

Newtek Business Services Corp.
Your Business Solutions Company[®]
NASDAQ: NEWT

Planet MicroCap Showcase
April 25, 2018

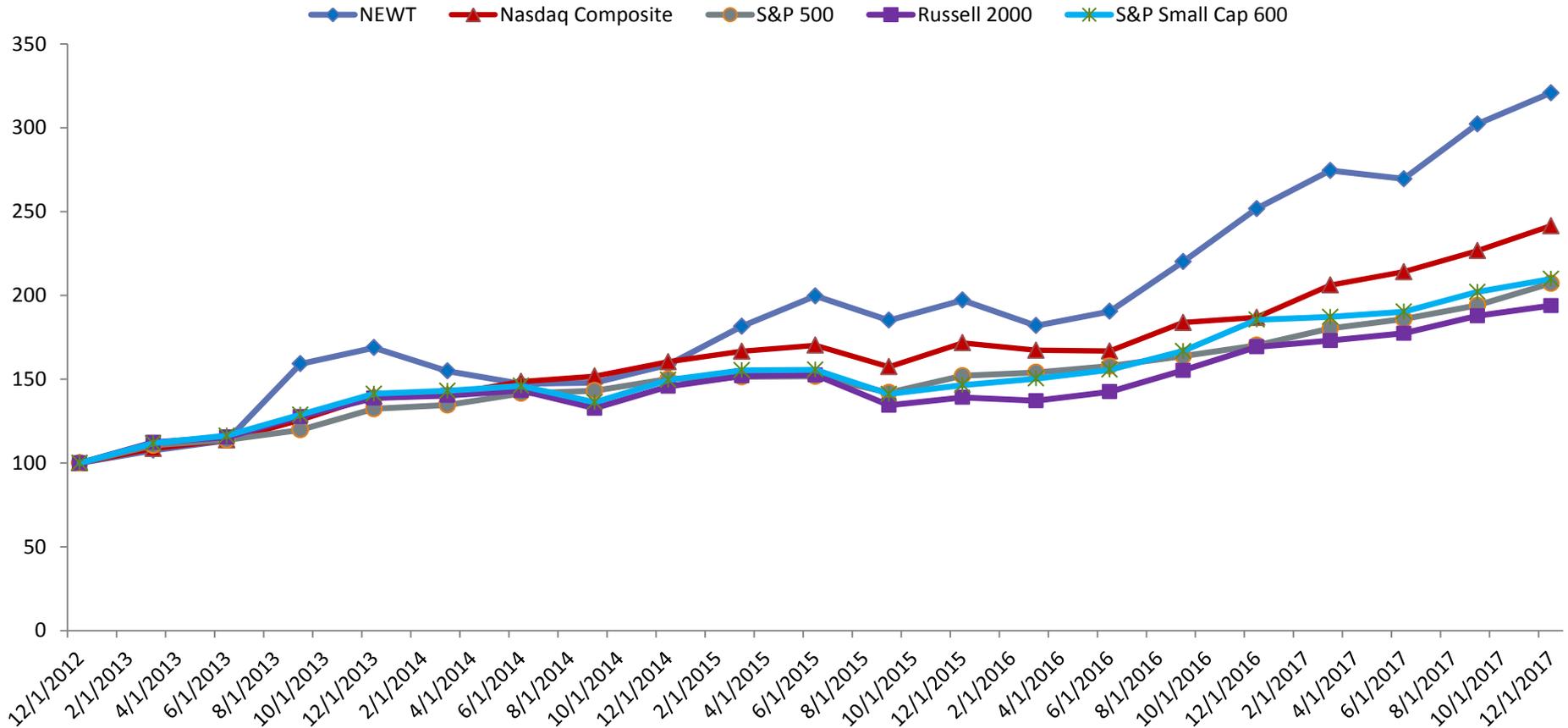
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Note Regarding Forward-Looking Statements

The matters discussed in this Presentation, as well as in future oral and written statements by management of Newtek Business Services Corp., that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Presentation should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this Presentation include statements as to: our future operating results; our business prospects and the prospects of our prospective portfolio companies; the impact of investments that we expect to make; our informal relationships with third parties; the dependence of our future success on the general economy and its impact on the industries in which we invest; our ability to access debt markets and equity markets; the ability of our portfolio companies to achieve their objectives; our expected financings and investments; our regulatory structure and tax status; our ability to operate as a BDC and a RIC; the adequacy of our cash resources and working capital; the timing of cash flows, if any, from the operations of our portfolio companies; the timing, form and amount of any dividend distributions; the impact of fluctuations in interest rates on our business; the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and our ability to recover unrealized losses. The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing in our quarterly and annual reports filed with the U.S. Securities and Exchange Commission.

