

NewStar Financial, Inc.  
Form 10-Q  
May 07, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-33211

---

NewStar Financial, Inc.  
(Exact name of registrant as specified in its charter)

---

Delaware (State or other jurisdiction of incorporation or organization)	54-2157878 (I.R.S. Employer Identification No.)
---	---

500 Boylston Street, Suite 1250, Boston, MA (Address of principal executive offices)	02116 (Zip Code)
--	---------------------

(617) 848-2500  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

---

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Edgar Filing: NewStar Financial, Inc. - Form 10-Q

As of May 4, 2015, 45,948,447 shares of common stock, par value of \$0.01 per share, were outstanding.

---



Table of Contents

Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q of NewStar Financial, Inc., contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These are statements that relate to future periods and include statements about:

- our anticipated financial condition, including estimated loan losses;
- our expected results of operation;
- the anticipated timing of the closings of the investment by the Franklin Square Funds;
- our growth and market opportunities;
- trends and conditions in the financial markets in which we operate;
- our future funding needs and sources and availability of funding;
- our involvement in capital-raising transactions;
- our ability to meet draw requests under commitments to borrowers under certain conditions;
- our competitors;
- our provision for credit losses;
- our future development of our products and markets;
  - our ability to compete;
  - and
- our stock price.

Generally, the words “anticipates,” “believes,” “expects,” “intends,” “estimates,” “projects,” “plans” and similar expressions identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance, achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, among others:

- acceleration of deterioration in credit quality that could result in levels of delinquent or non-accrual loans that would force us to realize credit losses exceeding our allowance for credit losses and deplete our cash position;
- risks and uncertainties relating to the financial markets generally, including disruptions in the global financial markets;
- the market price of our common stock prevailing from time to time;
- our ability to obtain external financing;
- the regulation of the commercial lending industry by federal, state and local governments;
- risks and uncertainties relating to our limited operating history;
- our ability to minimize losses, achieve profitability, and realize our deferred tax asset; and
  - the competitive nature of the commercial lending industry and our ability to effectively compete.

For a further description of these and other risks and uncertainties, we encourage you to carefully read section Item 1A. “Risk Factors” of our Annual Report on Form 10-K as amended for the year ended December 31, 2014. The forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this report. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

NEWSTAR FINANCIAL, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 Unaudited

	March 31, 2015	December 31, 2014
	(\$ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	\$28,666	\$33,033
Restricted cash	214,853	95,411
Cash collateral on deposit with custodian	49,082	38,975
Investments in debt securities, available-for-sale	79,891	46,881
Loans held-for-sale, net	149,609	200,569
Loans and leases, net	2,496,564	2,305,896
Deferred financing costs, net	29,397	26,514
Interest receivable	8,394	7,477
Property and equipment, net	613	660
Deferred income taxes, net	30,376	28,078
Income tax receivable	103	3,388
Other assets	32,712	24,127
Total assets	\$3,120,260	\$2,811,009
Liabilities:		
Credit facilities	\$369,894	\$487,768
Term debt securitizations	1,572,484	1,193,187
Repurchase agreements	79,760	57,227
Corporate debt	238,300	238,500
Subordinated notes	136,578	156,831
Accrued interest payable	10,656	6,576
Other liabilities	56,300	29,923
Total liabilities	2,463,972	2,170,012
Stockholders' equity:		
Preferred stock, par value \$0.01 per share (5,000,000 shares authorized; no shares outstanding)	—	—
Common stock, par value \$0.01 per share:		
Shares authorized: 145,000,000 in 2015 and 2014;		
Shares outstanding 46,031,393 in 2015 and 46,620,474 in 2014	460	466
Additional paid-in capital	742,699	718,825
Retained earnings	17,002	14,463
Common stock held in treasury, at cost \$0.01 par value; 8,699,103 in 2015 and 7,581,646 in 2014	(103,924	) (92,724
Accumulated other comprehensive income (loss), net	51	(33
Total stockholders' equity	656,288	640,997
Total liabilities and stockholders' equity	3,120,260	2,811,009

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents

NEWSTAR FINANCIAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 Unaudited

	Three Months Ended March 31,		
	2015	2014	
	(\$ in thousands, except per share amounts)		
Net interest income:			
Interest income	\$39,749	\$33,127	
Interest expense	22,334	12,501	
Net interest income	17,415	20,626	
Provision for credit losses	6,978	5,807	
Net interest income after provision for credit losses	10,437	14,819	
Non-interest income:			
Fee income	1,158	770	
Asset management income	920	25	
Loss on derivatives	(9	) (4	)
Loss on sale of loans, net	(15	) (166	)
Other income	2,072	6,093	
Total non-interest income	4,126	6,718	
Operating expenses:			
Compensation and benefits	6,733	7,759	
General and administrative expenses	3,499	4,369	
Total operating expenses	10,232	12,128	
Operating income before income taxes	4,331	9,409	
Results of Consolidated Variable Interest Entity:			
Interest income	—	2,653	
Interest expense – credit facilities	—	878	
Interest expense – Fund membership interest	—	595	
Other income	—	8	
Operating expenses	—	60	
Net results from Consolidated Variable Interest Entity	—	1,128	
Income before income taxes	4,331	10,537	
Income tax expense	1,792	4,334	
Net income	\$2,539	\$6,203	
Basic income per share	\$0.05	\$0.13	
Diluted income per share	0.05	0.12	

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NEWSTAR FINANCIAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 Unaudited

	Three Months Ended	
	March 31,	
	2015	2014
	(\$ in thousands, except per share amounts)	
Net income	\$2,539	\$6,203
Other comprehensive income, net of tax:		
Net unrealized securities gains, net of tax expense of \$76 and \$118, respectively	109	172
Net unrealized derivative losses, net of tax benefit of \$22 and \$1, respectively	(25	) (3
Other comprehensive income	84	169
Comprehensive income	\$2,623	\$6,372

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents

NEWSTAR FINANCIAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 Unaudited

NewStar Financial, Inc. Stockholders' Equity  
 For the Three Months Ended March 31, 2015

