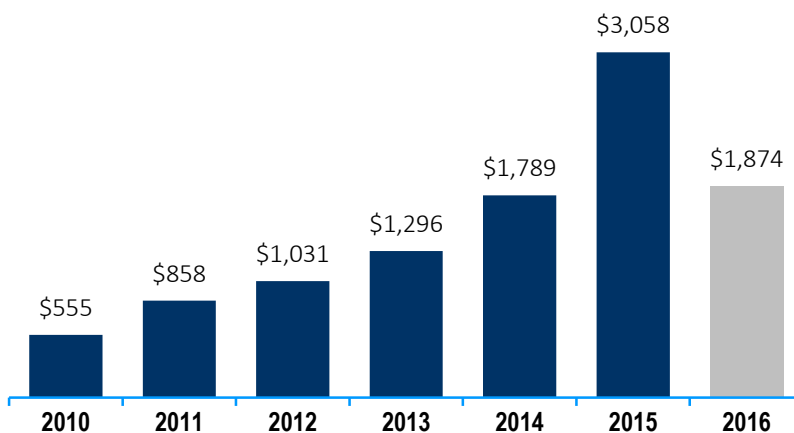
## Equity

\$MM

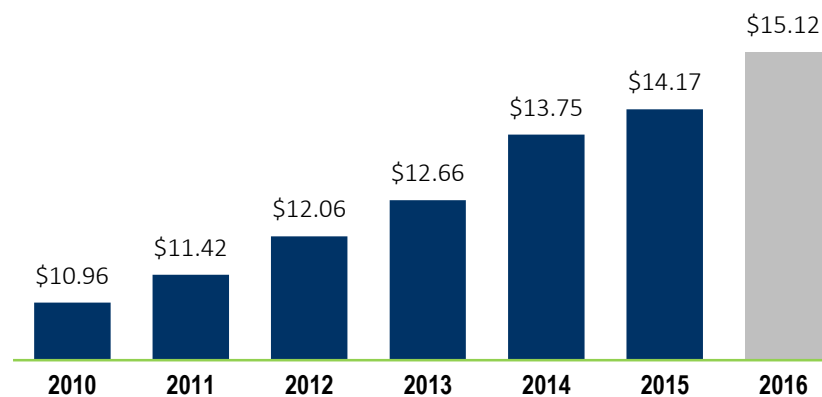


## Origination Volume

\$MM



## Book Value per Share



# FINANCIAL RESULTS

## Summary of Q4 and FY 2016 financial results

Q4 2016 <i>(\$ in thousands, except per share amounts)</i>	Three months ended		
	December 31, 2016	September 30, 2016	December 31, 2015
Net Income	\$10,330	\$8,644	\$4,209
Net Income per share:			
Basic	\$0.23	\$0.19	\$0.09
Diluted	\$0.23	\$0.19	\$0.09
Weighted average shares outstanding:			
Basic	43,732,133	45,812,139	45,601,534
Diluted	43,780,606	45,812,139	46,954,059
Book value per share	\$15.12	\$14.38	\$14.17

FY 2016 <i>(\$ in thousands, except per share amounts)</i>	Twelve months ended	
	December 31, 2016	December 31, 2015
Net Income	\$28,224	\$16,890
Net Income per share:		
Basic	\$0.61	\$0.37
Diluted	\$0.61	\$0.35
Weighted average shares outstanding:		
Basic	45,592,320	45,630,867
Diluted	45,618,100	47,535,016
Book value per share	\$15.12	\$14.17