Newtek's Historical Stock Performance

- As of December 31, 2017, including reinvested dividends in NEWT:
 - Newtek's 5-year total return was **220.9%**
 - Newtek's 3-year total return was **102.2%**
 - Newtek's 1-year total return was **27.5%**



*Note: Total returns as per Bloomberg. Newtek converted to a business development company in November 2014, and therefore the 5-year total return includes pre-BDC returns. Historical performance is not indicative of future performance.

- An **internally managed Business Development Company (“BDC”)**, which along with its controlled portfolio companies, is a direct distributor of a wide-range of business services and financial products to the small- and medium-sized business market (“SMB”)
- Newtek converted to an internally managed BDC on November 12, 2014 and has been publically traded for over 17 years, since September 2000
- Once a BDC elects to be treated as a regulated investment company (“RIC”), the RIC must distribute **at least 90%** of its annual taxable income to shareholders
 - The Company forecasts paying an annual cash dividend of \$1.70¹ per share in 2018
 - Newtek and its controlled portfolio companies offer state-of-the-art, cost-efficient products and business solutions to over 100,000 SMB accounts across all 50 States including:
 - SBA 7(a) Lending
 - SBA 504 Lending
 - Receivable and Inventory Line of Credit Financing
 - Electronic Payment Processing
 - Payroll and Benefits Solutions
 - eCommerce and Mobile Payment Processing
 - Commercial / Personal Insurance / Health & Benefits
 - Cloud Computing Products
 - Web Services – Hosting/Design Development

¹Amount and timing of dividends, if any, remain subject to the discretion of the Company's Board of Directors.

Newtek's Business Purpose Today

- Newtek's business model is similar to what Geico[®] and Amazon.com[®] have done to disrupt their markets
- Newtek acquires clients cost effectively using NewTracker[®], a patented proprietary web-based customer referral, tracking and processing software
- Newtek and its portfolio companies serve client needs by offering financial and business solutions remotely, using state-of-the-art technology
- Management believes this acquisition strategy is one of the Company's secrets to success and that it is exponentially scalable
- Processing business from a remote location drives Newtek's business model
- Newtek has built a robust network of nationally recognized alliance partners that refer businesses to Newtek through NewTracker[®]
 - Alliance partners refer their customers to Newtek for one or more of our product solutions, to enhance and/or expand their core product menus
 - Alliance partner examples include: *UBS Bank, Raymond James, Credit Union National Association, Morgan Stanley Smith Barney, The Hartford, AIG, Amalgamated Bank, New York Community Bank, ENT Federal Credit Union, Legacy Bank, Navy Federal Credit Union, Meineke Mufflers, NYS Academy of Trial Lawyers, Lending Tree, LLC, Randolph Brooks Federal Credit Union, E-Insure, and True Value Hardware Stores, among others*

Newtek Positioned As *THE* Business Solutions Company

- Positioned to be the **'Business Solutions Company of Choice'** for independent business owners
- Satisfy the business needs across many products and services
- Newly redesigned website
 - www.newtekone.com
- Drive traffic to subsidiary and portfolio company product pages as The Business Solutions Company
 - Newtek Business Finance Solutions - Newtekone.com/loans
 - Newtek Payment Solutions - Newtekone.com/payments
 - Newtek Technology Solutions - Newtekone.com/technology
 - Newtek Payroll and Benefits Solutions - Newtekone.com/payrollbenefits
 - Newtek Insurance Agency Solutions - Newtekone.com/insurance

Full Year 2017 Financial Highlights

- Net asset value (“NAV”) of \$278.3 million, or \$15.08 per share, at December 31, 2017
 - An increase of 5.5% over \$14.30 per share at December 31, 2016
- Net investment loss of \$(7.9) million, or \$(0.45) per share, for the twelve months ended December 31, 2017, an improvement of 29.7% on a per share basis, compared to a net investment loss of \$(9.3) million, or \$(0.64) per share, for the twelve months ended December 31, 2016
- Adjusted Net Investment Income (“ANII”)* of \$30.8 million, or \$1.77 per share, for the twelve months ended December 31, 2017; an increase of 10.6% on a per share basis compared to ANII of \$23.2 million, or \$1.60 per share, for the twelve months ended December 31, 2016
- Debt-to-equity ratio of 78.0% at December 31, 2017
- Total investment income of \$38.9 million for the twelve months ended December 31, 2017; an increase of 25.7% over total investment income of \$31.0 million for the twelve months ended December 31, 2016
- Total investment portfolio increased by 32.3% to \$456.7 million at December 31, 2017, from \$345.2 million at December 31, 2016