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), net	Common Stockholders' Equity
	(\$ in thousands)					
Balance at January 1, 2015	\$466	\$718,825	\$14,463	\$(92,724 )	\$(33 )	\$640,997
Net income	—	—	2,539	—	—	2,539
Other comprehensive income	—	—	—	—	84	84
Issuance of restricted stock	4	(4 )	—	—	—	—
Net shares reacquired from employee transactions	—	—	—	(140 )	—	(140 )
Tax benefit from vesting of stock awards	—	(109 )	—	—	—	(109 )
Repurchase of common stock	(11 )	11	—	(11,060 )	—	(11,060 )
Issuance of warrants	—	21,766	—	—	—	21,766
Exercise of common stock options	1	1,403	—	—	—	1,404
Tax benefit from exercise of common stock awards	—	77	—	—	—	77
Amortization of restricted common stock awards	—	730	—	—	—	730
Balance at March 31, 2015	\$460	\$742,699	\$17,002	\$(103,924 )	\$51	\$656,288

NewStar Financial, Inc. Stockholders' Equity  
 For the Three Months Ended March 31, 2014

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, net	Retained Earnings of Consolidated VIE	Common Stockholders' Equity
	(\$ in thousands)						
Balance at January 1, 2014	487	655,143	2,624	\$(43,271 )	\$ 569	\$ 658	\$616,210
Net income	—	—	5,539	—	—	664	6,203
Other comprehensive income	—	—	—	—	169	—	169
Issuance of restricted stock	1	(1 )	—	—	—	—	—
Net shares reacquired from employee transactions	—	—	—	(385 )	—	—	(385 )
Tax benefit from vesting of restricted common stock awards	—	143	—	—	—	—	143
Exercise of common stock options	1	465	—	—	—	—	466
	—	664	—	—	—	—	664

Amortization of restricted  
common stock awards

Balance at March 31, 2014	489	656,414	8,163	\$(43,656)	\$ 738	\$ 1,909	\$624,057
---------------------------	-----	---------	-------	------------	--------	----------	-----------

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NEWSTAR FINANCIAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Unaudited

	Three Months Ended March 31,	
	2015	2014
	(\$ in thousands)	
Cash flows from operating activities:		
Net income	\$2,539	\$6,203
Adjustments to reconcile net income to net cash used for operations:		
Provision for credit losses	6,978	5,807
Depreciation and amortization and accretion	(1,655)	(3,488)
Amortization of debt issuance costs	3,455	1,464
Equity compensation expense	730	664
Loss on sale of loans	15	166
Unrealized gain on total return swap	(1,203)	—
Gain on sale of equipment	(137)	—
Loss from equity method investments	—	1,553
Net change in deferred income taxes	(2,241)	2,154
Loans held-for-sale originated	(68,511)	(35,214)
Proceeds from sale of loans held-for-sale	119,456	20,000
Net change in interest receivable	(917)	335
Net change in other assets	(4,385)	(16,641)
Net change in accrued interest payable	4,080	(2,058)
Net change in accounts payable and other liabilities	26,230	515
Consolidated Variable Interest Entity:		
Amortization of debt issuance costs	—	59
Depreciation and amortization and accretion	—	(165)
Net change in interest receivable	—	286
Net change in other assets	—	138
Net change in accrued interest payable	—	591
Net cash provided by (used in) operating activities	84,434	(17,631)
Cash flows from investing activities:		
Net change in restricted cash	(119,442)	64,349
Net change in loans	(195,818)	12,364
Purchase of debt securities, available-for-sale	(32,714)	—
Proceeds from sale of other real estate owned	185	—
Acquisition of property and equipment	(7)	(2)
Consolidated Variable Interest Entity:		
Net change in loans	—	7,439
Net change in restricted cash	—	(3,773)
VIE cash dividends	—	(671)
Net cash provided by (used in) investing activities	(347,796)	79,706
Cash flows from financing activities:		
Proceeds from exercise of stock options, net	1,403	465
Tax benefit from exercise of stock options	77	—
Tax benefit from vesting of stock awards	(109)	143
Borrowings on credit facilities	488,016	253,561
Repayment of borrowings on credit facilities	(605,890)	(285,211)
Issuance of term debt	410,250	—

Edgar Filing: NewStar Financial, Inc. - Form 10-Q

Borrowings on term debt	16,000	55,900	
Repayment of borrowings on term debt	(46,953	) (89,961	)
Borrowings on repurchase agreements	27,158	—	
Repayment of borrowings on repurchase agreements	(4,625	) (10,215	)
Repayment of corporate debt	(200	)	
Payment of cash collateral	(10,107	) —	
Payment of deferred financing costs	(4,825	) (210	)
Purchase of treasury stock	(11,200	) (385	)

The accompanying notes are an integral part of these condensed consolidated financial statements.

7

---

Table of Contents

NEWSTAR FINANCIAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued  
 Unaudited

	Three Months Ended March 31,	
	2015	2014
	(\$ in thousands)	
Consolidated Variable Interest Entity:		
Borrowings on credit facilities	—	—
Repayment of borrowings on credit facilities	—	(5,500 )
Borrowings on subordinated debt	—	—
Repayment of borrowings on subordinated debt	—	—
Payment of deferred financing costs	—	—
Net cash provided by (used in) financing activities	258,995	(81,413 )
Net increase in cash during the period	(4,367 )	(19,338 )
Cash and cash equivalents at beginning of period	33,033	43,401
Cash and cash equivalents at end of period	\$28,666	\$24,063
Supplemental cash flows information:		
Interest paid	\$18,254	\$14,560
Interest paid by VIE	—	1,460
VIE cash distribution	—	671
Taxes paid	891	246
Increase in fair value of investments in debt securities, available for sale	185	290

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NEWSTAR FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Organization

NewStar Financial, Inc. is an internally-managed, commercial finance company with specialized lending platforms focused on meeting the complex financing needs of companies and private investors in the middle market. The Company is also a registered investment adviser and provides asset management services to institutional investors through a series of managed credit funds that co-invest in certain types of loans originated by the Company. Through its specialized lending platforms, the Company provides a range of senior secured debt financing options to mid-sized companies to fund working capital, growth strategies, acquisitions and recapitalizations, as well as, purchases of equipment and other capital assets.

These lending activities require specialized skills and transaction experience, as well as a significant investment in personnel and operating infrastructure. To meet these demands, our loans and leases are originated directly by teams of credit-trained bankers and experienced marketing officers organized around key industry and market segments. These teams represent specialized lending groups that are supported by centralized credit management and operating platforms. This structure enables us to leverage common standards, systems, and industry and professional expertise across multiple businesses.

The Company targets its marketing and origination efforts at private equity firms, mid-sized companies, corporate executives, banks, real estate investors and a variety of other referral sources and financial intermediaries to develop new customer relationships and source lending opportunities. The Company's origination network is national in scope and it targets companies with business operations across a broad range of industry sectors. The Company employs highly experienced bankers, marketing officers and credit professionals to identify and structure new lending opportunities and manage customer relationships. The Company believes that the quality of its professionals, the breadth of their relationships and referral networks, and their ability to develop creative solutions for customers position it to be a valued partner and preferred lender for mid-sized companies and private equity funds with middle market investment strategies.