# Q4 2016 Financial highlights

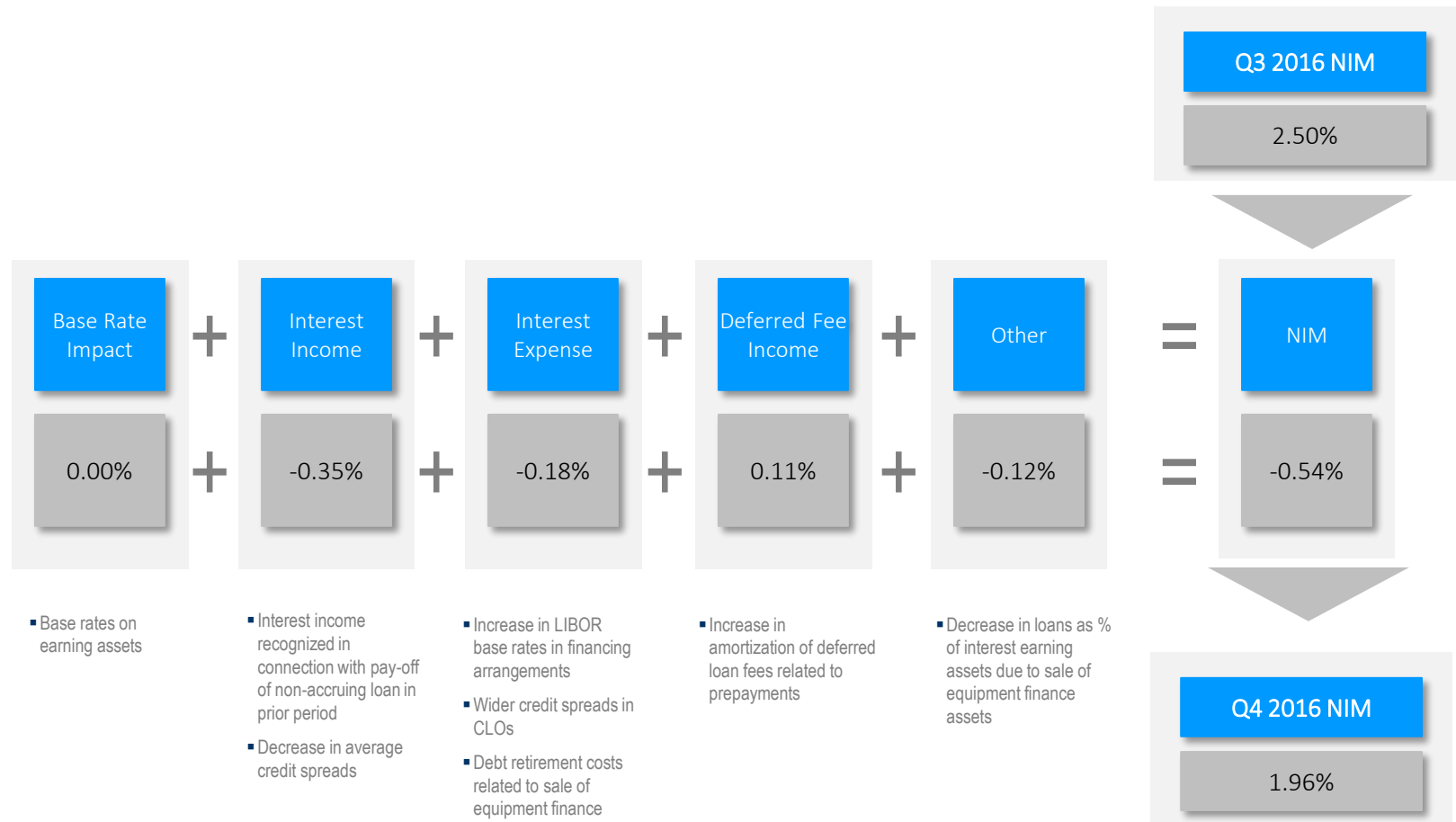
## Financial Highlights

<i>\$ in Millions</i>	Q4 2016	Q3 2016	Q2 2016	Q4 2015
<b><u>Balance sheet</u></b>				
Loans and leases, net	\$3,239	\$3,187	\$3,113	\$3,134
Loans held-for-sale, net	144	430	440	479
Total assets	4,041	4,403	3,992	4,051
Warehouse, repo and term debt	2,696	2,873	2,640	2,750
Senior notes	374	373	373	372
Subordinated notes	241	240	238	210
Equity	647	672	659	659
<b><u>Income statement</u></b>				
Interest income	\$64.2	\$65.2	\$59.4	\$60.6
Net interest income	20.7	25.3	20.9	24.4
Total revenue	40.5	36.2	25.3	27.7
Operating expenses	19.5	18.1	12.8	16.9
Provision expense	2.6	3.6	3.6	3.7
Net income	10.3	8.6	5.2	4.2
<b><u>Key ratios</u></b>				
Portfolio yield	6.53%	6.77%	6.28%	6.33%
Net interest margin	1.96%	2.50%	2.10%	2.45%
Expense ratio	1.84%	1.76%	1.29%	1.68%
Net charge off rate	1.98%	0.00%	0.75%	-0.06%
Pre-tax return on average equity	11.14%	8.71%	5.36%	4.28%