*See page 31 for definition of ANII

Full Year 2017 SBA Lending Highlights & 2018 Forecast

- Newtek Small Business Finance (“NSBF”) funded a record \$385.9 million of SBA 7(a) loans during the twelve months ended December 31, 2017; an increase of 24.8% compared to \$309.1 million of SBA 7(a) loans funded for the twelve months ended December 31, 2016
- NSBF forecasts full year 2018 SBA 7(a) loan fundings of between \$465 million and \$485 million, which would represent an approximate 23% increase, at the midpoint of the range, over SBA 7(a) loan fundings for the twelve months ended December 31, 2017
- Newtek Business Credit Solutions (“NBC”), a controlled portfolio company, closed \$21.8 million and funded \$18.0 million of SBA 504 loans for the twelve months ended December 31, 2017
- NBC forecasts full year 2018 SBA 504 loan closings of approximately \$75 million to \$100 million

Dividend Payments and 2018 Forecast

- The Company paid cash dividends totaling \$1.64 per share during 2017, which represents 95.4% of the Company's 2017 estimated taxable income
- The Company's cash dividends of \$1.64 per share during 2017 represent an increase of 7.2%, on a per share basis, over 2016 cash dividends of \$1.53 per share
- The Company forecasts paying an annual cash dividend of \$1.70¹ per share in 2018, a 3.7% increase over the 2017 annual dividend of \$1.64 per share
- On January 18, 2018, the Board of Directors declared a first quarter 2018 cash dividend of \$0.40 per share, payable on March 30, 2018 to shareholders of record as of March 20, 2018
- For the past three years as a BDC, our annual dividend payout has exceeded our initial annual dividend forecast:
 - 2016: Original annual dividend forecast of \$1.50 per share; paid \$1.53 per share
 - 2017: Original annual dividend forecast of \$1.57 per share; paid \$1.64 per share

¹ Amount and timing of dividends, if any, remain subject to the discretion of the Company's Board of Directors.

Newtek's 8th & Largest Securitization

- On November 29, 2017, Newtek closed its eighth and largest small business loan securitization, with the sale of \$75.4 million of Unguaranteed SBA 7(a) Loan-Backed Notes (the "Notes"), Series 2017-1
- Offering consisted of 2 Classes of Notes:
 - Class A Notes: \$58.1 million, rated 'A' by Standard and Poor's
 - Class B Notes: \$17.3 million rated 'BBB-' by Standard and Poor's
- The Notes had a 79.5% advance rate, an approximate 3.25% improvement over the most recent securitization in November 2016, making it the highest advance rate of all securitizations to date
- The Notes were priced at an average initial yield of 3.59% (Note: Interest Rates will be floating rate) across both classes
 - This securitization achieved better pricing with an approximate 100 basis point reduction in the interest rate spread over LIBOR on each class compared to the November 2016 securitization
- Deutsche Bank Securities Inc. acted as sole bookrunner for the sale of the Notes and Capital One Securities, Inc. acted as co-manager for the offering

Newtek's Recent Debt Offering

- In February 2018, Newtek closed an underwritten public offering of \$57.5 million in aggregate principal amount of its 6.25% Notes Due 2023 (the "Notes")
- The Notes will mature on March 1, 2023 and may be redeemed in whole or in part at any time or from time to time at Newtek's option on or after March 1, 2020
- The Notes bear interest at a fixed rate of 6.25% per year payable quarterly beginning June 1, 2018
- The Notes trade on the Nasdaq Global Market under the trading symbol "NEWTI"
- The Notes have been assigned a rating of "A-" from Egan-Jones Ratings Co.
- Keefe, Bruyette & Woods, *A Stifel Company*, acted as the book-running manager for this offering. D.A. Davidson & Co., Compass Point Trading and Research, LLC, BB&T Capital Markets and Ladenburg Thalmann acted as co-managers
- The Company will redeem all \$40,250,000 in aggregate principal amount of its 7.00% Notes due 2021 (NASDAQ: NEWTL) on March 23, 2018 using the proceeds from this offering

Newtek's ATM Program

- Pursuant to its ATM Program, the Company may offer and sell up to 2,900,000 shares of common stock from time to time
- During the year ended December 31, 2017, the Company sold 1,139,000 shares of common stock at a weighted average price of \$17.58 per share
- Proceeds, net of offering costs and expenses, were \$19,620,000
- The Company may offer up to an additional 1,761,000 shares of common stock under the ATM Program
- Net proceeds used for funding investments in debt and equity securities in accordance with the Company's investment objectives and strategies and for general corporate purposes including funding investments, repaying outstanding indebtedness, and other general corporate purposes

- Currently the largest non-bank lender licensed by the SBA under the federal Section 7(a) loan program based on annual origination volume
- One of 14 Non-Bank SBA Government-Guaranteed Lender Licenses (new licenses are presently no longer being issued)
- 6th largest SBA 7(a) lender including banks¹ with PLP status
- National SBA 7(a) lender to small businesses since 2003; 15-year history of loan default frequency and severity statistics
- Issued 8 S&P-rated AA & A securitizations since 2010
- Small balance, industry and geographically diversified portfolio of 1,572 loans
 - Average loan size is approximately \$183K of average unguaranteed retained loan balance
- Floating rate at Prime plus 2.75% with no caps and quarterly rate adjust; currently equivalent to 7.25% cost to borrower
- No origination fees with 7- to 25-year amortization schedules; receiving a high-quality loan product
- Secondary market established for SBA 7(a) government-guaranteed loans for over 61 years and Newtek establishes liquidity for unguaranteed portions through securitizations