The Company's emphasis on direct origination is an important aspect of its marketing and credit strategy. The Company's national network is designed around specialized origination channels intended to generate a large set of potential lending opportunities. That allows the Company to be highly selective in its credit process and to allocate capital to market segments that we believe represent the most attractive opportunities. The Company's direct origination network also generates proprietary lending opportunities with yield characteristics that we believe would not otherwise be available through intermediaries. In addition, direct origination provides the Company with direct access to management teams and enhances its ability to conduct detailed due diligence and credit analysis of prospective borrowers. It also allows the Company to negotiate transaction terms directly with borrowers and, as a result, advise its customers on financial strategies and capital structures, which it believes benefits its credit performance.

The Company typically provides financing commitments to companies in amounts that range in size from \$10 million to \$50 million. The size of financing commitments depends on various factors, including the type of loan, the credit characteristics of the borrower, the economic characteristics of the loan, and the Company's role in the transaction. The Company also selectively arranges larger transactions that it may retain on its balance sheet or syndicate to other lenders, which may include funds that it manages for third party institutional investors. By syndicating loans to other lenders and the Company's managed funds, it is able to provide larger financing commitments to its customers and generate fee income, while limiting our risk exposure to single borrowers. From time to time, however, the Company's balance sheet exposure to a single borrower may exceed \$30 million.

NewStar offers a set of credit products and services that have many common attributes, but which are highly specialized by lending group and market segment. Although both the Leveraged Finance and Business Credit lending groups structure loans as revolving credit facilities and term loans, the style of lending and approach to credit management is highly specialized. The Equipment Finance group broadens the Company's product offering to include a range of lease financing options. The operational intensity of each product also varies by lending group.

Although, the Company operates as a single segment, it derives revenues from its asset management activities and four specialized lending groups that target market segments in which it believes that it has competitive advantages: Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, which are primarily used to finance acquisitions of mid-sized companies with annual cash flow (EBITDA) typically between \$10 million and \$50 million by private equity investment funds managed by established professional alternative asset managers;

- Business Credit, provides senior, secured asset-based loans primarily to fund working capital needs of mid-sized companies with sales typically totaling between \$25 million and \$500 million;

Table of Contents

• Real Estate, provides first mortgage debt primarily to finance acquisitions of commercial real estate properties typically valued between \$10 million and \$50 million by professional commercial real estate investors;

• Equipment Finance, provides leases, loans and lease lines to finance equipment purchases and other capital expenditures typically for companies with annual sales of at least \$25 million; and

• Asset Management, provides opportunities for qualified institutions to invest in credit funds managed by the Company with strategies to co-invest in loans originated by its Leveraged Finance lending group.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries (collectively, “NewStar”) and have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). All significant intercompany transactions have been eliminated in consolidation. These interim condensed financial statements include adjustments of a normal and recurring nature considered necessary by management to fairly present NewStar’s financial position, results of operations and cash flows. These interim condensed financial statements may not be indicative of financial results for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The estimates most susceptible to change in the near-term are the Company’s estimates of its (i) allowance for credit losses, (ii) recorded amounts of deferred income taxes, (iii) fair value measurements used to record fair value adjustments to certain financial instruments, (iv) valuation of investments and (v) determination of other than temporary impairments and temporary impairments. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the Company’s Annual Report on Form 10-K, as amended for the year ended December 31, 2014.

Consolidation

On June 26, 2014, the NewStar Arlington Senior Loan Program LLC (the “Arlington Program”) completed a \$409.4 million term debt securitization comprised of all of the loans of NewStar Arlington Fund LLC (“Arlington Fund”) as well as a portion of the Company’s loans classified as held-for-sale. A portion of the proceeds from this term debt securitization were used to repay all advances under the Class A Notes and the Class B Notes. Following repayment, the Class A Notes and the Class B Notes were redeemed. The Company’s membership interests in Arlington Fund were also redeemed and new membership interests in the Arlington Program were issued to its equity investors. The Company acts as collateral manager for the Arlington Program. As a result of the repayment of the Company’s advances as the Class B lender under the warehouse facility and the redemption of its membership interests in the Arlington Fund, the Company has no ownership or financial interests in the Arlington Fund or its successors except to the extent that it receives management fees as collateral manager of the Arlington Program. Additionally, the Arlington Program employs an independent investment professional who is responsible for investment decision making on behalf of the program. As a result, the Company deconsolidated the Arlington Fund from its statement of financial position beginning on June 26, 2014. The Company is not the primary beneficiary of the Arlington Program and will not consolidate the Arlington Program’s operating results or statements of financial position as of that date.

Recently Issued Accounting Standards

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. ASU 2015-03 is effective for the interim or annual period beginning after December 15, 2015. Adoption of ASU 2015-3 will not have an impact on the Company's results of operations but will reduce its total assets and liabilities by an equal amount within its statement of financial position.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 changes the way reporting entities evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (“VIE”), and (c) variable interests in a VIE held by related parties of a reporting entities require the reporting entity to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The new consolidation guidance is



effective for annual and interim periods in fiscal years beginning after December 15, 2015. At the effective date, all previous consolidation analyses that the guidance affects must be reconsidered. This includes the consolidation analyses for all VIEs and for all limited partnerships and similar entities that previously were consolidated by the general partner even though the entities were not VIEs. Early adoption is permitted, including early adoption in an interim period. If a reporting entity chooses to early adopt in an interim period,

Table of Contents

adjustments resulting from the revised consolidation analyses must be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact that the adoption of ASU 2015-02 will have on results from operations or financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a framework that replaces existing revenue recognition guidance. ASU 2014-09 is effective for annual periods and interim periods within that reporting period beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact that the adoption of ASU 2015-02 will have on results from operations or financial position.

### Note 3. Loans Held-for-Sale, Loans, Leases and Allowance for Credit Losses

Although the Company operates as a single segment, and derives revenues from its asset management activities and four specialized lending groups that target market segments in which it believes it has competitive advantages: Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, which are primarily used to finance acquisitions of mid-sized companies by private equity investment funds managed by established professional alternative asset managers;

• Business Credit, provides senior, secured asset-based loans primarily to fund working capital needs of mid-sized companies;

• Real Estate, provides first mortgage debt primarily to finance acquisitions of commercial real estate properties;

• Equipment Finance, provides leases, loans and lease lines to finance equipment purchases and other capital expenditures; and

• Asset Management, provides opportunities for qualified institutions to invest in credit funds managed by the Company with strategies to co-invest in loans originated by its Leveraged Finance lending group.