## Summary

- Originated new loan volume of \$671 million for Q4 and \$1.9 billion for 2016 compared to \$427 million in Q3 and \$3 billion for the full year in 2015.
- Managed assets increased 1.3% to \$6.7 billion. Total assets held by managed funds increased by \$483 million to approximately \$3.6 billion.
- Sponsored new managed funds and accounts targeting \$1 billion of investment assets and launched other initiatives to grow assets under management.
- Margin narrowed to 1.96% in Q4 2016 from 2.50% in Q3 2016 due primarily to elevated interest income recognized in connection with the pay-off of a non-accruing loan at par in Q3.
- Run rate expenses decreased to \$11.3 million in Q4, excluding \$3.5 million of severance expenses and \$4.7 million of equipment finance related expenses .
- Credit costs decreased by \$0.9 million and remained within expected ranges at 27 bps on average loans and investments in Q4 2016.
- Book value per share increased \$0.74 to \$15.12 due primarily to accretive share repurchases and retained earnings.

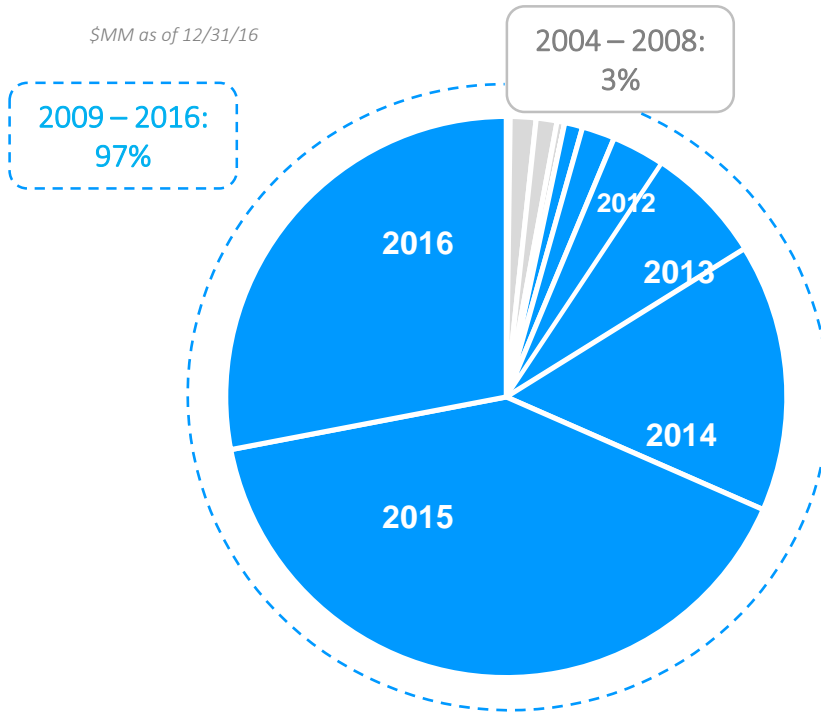
# Net interest margin analysis



# Loan and investment portfolio

## Loan Portfolio by Vintage

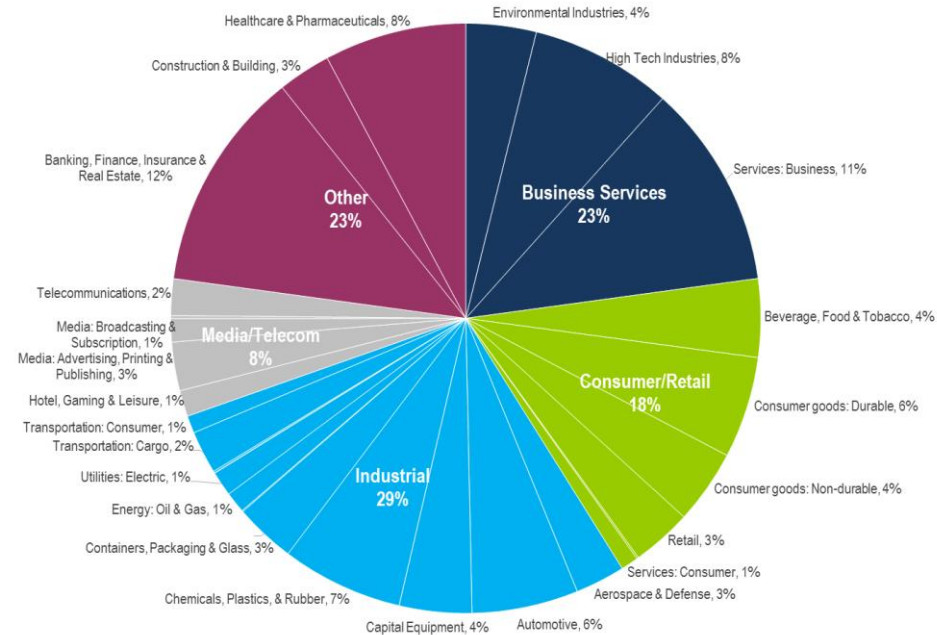
\$MM as of 12/31/16



High quality portfolio; more than 97% of loans originated post-crisis

## Loan Portfolio by Industry

\$MM as of 12/31/16

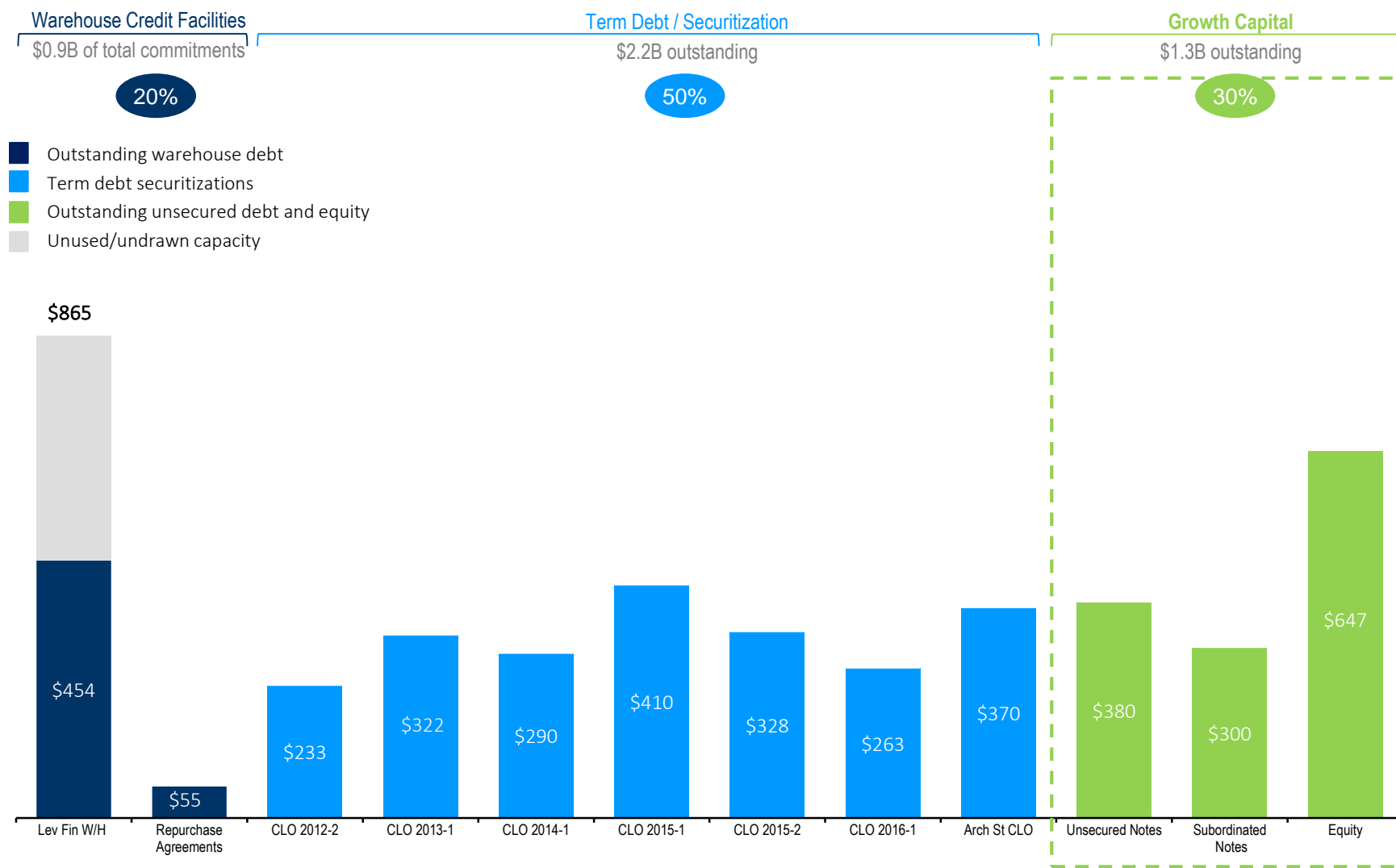


Highly diversified portfolio; largest single obligor represents only 0.8% of total loans