¹As of December 31, 2017

SBA 7(a) Loan Originations & Pipeline Comparisons

SBA 7(a) Loan Fundings Twelve Months Ended December 31, 2016 vs. 2017

\$ in millions



SBA 7(a) Loan Pipeline		
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Prequalified Loans	\$85,690,500	\$85,006,150
Loans In Underwriting	52,688,000	22,641,000
Approved Pending Closing	<u>55,378,900</u>	<u>68,121,800</u>
Total Loan Pipeline	<u>\$193,737,400</u>	<u>\$175,768,950</u>

- For the twelve months ended December 31, 2017, SBA 7(a) loan fundings increased year over year by 24.8%

Growth in Loan Referrals

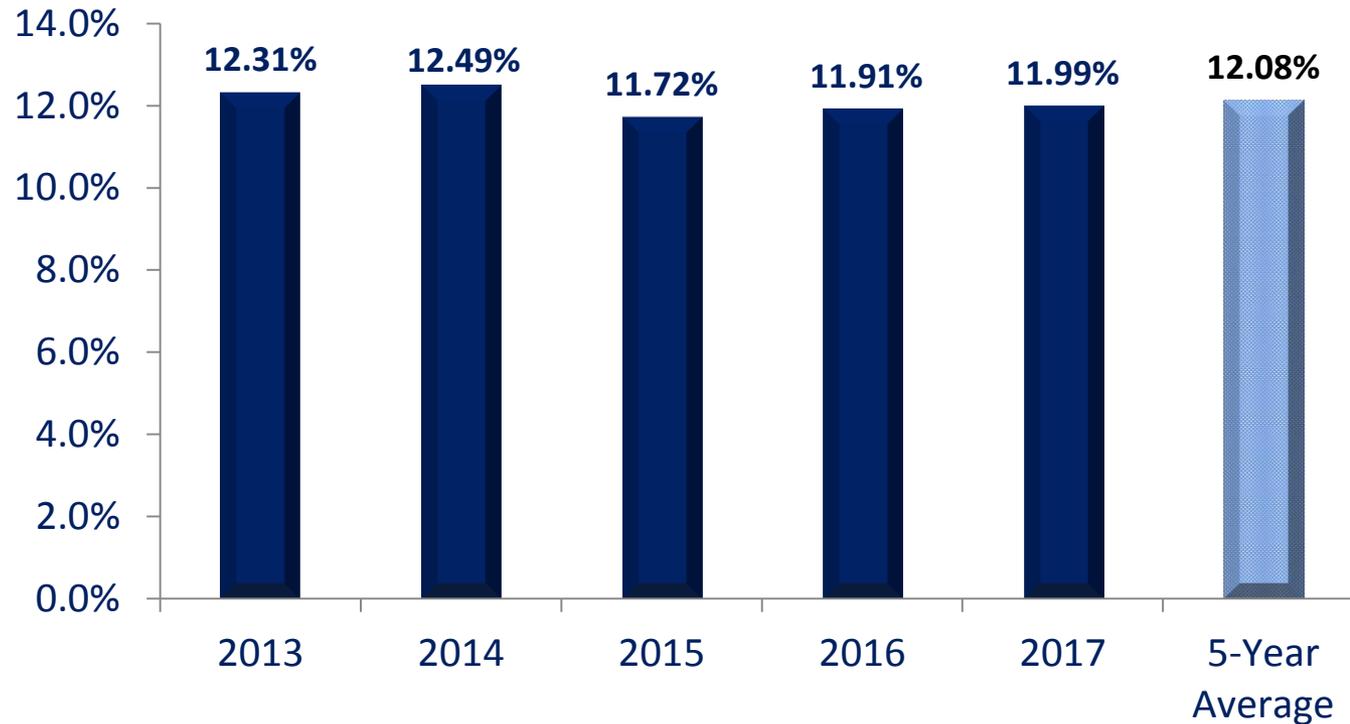
Loan Referrals (\$ in millions)		
FY 2016	FY 2017	Year-over-Year % Change
\$ 8,442	\$ 10,804	28.0%

- FY 2017 loan referrals were \$10.8 billion; a 28.0% year-over-year increase over \$8.4 billion in FY 2016
- Year-to-date through February 28, 2018, loan referrals were \$3.2 billion; a 78.0% year-over-year increase from \$1.8 billion for the same period one year ago

Loan Units Referred		
FY 2016	FY 2017	Year-over-Year % Change
15,175	30,949	103.9%

- FY 2017 loan units referred were 30,949; a 103.9% year-over-year increase over 15,175 in FY 2016
- Year to date through February 28, 2018, loan units referred were 12,103; a 280% year-over-year increase from 3,186 loan units referred for the same period one year ago

Net Premium Trends



- For the twelve months ended December 31, 2017, the net premium received on the sale of guaranteed portions of SBA loans was 11.99%

Note: Post conversion to a BDC in November 2014, amounts are recorded as Net realized gains on non-affiliate investments in the consolidated statements of operations.