The Company's loan portfolio consists primarily of loans to small and medium-sized, privately-owned companies, most of which do not publicly report their financial condition. Compared to larger, publicly traded firms, loans to these types of companies may carry higher inherent risk. The companies that the Company lends to generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks.

Loans classified as held-for-sale may consist of loans originated by the Company and intended to be sold or syndicated to third parties (including credit funds managed by the Company) or impaired loans for which a sale of the loan is expected as a result of a workout strategy. At March 31, 2015 loans held-for-sale consisted of \$151.0 million of leveraged finance loans.

These loans are carried at the lower of aggregate cost, net of any deferred origination costs or fees, or market value. As of March 31, 2015 and December 31, 2014, loans held-for-sale consisted of the following:

	March 31, 2015	December 31, 2014
	(\$ in thousands)	
Leveraged Finance	\$150,987	\$202,369
Gross loans held-for-sale	150,987	202,369
Deferred loan fees, net	(1,378	) (1,800
Total loans held-for-sale, net	\$149,609	\$200,569

At March 31, 2015, loans held-for-sale include loans with an aggregate outstanding balance of \$142.9 million that were intended to be sold to credit funds managed by the Company. As of May 4, 2015, the Company had sold \$20.7 million of the loans intended to be sold to credit funds managed by the Company. The Company sold loans with an aggregate outstanding balance of \$4.0 million for an aggregate loss of \$0.01 million to entities other than credit funds during the three months ended March 31, 2015. The Company sold loans with an outstanding balance of \$4.8 million for a loss of \$0.2 million to entities other than credit funds during the three months ended March 31, 2014.

As of March 31, 2015, and December 31, 2014, loans and leases consisted of the following:



Table of Contents

	March 31, 2015	December 31, 2014
	(\$ in thousands)	
Leveraged Finance	\$2,084,005	\$1,881,277
Business Credit	264,910	286,918
Real Estate	109,622	105,394
Equipment Finance	113,665	96,666
Gross loans and leases	2,572,202	2,370,255
Deferred loan fees, net	(25,702	) (21,376
Allowance for loan and lease losses	(49,936	) (42,983
Total loans and leases, net	\$2,496,564	\$2,305,896

The Company provides commercial loans, commercial real estate loans, and leases to customers throughout the United States. The Company's borrowers may be susceptible to economic slowdowns or recessions and, as a result, may have a lower capacity to make scheduled payments of interest or principal on their borrowings during these periods. Adverse economic conditions also may decrease the estimated value of the collateral, particularly real estate, securing some of the Company's loans. Although the Company has a diversified loan and lease portfolio, certain events may occur, including, but not limited to, adverse economic conditions and adverse events affecting specific clients, industries or markets, that could adversely affect the ability of borrowers to make timely scheduled principal and interest payments on their loans and leases.

The Company internally risk rates loans based on individual credit criteria on at least a quarterly basis. Borrowers provide the Company with financial information on either a quarterly or monthly basis. Loan ratings as well as identification of impaired loans are dynamically updated to reflect changes in borrower condition or profile. A loan is considered to be impaired when it is probable that the Company will be unable to collect all amounts due to it according to the contractual terms of the loan agreement. Impaired loans include all non-accrual loans, loans with partial charge-offs and loans which are troubled debt restructurings ("TDR").

The Company utilizes a number of analytical tools for the purpose of estimating probability of default and loss given default for its four specialized lending groups. The quantitative models employed by the Company in its Leveraged Finance and Equipment Finance businesses utilize Moody's KMV RiskCalc credit risk model in combination with a proprietary qualitative model, which generates a rating that maps to a probability of default estimate. Real Estate utilizes a proprietary model that has been developed to capture risk characteristics unique to the lending activities in that line of business. The model produces an obligor risk rating which corresponds to a probability of default and also produces a loss given default. In each case, the probability of default and the loss given default are used to calculate an expected loss for those lending groups. Due to the nature of its borrowers and the structure of its loans, Business Credit utilizes a proprietary model that produces a rating that corresponds to an expected loss, without calculating a probability of default and loss given default. For variable interest entities for which the Company is providing transitional capital, a qualitative analysis is used to determine expected loss. In each case, the expected loss is the primary component in a formulaic calculation of general reserves attributable to a given loan.

Loans and leases which are rated at or better than a specified threshold are typically classified as "Pass", and loans and leases rated worse than that threshold are typically classified as "Criticized", a characterization that may apply to impaired loans, including TDR. As of March 31, 2015, \$146.5 million of the Company's loans were classified as "Criticized", including \$121.5 million of the Company's impaired loans, and \$2.4 billion were classified as "Pass". As of December 31, 2014, \$133.2 million of the Company's loans were classified as "Criticized", including \$121.8 million of the Company's impaired loans, and \$2.2 billion were classified as "Pass".

When the Company rates a loan above a certain risk rating threshold and the loan is deemed to be impaired, the Company will establish a specific allowance, if appropriate, and the loan will be analyzed and may be placed on non-accrual. If the asset deteriorates further, the specific allowance may increase, and ultimately may result in a loss and charge-off.

A TDR that performs in accordance with the terms of the restructuring may improve its risk profile over time. While the concessions in terms of pricing or amortization may not have been reversed and further amended to "market" levels,

the financial condition of the Borrower may improve over time to the point where the rating improves from the “Criticized” classification that was appropriate immediately prior to, or at, restructuring.