# Capital structure

\$MM, as of 12/31/2016

## Total Capital Commitments: \$4.5B



Diversified funding and strong capital base with ability to build equity through retained earnings

## Q4 2016 Credit performance

### Credit Costs

- Credit costs remained within expected ranges.
- Credit costs decreased by \$0.9 million to \$2.6 million.
- Specific provision decreased by \$0.8 million to \$2.5 million in Q4 2016 from \$3.2 million in the prior quarter.

### Non-accruing loans

- NPLs increased to 2.99% in Q4 from 2.66% in Q3 due primarily to a legacy impaired loan being classified as non-accruing on a discretionary basis in connection with a restructuring until the company can demonstrate further progress on its turnaround strategy.

### Allowance for loan losses

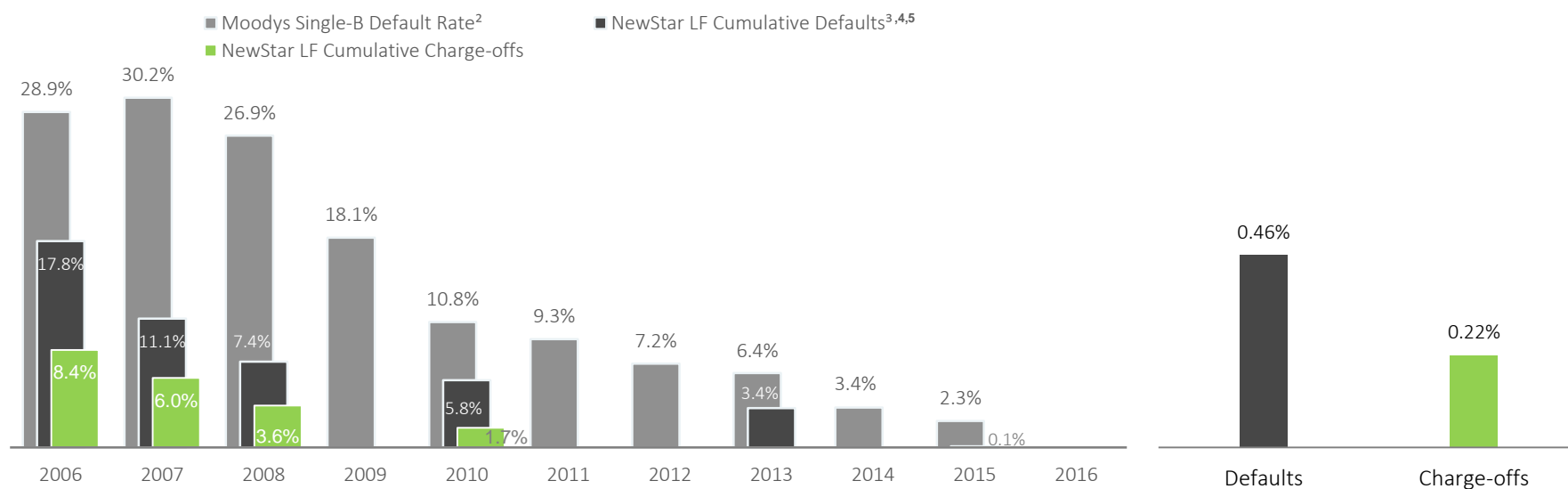
- The allowance for credit losses decreased by \$15 million to \$51.4 million, or 1.76% of loans as of December 31, 2016 from \$66.4 million, or 2.29% of loans, as of September 30, 2016 due net charge-offs applied against existing reserves, which was partially offset by usual provisioning activity.
- Net charge-offs totaling \$18.9 million in the fourth quarter were applied to previously established specific reserves in connection with the restructuring of a legacy impaired loan.