SBA 7(a) Loan Portfolio Performance

Cumulative SBA Non-Performing 7(a) Loan Portfolio as a Percentage of Total SBA 7(a) Loan Portfolio

<i>(in thousands)</i>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>
SBA 7(a) Unguaranteed Non-Performing Investments, at amortized cost	\$ 9,510	\$ 10,772	\$ 14,934	\$ 23,408
Net Unrealized Depreciation on Non-Performing SBA 7(a) Loans	(3,208)	(4,575)	(6,349)	(11,841)
SBA 7(a) Unguaranteed Non-Performing Investments, at fair value	\$ 6,302	\$ 6,197	\$ 8,585	\$ 11,567
Total Outstanding Loan Portfolio - Fair Value	\$ 121,426	\$ 158,305	\$ 211,462	\$ 278,034
SBA 7(a) Non-Performing Loan Portfolio, at fair value, as a Percentage of Total Outstanding SBA 7(a) Loan Portfolio	5.2%	3.9%	4.1%	4.2%

Realized Losses (Loan Charge Offs) as a Percentage of Average Outstanding 7(a) Loan Portfolio

	<u>As of December 31, 2016</u>	<u>As of December 31, 2017</u>
Average 12-Month Outstanding Loan Balance	\$ 193,247,854	\$ 253,664,728
Charge Off Rolling 12 Months	\$ 925,199	\$ 893,868
Realized Losses (Loan Charge Offs) as a Percentage of Average Outstanding Loan Portfolio	0.48%	0.35%

- Realized losses represent amounts charged off at the end of liquidation that had been previously written down through fair value depreciation adjustments

SBA 7(a) Loan Sale Transaction

Net Cash Created on SBA 7(a) Loan Sale Transaction – An Example

Key Variables in Loan Sale Transaction		Net Cash Created	
Loan Amount	\$1,000,000	Guaranteed Balance	\$750,000
Guaranteed Balance (75%)	\$750,000	Realized Gains on Guaranteed Balance ²	\$90,000
Unguaranteed Balance (25%)	\$250,000	Cash Received in Securitization ⁽³⁾	\$198,750
Realized Gain (Premium) ¹	12.0%	Total	\$1,038,750
Term	25 years	Net Cash Created (Post Securitization) ^{4,5}	\$38,750

¹Realized gains (premiums on loan sales) above 10% split 50/50 with SBA. This example assumes guaranteed balance is sold at a 14.0% premium. The additional 4.0% (14.0% - 10%) is split with SBA. NSBF nets 12.0%.

²Assumes 12.0% of the Guaranteed balance.

³Assumes 79.5% advance rate in securitization on unguaranteed balance.

⁴Assuming the loan is sold in a securitization in 12 months.

⁵Net cash created per \$1 million of loan originations.

SBA 7(a) Loan Sale Transaction

Direct Revenue / Expense of an SBA 7(a) Loan Sale Transaction – An Example

Key Variables in Loan Sale Transaction		Resulting Revenue (Expense)	
Loan Amount	\$1,000,000	Associated Premium ²	\$90,000
Guaranteed Balance (75%)	\$750,000	Servicing Asset ³	<u>\$17,100</u>
Unguaranteed Balance (25%)	\$250,000	Total Realized Gain	\$107,100
Realized Gain (Premium) ¹	12.0%	Packaging Fee Income	\$2,500
Term	25 years	FV Non-Cash Adjustment on Uninsured Loan Participations ⁴	\$(6,250)
		Referral Fees Paid to Alliance Partners	<u>\$(7,500)</u>
		Total Direct Expenses	<u>\$(13,750)</u>
		Net Risk-Adjusted Profit Recognized ⁵	\$95,850

¹Realized gains (premiums on loan sales) above 10% split 50/50 with SBA. This example assumes guaranteed balance is sold at a 14.0% premium. The additional 4.0% (14.0% - 10%) is split with SBA. NSBF nets 12.0%.

²Assumes 12.0% of the Guaranteed balance.

³Fair value of servicing asset.

⁴Example assumes a 2.5% discount to reflect cumulative estimate of default frequency and severity among other assumptions.

⁵Net risk-adjusted profit recognized per \$1 million of loan originations.