As of March 31, 2015, the Company had impaired loans with an aggregate outstanding balance of \$215.7 million. Impaired loans with an aggregate outstanding balance of \$174.3 million have been restructured and classified as TDR. As of March 31, 2015, the aggregate carrying value of equity investments in certain of the Company’s borrowers in connection with troubled debt restructurings totaled \$12.0 million. Impaired loans with an aggregate outstanding balance of \$100.3 million were also on non-accrual status. For impaired loans on non-accrual status, the Company’s policy is to reverse the accrued interest previously recognized as interest income subsequent to the last cash receipt in the current year. The recognition of interest income on the loan only resumes when factors indicating doubtful collection no longer exist and the non-accrual loan has been

Table of Contents

brought current. During the three months ended March 31, 2015, the Company recovered \$0.1 million and did not charge off any outstanding non-accrual loans. During the three months ended March 31, 2015, the Company placed loans with an aggregate outstanding balance of \$14.8 million on non-accrual status. During the three months ended March 31, 2015, the Company recorded \$3.0 million of net specific provisions for impaired loans. At March 31, 2015, the Company had a \$23.7 million specific allowance for impaired loans with an aggregate outstanding balance of \$129.2 million. At March 31, 2015, additional funding commitments for impaired loans totaled \$11.1 million. The Company's obligation to fulfill the additional funding commitments on impaired loans is generally contingent on the borrower's compliance with the terms of the credit agreement and the borrowing base availability for asset-based loans, or if the borrower is not in compliance additional funding commitments may be made at the Company's discretion. As of March 31, 2015, \$43.2 million of loans on non-accrual status were greater than 60 days past due and classified as delinquent by the Company. Included in the \$23.7 million specific allowance for impaired loans was \$9.3 million related to delinquent loans.

As of December 31, 2014, the Company had impaired loans with an aggregate outstanding balance of \$217.2 million. Impaired loans with an aggregate outstanding balance of \$175.6 million have been restructured and classified as TDR. As of December 31, 2014, the aggregate carrying value of equity investments in certain of the Company's borrowers in connection with troubled debt restructurings totaled \$16.4 million. Impaired loans with an aggregate outstanding balance of \$87.8 million were also on non-accrual status. During 2014, the Company charged off \$18.8 million of outstanding non-accrual loans. During 2014, the Company placed loans with an aggregate outstanding balance of \$43.5 million on non-accrual status and returned loans with an aggregate outstanding balance of \$1.9 million to performing status. During 2014, the Company recorded \$22.2 million of net specific provisions for impaired loans. At December 31, 2014, the Company had a \$20.7 million specific allowance for impaired loans with an aggregate outstanding balance of \$103.2 million. At December 31, 2014, additional funding commitments for impaired loans totaled \$10.9 million. As of December 31, 2014, \$43.6 million of loans on non-accrual status were greater than 60 days past due and classified as delinquent by the Company. Included in the \$20.7 million specific allowance for impaired loans was \$8.7 million related to delinquent loans.

During 2012, as part of the resolution of two impaired commercial real estate loans, the Company took control of the underlying commercial real estate properties. The Company recorded a partial charge-off of \$2.7 million and classified the commercial real estate properties as other real estate owned. During 2014, the Company sold one of the commercial real estate properties for \$9.5 million resulting in a gain on sale of \$0.01 million. The remaining commercial real estate property had a carrying value of \$3.0 million as of March 31, 2015.

A summary of impaired loans is as follows:

	Investment	Investment, Net of Unamortized Discount/Premium	Unpaid Principal
	(\$ in thousands)		
March 31, 2015			
Leveraged Finance	\$ 164,547	\$ 159,626	\$ 186,005
Business Credit	—	—	—
Real Estate	51,173	51,136	54,526
Equipment Finance	—	—	—
Total	\$ 215,720	\$ 210,762	\$ 240,531
December 31, 2014			
Leveraged Finance	\$ 164,886	\$ 160,223	\$ 186,002
Business Credit	—	—	366
Real Estate	52,309	52,230	55,661
Equipment Finance	—	—	—
Total	\$ 217,195	\$ 212,453	\$ 242,029



Table of Contents

	Recorded Investment with a Related Allowance for Credit Losses (\$ in thousands)	Recorded Investment, net, with a Related Allowance for Credit Losses	Recorded Investment without a Related Allowance for Credit Losses	Recorded Investment, net, without a Related Allowance for Credit Losses
March 31, 2015				
Leveraged Finance	\$ 101,503	96,620	\$ 63,044	63,006
Business Credit	—	—	—	—
Real Estate	27,661	27,659	23,512	23,477
Equipment Finance	—	—	—	—
Total	\$ 129,164	\$ 124,279	\$ 86,556	\$ 86,483
December 31, 2014				
Leveraged Finance	\$ 103,159	98,528	\$ 61,727	61,695
Business Credit	—	—	—	—
Real Estate	—	—	52,309	52,230
Equipment Finance	—	—	—	—
Total	\$ 103,159	\$ 98,528	\$ 114,036	\$ 113,925

During the three months ended March 31, 2015, the Company recorded recoveries of \$0.1 million, and during the three months ended March 31, 2014, the Company recorded net partial charge-offs of \$8.1 million. During the three months ended March 31, 2015, the Company did not record any charge-offs and during the three months ended March 31, 2014, the Company did not record any recoveries of previously charged off loans. The Company's general policy is to record a specific allowance for an impaired loan to cover the identified impairment of that loan. Any potential charge-off of such loan would typically occur in a subsequent period. The Company may record the initial specific allowance related to an impaired loan in the same period as it records a partial charge-off in certain circumstances such as if the terms of a restructured loan are finalized during that period. When a loan is determined to be uncollectible, the specific allowance is charged off, which reduces the gross investment in the loan.

While charge-offs typically have no net impact on the carrying value of net loans and leases, charge-offs lower the level of the allowance for loan and lease losses; and, as a result, reduce the percentage of allowance for loans and leases to total loans and leases, and the percentage of allowance for loan and leases losses to non-performing loans. Below is a summary of the Company's evaluation of its portfolio and allowance for loan and lease losses by impairment methodology:

	Leveraged Finance		Business Credit		Real Estate		Equipment Finance	
March 31, 2015	Investment	Allowance	Investment	Allowance	Investment	Allowance	Investment	Allowance
	(\$ in thousands)							
Collectively evaluated (1)	\$1,919,458	\$23,752	\$264,910	\$1,330	\$58,449	\$285	\$113,665	\$863
Individually evaluated (2)	164,547	23,637	—	—	51,173	69	—	—
Total	\$2,084,005	\$47,389	\$264,910	\$1,330	\$109,622	\$354	\$113,665	\$863
December 31, 2014	Leveraged Finance		Business Credit		Real Estate		Equipment Finance	
	Investment	Allowance	Investment	Allowance	Investment	Allowance	Investment	Allowance
	(\$ in thousands)							
Collectively evaluated (1)	\$1,716,391	\$20,045	\$286,918	\$1,334	\$53,085	\$257	\$96,666	\$622
Individually evaluated (2)	164,886	20,725	—	—	52,309	—	—	—
Total	\$1,881,277	\$40,770	\$286,918	\$1,334	\$105,394	\$257	\$96,666	\$622

(1)



Represents loans and leases collectively evaluated for impairment in accordance with ASC 450-20, Loss Contingencies, and pursuant to amendments by ASU 2010-20 regarding allowance for unimpaired loans and leases. These loans and

Table of Contents

leases had a weighted average risk rating of 5.1 based on the Company's internally developed 12 point scale at each of March 31, 2015 and December 31, 2014, respectively.