(\$ in thousands)	December 30, 2016	September 30, 2016	December 31, 2015
<b><u>Credit quality ratios:</u></b>			
Delinquent loan rate (at period end)	0.64%	0.50%	0.84%
Non-accrual loan rate (at period end)	2.99%	2.66%	3.43%
Annualized net charge-off rate (avg period loans)	1.98%	0.00%	(0.06)%
Allowance for credit losses ratio (at period end)	1.76%	2.29%	1.81%
<b><u>Allowance for credit losses activity:</u></b>			
Balance as of beginning of period	\$66,366	\$64,043	\$54,481
General provision for credit losses	1,430	336	1,244
Specific provision for credit losses	2,498	3,234	2,422
Net (charge-offs) recoveries	(18,886)	46	579
Reclass of equipment finance as held-for-sale	--	(1,293)	--
Balance as of end of period	\$51,408	\$66,366	\$58,726

# Historical credit performance

## Cumulative Default and Charge-off % by Origination Vintage Year<sup>1</sup>

## Avg Ann'l Defaults/Charge-offs



Note(s)

<sup>1</sup> Cumulative origination reflects amount of new funded leveraged loans recorded in NewStar's books and records, excluding add-ons to existing loans and refinancing of existing loans to avoid double counting

<sup>2</sup> Moody's market data from "2015 Moody's Annual Default Study: Corporate Default and Recovery Rates, 1920-2015"

<sup>3</sup> Cumulative defaults are defined as the dollar amount of all defaulted leveraged loans divided by the dollar amount of cumulative loan originations as defined. Defaulted loans are defined as loans that have been placed on non-accrual status regardless of whether the borrower is in payment default. Defaulted loans do not include all loans that may have been restructured because the debtor could not meet the terms of the original agreement. To obtain a more complete understanding of NewStar's track record, additional relevant information about NewStar's other lending groups and disclosures of asset quality metrics at various points in time may be found by reviewing its filings with the SEC.

<sup>4</sup> Charge-offs defined as defaults less recoveries

<sup>5</sup> There can be no assurance that default and charge-off levels as a percentage of originations will remain at past levels.

## Balance sheet as of December 31, 2016

(\$ in thousands)	December 31, 2016	September 30, 2016	December 31, 2015
<b>Assets:</b>			
Cash and cash equivalents	\$154,480	\$36,266	\$35,933
Restricted cash	262,643	370,487	153,992
Cash collateral on deposit with custodian	7,564	7,564	61,081
Investments in debt securities, available-for-sale	119,307	90,814	94,177
Loans held-for-sale, net	144,060	429,718	478,785
Loans and leases, net	3,239,191	3,186,998	3,134,072
Interest receivable	14,622	14,829	13,932
Property and equipment, net	274	296	638
Deferred income taxes, net	40,807	29,881	33,133
Income tax receivable		1,381	5,342
Goodwill	17,884	17,884	17,884
Identified intangible asset, net	572	655	910
Other assets	39,188	53,786	21,504
Assets held-for-sale	--	\$162,801	--
<b>Total assets</b>	<b>\$4,040,592</b>	<b>\$4,403,360</b>	<b>\$4,051,383</b>

## Balance sheet as of December 31, 2016 (Cont'd)

(\$ in thousands)	December 31, 2016	September 30, 2016	December 31, 2015
<b>Liabilities:</b>			
Repurchase agreements	\$55,046	\$52,591	\$96,224
Credit facilities, net	445,493	492,758	832,686
Term debt securitizations, net	2,195,064	2,327,717	1,821,519
Senior notes, net	373,919	373,462	372,153
Senior debt	3,069,522	3,246,528	3,122,582
Subordinated notes, net	241,390	239,543	209,509
Total debt	3,310,912	3,486,071	3,332,091
Accrued interest payable	21,319	31,021	18,073
Income tax payable	12,562	--	--
Other liabilities	48,377	170,380	41,741
Liabilities held-for-sale	--	44,158	--
<b>Total liabilities</b>	<b>3,393,170</b>	<b>3,731,630</b>	<b>3,391,905</b>
<b>Total stockholders' equity</b>	<b>647,422</b>	<b>671,730</b>	<b>659,478</b>
<b>Total liabilities and stockholders' equity</b>	<b>4,040,592</b>	<b>4,403,360</b>	<b>4,051,383</b>
Senior debt / equity	4.7x	4.8x	4.7x
Total debt / equity	5.1x	5.2x	5.1x

Note: Deferred financing costs have been reclassified as contra accounts of related debt liabilities to reflect the adoption of ASU 2015-03