Portfolio Company Review

- The Certified Development Company (“CDC”)/504 Loan Program is a long-term financing tool that provides growing businesses with fixed-rate financing to acquire assets such as land, buildings, and sizeable purchases of equipment
- SBA 504 Loans:
 - Cannot be used for working capital or purchasing inventory (allowed uses under the 7(a) program)
 - Loan-to-value (“LTV”) ratio for the borrower of 90%; borrowers contribute 10% equity
 - Give borrowers a fixed-rate alternative
- Portfolio company has a first lien on collateral with a 50% LTV
- U.S. Government has second lien on collateral subordinate to the portfolio Company’s lien
- Portfolio company intends to sell the senior loan participations at anticipated 3-5 point premiums

SBA 504 Loan Sales & Pipeline

- Sold \$5.7 million of SBA 504 first mortgage loans during the twelve months ended December 31, 2017, for an average premium of 3.8%
- As of December 31, 2017, there were \$93.6 million SBA 504 loans in the pipeline

SBA 504 Loan Pipeline		
	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Prequalified Loans	\$63,562,717	\$27,994,004
Loans In Underwriting	28,910,250	4,294,522
Approved Pending Closing	<u>1,082,000</u>	<u>2,900,000</u>
Total Loan Pipeline	<u>\$93,554,967</u>	<u>\$35,188,526</u>

SBA 504 Loan Closings

- NBC closed \$21.8 million in SBA 504 loans for the twelve months ended December 31, 2017
- NBC forecasts closing between \$75 million to \$100 million SBA 504 loans in 2018

Sample SBA 504 Loan Structure

An example of a typical SBA 504 loan structure is detailed below:

Real Estate Acquisition Loan				
	\$ Amount		\$ Amount	Percent of Total
Purchase Price	\$800,000	1st Mortgage Funded by NBC	\$500,000	50%
Renovations	150,000	Bridge Loan Originally Funded by NBC*	400,000	40%
Soft & Closing Costs	50,000	Borrower Equity Injection	100,000	10%
Total	\$1,000,000	Total	\$1,000,000	100%

- Up to 50% first mortgage
- Up to 40% second mortgage provided by CDC (\$250,000 to \$4.0 million)
- At least 10% equity contribution

*Taken out by CDC funded second mortgage of \$400,000 typically within 60-90 days of funding.

Loan Sale Transaction - SBA 504 Loan

Net Cash Created in SBA 504 Loan Sale Transaction – An Example

Key Variables in Loan Sale Transaction	
Total Projected Financing	\$2,769,300
Senior Loan Balance	\$1,538,500
Junior Bridge Loan Balance ⁽¹⁾	\$1,230,800
Premium	3.00%
Rate	Fixed
Term	10 Years

Net Cash Created Pretax	
Total Senior & Junior Debt	<u>\$2,769,300</u>
Funded Under Bank Facility	\$2,492,370
NBC Equity	\$276,930
Premium Earned	\$46,040
Interest Earned Before Sale ⁽²⁾	\$45,632
Origination Fees	\$27,693
Interest Expense	<u>(\$30,985)</u>
Total	<u>\$2,857,680</u>
Net Cash Created ⁽³⁾	<u>\$88,379</u>
Return on Investment (Gross Operating Profit/ Equity) ⁽⁴⁾	<u>31.91%</u>

- (1) Funded by NBC, to be taken out within 90 days by a junior lender through SBA guaranteed debentures.
- (2) Interest earned on Senior and Junior Bridge loans are outstanding prior to takeout from CDC and loan sale.
- (3) Net cash created equals the addition of Net Premium Earned, Net Interest Earned Before Sale, Origination Fees, less interest expense.
- (4) The first year return on investment is based on net cash created of \$88,379 divided by NBC equity of \$276,930. The holding period for the loan is assumed to be 3 months in this example, but the return is based on the full year.

- EPP includes Newtek Merchant Solutions and Premier Payments LLC (Newtek Payment Solutions)
- We have owned and operated Newtek Merchant Solutions for 10+ years
- Processed approximately \$6.1 billion in electronic payments volume in 2017

2018 Forecast

- 2018 Revenue: \$118.0 million
- 2018 Adjusted EBITDA*: \$14.0 million

Valuation & Financial Performance

- Payment processing businesses combined fair market value of \$103.0 million², net of debt as of 12/31/17, which equates to approximately 7.4x FY 2018 forecasted Adjusted EBITDA*

Publicly Traded Comparable Companies

Name (Symbol)	2017 Enterprise Value / 2018 Forecasted EBITDA ¹
▪ Worldpay Inc.. (WP)	20.1x
▪ Global Payments (GPN)	16.2x
▪ First Data Corporation (FDC)	10.1x

Note: See Form 10-Q, for the quarter ended September 30, 2017, for specific valuation methodologies for controlled portfolio companies. ¹Multiples calculated using Bloomberg as of February 28, 2018. ²Represents Newtek Merchant Solutions and Newtek Payment Solutions valued at \$80.0 million and \$23.0 million, respectively, at 12/31/17. *See page 34 for definition of Adjusted EBITDA.