(2) Represents loans individually evaluated for impairment in accordance with ASU 310-10, Receivables, and pursuant to amendments by ASU 2010-20 regarding allowance for impaired loans.

Below is a summary of the Company's investment in nonaccrual loans.

Recorded Investment in Nonaccrual Loans	March 31, 2015	December 31, 2014
	(\$ in thousands)	
Leveraged Finance	\$98,071	\$84,704
Business Credit	—	—
Real Estate	2,230	3,103
Equipment Finance	—	—
Total	\$100,301	\$87,807

Loans being restructured typically develop adverse performance trends as a result of internal or external factors, the result of which is an inability to comply with the terms of the applicable credit agreement governing their obligations to the Company. In order to mitigate default risk and/or liquidation, assuming that liquidation proceeds are not viewed as a more favorable outcome to the Company and other lenders, the Company will enter into negotiations with the borrower and its shareholders on the terms of a restructuring. When restructuring a loan, the Company undertakes an extensive diligence process which typically includes (i) construction of a financial model that runs through the tenor of the restructuring term, (ii) meetings with management of the borrower, (iii) engagement of third party consultants and (iv) internal analysis. Once a restructuring proposal is developed, it is subject to approval by both the Company's Underwriting Committee and the Company's Investment Committee. Loans will only be removed from TDR classification after a period of performance following the refinancing of outstanding obligations on terms which are determined to be "market" in all material respects, or upon full payoff of the loan. The Company may modify loans that are not determined to be a TDR. Where a loan is modified or restructured but loan terms are considered market and no concessions were given on the loan terms, including price, principal amortization or obligation, or other restrictive covenants, a loan will not be classified as a TDR.

The Company has made the following types of concessions in the context of a TDR:

Group I:

- extension of principal repayment term
- principal holidays
- interest rate adjustments

Group II:

- partial forgiveness
- conversion of debt to equity

A summary of the types of concessions that the Company made with respect to TDRs at March 31, 2015 and December 31, 2014 is provided below:

	Group I	Group II
	(\$ in thousands)	
March 31, 2015	\$174,297	\$135,596
December 31, 2014	\$175,589	\$135,748

Note: A loan may be included in both restructuring groups, but not repeatedly within each group.

For the three months ended March 31, 2015, the Company did not have any partial charge-offs related to loans previously classified as TDR. As of March 31, 2015, the Company had not removed the TDR classification from any loan previously identified as such, but had charged-off, sold and received repayments of outstanding TDRs.

The Company measures TDRs similarly to how it measures all loans for impairment. The Company performs a discounted cash flow analysis on cash flow dependent loans and we assess the underlying collateral value less reasonable costs of sale for collateral dependent loans. Management analyzes the projected performance of the borrower to determine if it has the ability to service principal and interest payments based on the terms of the

restructuring. Loans will typically not be returned to accrual status until at least six months of contractual payments have been made in a timely manner or the borrower

Table of Contents

shows significant ability to maintain servicing of the restructured debt. Additionally, at the time of a restructuring and quarterly thereafter, an impairment analysis is undertaken to determine the measurement of specific reserve, if any, on each impaired loan.

Below is a summary of the Company's loans which were classified as TDR.

For the Three Months Ended March 31, 2015	Pre-Modification Outstanding Recorded Investment (\$ in thousands)	Post-Modification Outstanding Recorded Investment	Investment in TDR Subsequently Defaulted
Leveraged Finance	\$—	\$—	\$—
Business Credit	—	—	—
Real Estate	—	—	—
Equipment Finance	—	—	—
Total	\$—	\$—	\$—

For the Year Ended December 31, 2014	Pre-Modification Outstanding Recorded Investment (\$ in thousands)	Post-Modification Outstanding Recorded Investment	Investment in TDR Subsequently Defaulted
Leveraged Finance	\$—	\$—	\$25,933
Business Credit	—	—	—
Real Estate	—	—	—
Equipment Finance	—	—	—
Total	\$—	\$—	\$25,933

The following sets forth a breakdown of troubled debt restructurings at March 31, 2015 and December 31, 2014:

As of March 31, 2015 (\$ in thousands)	Accrual Status				For the three months Charged- off
Loan Type	Accruing	Nonaccrual	Impaired Balance	Specific Allowance	
Leveraged Finance	\$66,475	\$84,310	\$150,785	\$22,543	\$—
Business Credit	—	—	—	—	—
Real Estate	21,282	2,230	23,512	—	—
Equipment Finance	—	—	—	—	—
Total	\$87,757	\$86,540	\$174,297	\$22,543	\$—

As of December 31, 2014 (\$ in thousands)	Accrual Status				For the year Charged- off
Loan Type	Accruing	Nonaccrual	Impaired Balance	Specific Allowance	
Leveraged Finance	\$80,182	\$70,734	\$150,916	\$19,885	\$18,709
Business Credit	—	—	—	—	—
Real Estate	21,570	3,103	24,673	—	—
Equipment Finance	—	—	—	—	—
Total	\$101,752	\$73,837	\$175,589	\$19,885	\$18,709

The Company classifies a loan as past due when it is over 60 days delinquent.

An age analysis of the Company's past due receivables is as follows:

Table of Contents

	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans and Leases	Investment in > 60 Days & Accruing
(\$ in thousands)						
March 31, 2015						
Leveraged Finance	\$—	\$43,240	\$43,240	\$2,040,765	\$2,084,005	\$—
Business Credit	—	—	—	264,910	264,910	—
Real Estate	—	—	—	109,622	109,622	—
Equipment Finance	—	—	—	113,665	113,665	—
Total	\$—	\$43,240	\$43,240	\$2,528,962	\$2,572,202	\$—
	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans and Leases	Investment in > 60 Days & Accruing
(\$ in thousands)						
December 31, 2014						
Leveraged Finance	\$25,412	\$18,151	\$43,563	\$1,837,714	\$1,881,277	\$—
Business Credit	—	—	—	286,918	286,918	—
Real Estate	—	—	—	105,394	105,394	—
Equipment Finance	—	—	—	96,666	96,666	—
Total	\$25,412	\$18,151	\$43,563	\$2,326,692	\$2,370,255	\$—

A general allowance is provided for loans and leases that are not impaired. The Company employs a variety of internally developed and third-party modeling and estimation tools for measuring credit risk, which are used in developing an allowance for loan and lease losses on outstanding loans and leases. The Company's allowance framework addresses economic conditions, capital market liquidity and industry circumstances from both a top-down and bottom-up perspective. The Company considers and evaluates a number of factors, including but not limited to, changes in economic conditions, credit availability, industry, loss emergence period, and multiple obligor concentrations in assessing both probabilities of default and loss severities as part of the general component of the allowance for loan and lease losses.