## Q4 2016 Income statement

(\$ in thousands, except per share amounts)	Three Months Ended		
	December 31, 2016	September 30, 2016	December 31, 2015
<b><u>Net interest income:</u></b>			
Interest income	\$64,217	\$65,155	\$60,591
Interest expense	43,529	39,897	36,222
Net interest income	20,688	25,258	24,369
Provision for credit losses	2,635	3,570	3,667
Net interest income after provision for credit losses	18,053	21,688	20,702
<b><u>Non-interest income:</u></b>			
Fee income	1,442	2,946	2,999
Asset management income	3,062	3,353	3,707
Loss on derivatives	(153)	(13)	(5)
Gain / (loss) on sale of loans, net	(2,131)	(19)	154
Other miscellaneous income	3,157	4,231	3,144
Realized/unrealized (loss) gain on total return swap	--	--	(4,121)
Unrealized gain / (loss) on loans held-for-sale	7,751	468	(2,568)
Gain on sale of Equipment Finance	6,655	--	--
Total non-interest income	19,783	10,966	3,310
<b><u>Operating expenses</u></b>			
Compensation and benefits	10,704	13,175	11,905
General and administrative expenses	8,758	4,894	4,967
Total operating expenses	19,462	18,069	16,872
<b><u>Income before income taxes</u></b>	18,374	14,585	7,140
Income tax expense	8,044	5,941	2,931
<b><u>Net income</u></b>	<b>10,330</b>	<b>8,644</b>	<b>\$4,209</b>
<b><u>Net income per share:</u></b>			
Basic	\$0.23	\$0.19	\$0.09
Diluted	\$0.23	\$0.19	\$0.09
<b><u>Weighted average shares outstanding:</u></b>			
Basic	43,732,133	45,812,139	45,601,534
Diluted	43,780,606	45,812,139	46,954,059

## FY 2016 Income statement

(\$ in thousands, except per share amounts)	Year Ended	
	December 31, 2016	December 31, 2015
<b><u>Net interest income:</u></b>		
Interest income	\$250,716	\$201,785
Interest expense	161,345	120,986
Net interest income	89,371	80,799
Provision for credit losses	27,541	18,387
Net interest income after provision for credit losses	61,830	62,412
<b><u>Non-interest income:</u></b>		
Fee income	7,278	13,508
Asset management income	13,399	6,661
Loss on derivatives	(184)	(29)
Gain / (loss) on sale of loans, net	(2,095)	467
Other miscellaneous income	10,352	5,217
Realized/unrealized (loss) gain on total return swap	(6,062)	(4,953)
Unrealized gain / (loss) on loans held-for-sale	2,406	(2,568)
Gain on sale of Business Credit and Equipment Finance	29,166	--
Total non-interest income	54,260	18,357
<b><u>Operating expenses</u></b>		
Compensation and benefits	43,344	35,909
General and administrative expenses	24,095	16,019
Total operating expenses	67,439	51,928
<b><u>Income before income taxes</u></b>	48,651	28,841
Income tax expense	20,427	11,951
<b><u>Net income</u></b>	<b>28,224</b>	<b>\$16,890</b>
<b><u>Net income per share:</u></b>		
Basic	\$0.61	\$0.37
Diluted	\$0.61	\$0.35
<b><u>Weighted average shares outstanding:</u></b>		
Basic	45,592,320	45,630,867
Diluted	45,618,100	47,535,016

# CONCLUSION

# FY 2017 Outlook

	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	2017 Guidance	
							lo	hi
Funded loan volume	\$3,058	\$300	\$476	\$427	\$671	\$1,874	\$2,000	\$2,500
New loan yields	6.54%	7.37%	6.99%	6.57%	6.65%	6.83%	6.50%	7.50%
Run-off rate, as % of BoP loans	45%	18%	38%	24%	41%	31%	30%	35%
Portfolio yield as % of avg loans	6.27%	6.28%	6.28%	6.77%	6.53%	6.46%	6.25%	6.75%
Cost of funds, as % of avg int bearing liabilities	4.35%	4.56%	4.65%	4.67%	4.83%	4.65%	4.50%	5.00%
Net interest margin	2.39%	2.21%	2.10%	2.50%	1.96%	2.19%	1.75%	2.25%
Non-interest income, as % of avg loans	0.57%	1.94%	0.46%	1.14%	2.02%	1.40%	0.75%	1.00%
Provision expense, as % of avg loans	0.57%	1.80%	0.38%	0.37%	0.27%	0.71%	0.25%	0.50%
Operating expenses, as % of avg AuM	1.12%	1.00%	0.78%	1.09%	1.15%	1.00%	0.60%	0.70%
Leverage (D:E)	5.1x	5.0x	4.9x	5.2x	5.1x	5.1x	4.4x	4.8x
Loans and credit investments, gross	\$3,830	\$3,734	\$3,772	\$3,972	\$3,592	\$3,592	\$3,250	\$3,500
AuM	\$6,949	\$6,620	\$6,583	\$6,653	\$6,742	\$6,742	\$7,500	\$8,000