EPP's Opportunities

- Additional alliance partners
- American Express[®] OptBlue[®]
- Tablet and mobile-based cloud computing
- Europay, MasterCard and Visa (“EMV”) compliance solutions
- Zero-cost payment processing
- Clients want:
 - Security
 - eCommerce backup
 - Robust reporting
 - Mobile applications
 - EMV compliance
 - One provider vs. multiple

Technology Portfolio Companies

- Newtek's technology portfolio companies include Newtek Technology Solutions ("NTS"), IPM and Sidco, LLC, d/b/a Cloud Nine Services ("C9")
- NTS, IPM and C9 combined fair market value of \$23.5 million, net of debt as of 12/31/2017
- NTS is a managed technology & cloud computing business, wholly owned and managed for 10+ years
- IPM provides professional technology solutions and consulting services
- C9 provides white-labeled professional services for the largest software companies in world

Investment Summary

- Newtek Business Services Corp. has a differentiated BDC model
- Newtek is an **internally managed BDC**; does not pay a 4% management fee to an external manager
- Portfolio companies are wholly owned, most for over 10 years
- Portfolio company dividends tend to be less sensitive to credit risk, interest rates and inflation, and could potentially benefit with such increases
- Forecast paying an annual cash dividend of \$1.70 per share in 2018
- Proven track record; Established in 1998; publically traded since September 2000
- Over 15-year lending history through multiple lending cycles; great depth and breadth of experience
- NSBF does not purchase repackaged loans; instead, originates on a true retail basis leading to strong credit quality and loan performance
- Small balance, industry and geographically diversified portfolio of 1,572 loans with an average loan size of approximately \$183K of the average unguaranteed retained loan balance
- Floating rate notes without a cap, tied to Prime and with a quarterly rate adjust
- Management's interests aligned with shareholders; management and Board combined, own approximately 6.2% of outstanding shares as of December 31, 2017
- **No** derivative securities in BDC; **No** SBIC leverage; **Do not** invest in CDOs or loans with equity kickers, **No** 2nd lien or mezzanine financing as a business line
- **No** direct lending exposure to oil and gas industry

Financial Review

Jennifer C. Eddelson, Chief Accounting Officer

Consolidated Statements of Operations

Newtek Business Services Corp. and Subsidiaries

(in thousands except per share data amounts)

	Three Months Ended December 31,		Twelve Months Ended December	
	2017	2016	2017	2016
Investment income:				
From non-affiliate investments:				
Interest income	\$ 4,785	\$ 3,754	\$ 18,018	\$ 11,158
Servicing income	2,043	1,579	7,206	6,160
Other income	970	801	3,236	2,714
Total investment income from non-affiliate investments	7,798	6,134	28,460	20,032
From controlled investments:				
Interest income	197	109	653	360
Dividend income	2,421	2,854	9,747	10,573
Other income	—	—	54	—
Total investment income from controlled investments	2,618	2,963	10,454	10,933
Total investment income	10,416	9,097	38,914	30,965
Expenses:				
Salaries and benefits	4,885	4,596	19,292	15,234
Interest	3,264	2,636	11,397	8,440
Depreciation and amortization	110	87	402	296
Professional fees	955	755	3,009	3,274
Origination and servicing	1,785	1,856	5,871	6,046
Change in fair value in contingent consideration liabilities	293	—	(455)	—
Other general and administrative costs	2,039	841	7,279	6,935
Total expenses	13,331	10,771	46,795	40,225
Net investment loss	(2,915)	(1,674)	(7,881)	(9,260)
Net realized and unrealized gains (losses):				
Net realized gain on non-affiliate investments	12,080	8,976	39,617	31,512
Net realized (loss) gain on controlled investments	(200)	108	(200)	108
Net unrealized appreciation on SBA guaranteed non-affiliate investments	197	345	1,398	1,035
Net unrealized (depreciation) appreciation on SBA unguaranteed non-affiliate investments	(1,580)	(851)	(1,342)	18
Net unrealized appreciation on controlled investments	15,200	975	12,957	11,337
Change in deferred taxes	(2,924)	(659)	(2,179)	(5,128)
Net unrealized depreciation on non-control/non-affiliate investments	—	—	—	(43)
Net unrealized depreciation on servicing assets	(1,793)	(928)	(3,394)	(2,269)
Net unrealized depreciation on credits in lieu of cash and notes payable in credits in lieu of cash	—	(3)	—	(5)
Net realized and unrealized gains	20,980	7,963	46,857	36,565
Net increase in net assets resulting from operations	\$ 18,065	\$ 6,289	\$ 38,976	\$ 27,305
Net increase in net assets resulting from operations per share	\$ 1.00	\$ 0.43	\$ 2.25	\$ 1.88
Net investment loss per share	\$ (0.16)	\$ (0.11)	\$ (0.45)	\$ (0.64)
Weighted average shares outstanding	18,072	14,617	17,327	14,541