On at least a quarterly basis, loans and leases are internally risk-rated based on individual credit criteria, including loan and lease type, loan and lease structures (including balloon and bullet structures common in the Company's Leveraged Finance and Real Estate cash flow loans), borrower industry, payment capacity, location and quality of collateral if any (including the Company's Real Estate loans). Borrowers provide the Company with financial information on either a monthly or quarterly basis. Ratings, corresponding assumed default rates and assumed loss severities are dynamically updated to reflect any changes in borrower condition and/or profile.

For Leveraged Finance loans and Equipment Finance loans and leases, the data set used to construct probabilities of default in its allowance for loan losses model, Moody's CRD Private Firm Database, primarily contains middle market loans that share attributes similar to the Company's loans. The Company also considers the quality of the loan or lease terms and lender protections in determining a loan loss in the event of default.

For Business Credit loans, the Company utilizes a proprietary model to risk rate the loans on a monthly basis. This model captures the impact of changes in industry and economic conditions as well as changes in the quality of the borrower's collateral and financial performance to assign a final risk rating. The Company has also evaluated historical net loss trends by risk rating from a comprehensive industry database covering more than twenty-five years of experience of the majority of the asset based lenders operating in the United States. Based upon the monthly risk rating from the model, the reserve is adjusted to reflect the historical average for expected loss from the industry database.

For Real Estate loans, the Company employs two mechanisms to capture the impact of industry and economic conditions. First, a loan's risk rating, and thereby its assumed default likelihood, can be adjusted to account for overall commercial real estate market conditions. Second, to the extent that economic or industry trends adversely affect a

substandard rated borrower's loan-to-value ratio enough to impact its repayment ability, the Company applies a stress multiplier to the loan's probability of default. The multiplier is designed to account for default characteristics that are difficult to quantify when market conditions cause commercial real estate prices to decline.

For consolidated VIEs to which the Company is providing transitional capital, we utilize a qualitative analysis which considers the business plans related to the entity, including expected hold periods, the terms of the agreements related to the entity, the Company's historical credit experience, the credit migration of the entity's loans in determining expected loss, as well as conditions in the capital markets.

If the Company determines that changes in its allowance for credit losses methodology are advisable, as a result of changes in the economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of

Table of Contents

allowance. Moreover, given uncertain market conditions, actual losses under the Company's current or any revised allowance methodology may differ materially from the Company's estimate.

Additionally, when determining the amount of the general allowance, the Company supplements the base amount with an environmental reserve amount which is governed by a score card system comprised of ten individually weighted risk factors. The risk factors are designed based on those outlined in the Comptrollers of the Currency's Allowance for Loan and Lease Losses Handbook. The Company also performs a ratio analysis of comparable money center banks, regional banks and finance companies. While the Company does not rely on this peer group comparison to set the level of allowance for credit losses, it does assist management in identifying market trends and serves as an overall reasonableness check on the allowance for credit losses computation.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The measurement of impairment of a loan is based upon (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price, or (iii) the fair value of the collateral if the loan is collateral dependent, depending on the circumstances and our collection strategy. Impaired loans are identified based on the loan-by-loan risk rating process described above. It is the Company's policy during the reporting period to record a specific provision for credit losses for all loans for which we have serious doubts as to the ability of the borrowers to comply with the present loan repayment terms.

A summary of the activity in the allowance for credit losses is as follows:

	Three Months Ended March 31, 2015				
	Leveraged Finance	Business Credit	Real Estate	Equipment Finance	Total
	(\$ in thousands)				
Balance, beginning of period	\$41,480	\$ 1,334	\$257	\$622	\$43,693
Provision for credit losses—general	3,734	(4	) 26	241	3,997
Provision for credit losses—specific	2,912	—	69	—	2,981
Loans charged off, net of recoveries	68	—	—	—	68
Balance, end of period	\$48,194	\$ 1,330	\$352	\$863	\$50,739
Balance, end of period—specific	\$23,637	\$—	\$69	\$—	\$23,706
Balance, end of period—general	\$24,557	\$ 1,330	\$283	\$863	\$27,033
Average balance of impaired loans	\$164,902	\$—	\$51,723	\$—	\$216,625
Interest recognized from impaired loans	\$2,189	\$—	\$567	\$—	\$2,756
Loans and leases					
Loans individually evaluated with specific allowance	\$101,503	\$—	\$27,661	\$—	\$129,164
Loans individually evaluated with no specific allowance	63,044	—	23,512	—	86,556
Loans and leases collectively evaluated without specific allowance	1,919,458	264,910	58,449	113,665	2,356,482
Total loans and leases	\$2,084,005	\$264,910	\$109,622	\$113,665	\$2,572,202

Table of Contents

	Three Months Ended March 31, 2014					
	Leveraged Finance	Business Credit	Real Estate	Equipment Finance	Total	
	(\$ in thousands)					
Balance, beginning of period	\$36,803	\$973	\$3,653	\$425	\$41,854	
Provision for credit losses—general	1,563	29	39	79	1,710	
Provision for credit losses—specific	4,232	—	(135	) —	4,097	
Loans charged off, net of recoveries	(8,062	) —	—	—	(8,062	)
Balance, end of period	\$34,536	\$1,002	\$3,557	\$504	\$39,599	
Balance, end of period—specific	\$15,997	\$200	\$3,142	\$—	\$19,339	
Balance, end of period—general	\$18,539	\$802	\$415	\$504	\$20,260	
Average balance of impaired loans	\$185,188	\$484	\$62,005	\$—	\$247,677	
Interest recognized from impaired loans	\$37	\$—	\$1	\$—	\$38	
Loans and leases						
Loans individually evaluated with specific allowance	\$116,863	\$281	\$30,046	\$—	\$147,190	
Loans individually evaluated with no specific allowance	62,960	—	32,000	—	94,960	
Loans and leases collectively evaluated without specific allowance	1,759,281	175,710	60,757	64,109	2,059,857	
Total loans and leases	\$1,939,104	\$175,991	\$122,803	\$64,109	\$2,302,007	

Included in the allowance for credit losses at March 31, 2015 and December 31, 2014 is an allowance for unfunded commitments of \$0.8 million and \$0.7 million, respectively, which is recorded as a component of other liabilities on the Company's consolidated balance sheet with changes recorded in the provision for credit losses on the Company's consolidated statement of operations. The methodology for determining the allowance for unfunded commitments is consistent with the methodology for determining the allowance for loan and lease losses.