# APPENDIX

# Non-GAAP financial measures

References to “operating expenses, excluding non-cash equity compensation and severance costs” mean operating expenses as determined under GAAP, excluding compensation expense related to restricted stock grants and severance costs related to separation agreements with former employees. GAAP requires that these items be included in operating expenses. NewStar management uses “operating expenses, excluding non-cash equity compensation and severance costs” to make operational and investment decisions, and NewStar believes that they provide useful information to investors in their evaluation of our financial performance and condition. Excluding the financial results and expenses incurred in connection with the compensation expense related to restricted stock grants eliminates unique amounts that make it difficult to assess our core performance and compare our period-over-period results. A reconciliation of operating expenses, excluding non-cash equity compensation to operating expenses is included below.

	Three Months Ended		
	December 31, 2016	September 30, 2016	December 31, 2015
(\$ in thousands)			
<b>Performance Ratios:</b>			
Adjusted operating expenses as a percentage of average total assets	1.42%	1.25%	1.60%
<b>Consolidated Statement of Operations Adjustments <sup>(1)</sup>:</b>			
Operating expenses	\$ 19,462	\$ 18,069	\$ 16,872
Less: non-cash equity compensation expense <sup>(2)</sup>	921	959	823
Less: severance expenses	3,519	4,197	—
Adjusted operating expenses	\$ 15,022	\$ 12,913	\$ 16,049
<b>Core revenue</b>			
Net interest income	\$ 20,688	\$ 25,258	\$ 24,369
Non-interest income	19,783	10,966	3,310
<b>Total Revenue</b>	<b>40,471</b>	<b>36,224</b>	<b>27,679</b>
Less: Gain on sale of Equipment Finance assets	(6,655)	—	—
Add back: Loss (gain) on total return swap	—	—	4,121
<b>Core revenue</b>	<b>\$ 33,816</b>	<b>\$ 36,224</b>	<b>\$ 31,800</b>
<b>Risk-adjusted revenue</b>			
Net interest income after provision for credit losses	\$ 18,053	\$ 21,688	\$ 20,702
Non-interest income	19,783	10,966	3,310
<b>Risk-adjusted revenue</b>	<b>\$ 37,836</b>	<b>\$ 32,654</b>	<b>\$ 24,012</b>

(1) Adjustments are pre-tax, unless otherwise noted.

(2) Non-cash compensation charge related to restricted stock grants.

## Non-GAAP financial measures (Cont'd)

(\$ in thousands)	Year Ended December 31,	
	2016	2015
<b>Performance Ratios:</b>		
Adjusted operating expenses as a percentage of average total assets	1.37%	1.41%
<b>Consolidated Statement of Operations Adjustments<sup>(1)</sup>:</b>		
Operating expenses	\$ 67,439	\$ 51,928
Less: non-cash equity compensation expense <sup>(2)</sup>	3,743	3,273
Less: severance costs	7,717	—
Adjusted operating expenses	<u>\$ 55,979</u>	<u>\$ 48,655</u>

	Year Ended December 31,	
	2016	2015
<b>Core revenue</b>		
Net interest income	\$ 89,371	\$ 80,799
Non-interest income	54,260	18,357
<b>Total Revenue</b>	<u>143,631</u>	<u>99,156</u>
Less: Gain on sale of divested business and assets	(29,166)	—
Add back: Loss on total return swap	6,062	4,953
Core revenue	<u>\$ 120,527</u>	<u>\$ 104,109</u>

	Year Ended December 31,	
	2016	2015
<b>Risk-adjusted revenue</b>		
Net interest income after provision for credit losses	\$ 61,830	\$ 62,412
Non-interest income	54,260	18,357
Risk-adjusted revenue	<u>\$ 116,090</u>	<u>\$ 80,769</u>

(1) Adjustments are pre-tax.

(2) Non-cash compensation charge related to restricted stock grants.