Non-GAAP Financial Measures

Newtek Business Services Corp. and Subsidiaries

In evaluating its business, Newtek considers and uses Adjusted Net Investment Income (“ANII”) as a measure of its operating performance. ANII includes short-term capital gains from the sale of the guaranteed portions of SBA 7(a) loans, and beginning in 2016, capital gain distributions from controlled portfolio companies, which are reoccurring events. The Company defines ANII as Net investment income (loss) plus Net realized gains (losses) recognized from the sale of guaranteed portions of SBA 7(a) loan investments, plus or minus Loss on lease adjustment, plus the net realized gains on controlled investments (beginning in 2016 as it is anticipated this will be reoccurring income), plus or minus the change in fair value of contingent consideration liabilities, plus stock-based compensation expense (added back in third quarter of 2016 only and is not included prospectively as it is anticipated to be a reoccurring expense).

The term Adjusted Net Investment Income is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Adjusted net investment income has limitations as an analytical tool and, when assessing the Company’s operating performance, investors should not consider ANII in isolation, or as a substitute for net investment income (loss), or other consolidated income statement data prepared in accordance with U.S. GAAP. Among other things, Adjusted net investment income does not reflect the Company’s actual cash expenditures. Other companies may calculate similar measures differently than Newtek, limiting their usefulness as comparative tools. The Company compensates for these limitations by relying primarily on its GAAP results supplemented by ANII.

Newtek Business Services Corp. and Subsidiaries Adjusted Net Investment Income For the Three Months Ended December 31, 2017 and 2016

(in thousands, except per share amounts)

	Three months ended December 31,		Three months ended December 31,	
	2017	Per share	2016	Per share
Net investment loss	\$ (2,915)	\$ (0.16)	\$ (1,674)	\$ (0.11)
Net realized gain on non-affiliate debt investments	12,080	0.67	8,976	0.61
Net realized (loss) gain on controlled investments	(200)	(0.01)	108	0.01
Loss on lease	(77)	(0.00)	(731)	(0.05)
Change in fair value of contingent consideration liabilities	293	0.02	-	-
Adjusted Net investment income	<u>\$ 9,181</u>	<u>\$ 0.51</u>	<u>\$ 6,679</u>	<u>\$ 0.46</u>

Note: Per share amounts may not foot due to rounding

Newtek Business Services Corp. and Subsidiaries Adjusted Net Investment Income For the Year Ended December 31, 2017 and 2016

(in thousands, except per share amounts)

	<u>Year ended December 31,</u>		<u>Year ended December 31,</u>	
	<u>2017</u>	<u>Per share</u>	<u>2016</u>	<u>Per share</u>
Net investment loss	\$ (7,881)	\$ (0.45)	\$ (9,260)	\$ (0.64)
Net realized gain on non-affiliate debt investments	39,617	2.29	31,512	2.17
Net realized (loss) gain on controlled investments	(200)	(0.01)	108	0.01
Loss on lease	(326)	(0.02)	604	0.04
Stock-based compensation	-	-	226	0.02
Change in fair value of contingent consideration liabilities	(455)	(0.03)	-	-
Adjusted Net investment income	<u>\$ 30,755</u>	<u>\$ 1.77</u>	<u>\$ 23,190</u>	<u>\$ 1.60</u>

Note: Per share amounts may not foot due to rounding

Non-GAAP Financial Measures

Newtek's Controlled Portfolio Company Investments

The Company's controlled portfolio company investments define Adjusted EBITDA as earnings before net interest expense, taxes, depreciation and amortization, impairment and managerial assistance fees. Adjusted EBITDA is used as a supplemental measure to review and assess the operating performance of the controlled portfolio companies. The Company's controlled portfolio companies also present Adjusted EBITDA because the Company believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance.

The term Adjusted EBITDA is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Adjusted EBITDA has limitations as an analytical tool and, when assessing the portfolio company's operating performance, investors should not consider Adjusted EBITDA in isolation, or as a substitute for net income, or other income statement data prepared in accordance with U.S. GAAP. Among other things, Adjusted EBITDA does not reflect the controlled portfolio companies' actual cash expenditures. Other companies may calculate similar measures differently than the controlled portfolio company, limiting their usefulness as comparative tools. The Company compensates for these limitations by relying primarily on its GAAP results supplemented by Adjusted EBITDA.

2018 Projected Adjusted EBITDA Reconciliation – Electronic Payment Processing (Newtek Merchant Solutions and Premier Payments LLC combined)

	Year Ended	
<i>(in millions)</i>	December 31, 2018	
Pretax income	\$	10.5
Interest expense, net		1.4
Depreciation and amortization		1.5
Managerial assistance fees		0.6
Adjusted EBITDA	\$	14.0