During the three months ended March 31, 2015, the Company recorded a total provision for credit losses of \$7.0 million. The Company increased its allowance for credit losses to \$50.7 million as of March 31, 2015 from \$43.7 million at December 31, 2014 as a result of the increase in Loans and leases, net and an increase in the specific allowance for credit losses. The Company had \$0.1 million of recoveries of impaired loans with a specific allowance, increased its general allowance for credit losses by 8 basis points during the three months ended March 31, 2015, and recorded new specific provisions for credit losses of \$3.0 million. The general allowance for credit losses covers probable losses in the Company's loan and lease portfolio with respect to loans and leases for which no specific impairment has been identified. When a loan is classified as impaired, the loan is evaluated for a specific allowance and a specific provision may be recorded, thereby removing it from consideration under the general component of the allowance analysis. Loans that are deemed to be uncollectible are charged off and deducted from the allowance, and recoveries on loans previously charged off are netted against loans charged off. A specific provision for credit losses is recorded with respect to impaired loans for which it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement for which there is impairment recognized. The outstanding balance of impaired loans, which include all of the outstanding balances of the Company's delinquent loans and its troubled debt restructurings, as a percentage of "Loans and leases, net" was 9% as of March 31, 2015 and as of December 31, 2014.

The Company closely monitors the credit quality of its loans and leases which is partly reflected in its credit metrics such as loan delinquencies, non-accruals and charge-offs. Changes in these credit metrics are largely due to changes in economic conditions and seasoning of the loan and lease portfolio.

The Company continually evaluates the appropriateness of its allowance for credit losses methodology. Based on the Company's evaluation process to determine the level of the allowance for loan and lease losses, management believes the allowance to be adequate as of March 31, 2015 in light of the estimated known and inherent risks identified through its analysis.



Note 4. Restricted Cash

Restricted cash as of March 31, 2015 and December 31, 2014 was as follows:

19

---

Table of Contents

	March 31, 2015	December 31, 2014
	(\$ in thousands)	
Collections on loans pledged to credit facilities	\$38,899	\$34,508
Principal and interest collections on loans held in trust and prefunding amounts	175,866	60,013
Customer escrow accounts	88	890
Total	\$214,853	\$95,411

As of March 31, 2015, the Company had the ability to use \$29.3 million of restricted cash to fund new or existing loans.

## Note 5. Investments in Debt Securities, Available-for-Sale

Amortized cost of investments in debt securities as of March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015	December 31, 2014
	(\$ in thousands)	
Investments in debt securities—gross	\$87,318	\$53,098
Unamortized discount	(7,623	) (6,228
Investments in debt securities—amortized cost	\$79,695	\$46,870

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of available-for-sale securities at March 31, 2015 and December 31, 2014 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	(\$ in thousands)			
March 31, 2015				
Collateralized loan obligations	\$79,695	\$560	\$(364	) \$79,891
	\$79,695	\$560	\$(364	) \$79,891
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	(\$ in thousands)			
December 31, 2014				
Collateralized loan obligations	\$46,870	\$214	\$(203	) \$46,881
	\$46,870	\$214	\$(203	) \$46,881

During the three months ended March 31, 2015, the Company purchased \$32.9 million of debt securities.

The Company did not sell any debt securities during the three months ended March 31, 2015 and 2014.

The Company did not record any net Other-Than-Temporary Impairment charges during the three months ended March 31, 2015 and 2014.

The following is an analysis of the continuous periods during which the Company has held investment positions which were carried at an unrealized loss as of March 31, 2015 and December 31, 2014:

Table of Contents

	March 31, 2015		
	Less than 12 Months	Greater than or Equal to 12 Months	Total
	(\$ in thousands)		
Number of positions	9	—	9
Fair value	\$44,884	\$—	\$44,884
Amortized cost	45,248	—	45,248
Unrealized loss	\$364	\$—	\$364
	December 31, 2014		
	Less than 12 Months	Greater than or Equal to 12 Months	Total
	(\$ in thousands)		
Number of positions	8	—	8
Fair value	\$38,740	\$—	\$38,740
Amortized cost	38,943	—	38,943
Unrealized loss	\$203	\$—	\$203

As a result of the Company's evaluation of the securities, management concluded that the unrealized losses at March 31, 2015 and December 31, 2014 were caused by changes in market prices driven by interest rates and credit spreads. The Company's evaluation of impairment include quotes from third party pricing services, adjustments to prepayment speeds, delinquency, an analysis of expected cash flows, interest rates, market discount rates, other contract terms, and the timing and level of losses on the loans and leases within the underlying trusts. At March 31, 2015, the Company has determined that it is not more likely than not that it will be required to sell the securities before the Company recovers its amortized cost basis in the security. The Company has also determined that there has not been an adverse change in the cash flows expected to be collected. Based upon the Company's impairment review process, and the Company's ability and intent to hold these securities until maturity or a recovery of fair value, the decline in the value of these investments is not considered to be "Other Than Temporary."

Maturities of debt securities classified as available-for-sale were as follows at March 31, 2015 and December 31, 2014:

	March 31, 2015		December 31, 2014	
	Amortized cost	Fair value	Amortized cost	Fair value
	(\$ in thousands)			
Available-for-sale:				
Due one year or less	\$—	\$—	\$—	\$—
Due after one year through five years	—	—	—	—
Due after five years through ten years	8,567	8,735	46,870	46,881
Due after ten years through fifteen years	71,128	71,156	—	—
Total	\$79,695	\$79,891	\$46,870	\$46,881

## Note 6. Borrowings

## Credit Facilities

As of March 31, 2015 the Company had four credit facilities through certain of its wholly-owned subsidiaries: (i) a \$425 million credit facility with Wells Fargo Bank, National Association ("Wells Fargo") to fund leveraged finance loans, (ii) a \$125 million credit facility with DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt ("DZ Bank") to fund asset-based loans, (iii) a \$110 million credit facility with Wells Fargo to fund asset-based loans, and (iv) a \$75 million credit facility with Wells Fargo to fund equipment leases and loans.

The Company must comply with various covenants under these facilities. The breach of certain of these covenants could result in a termination event and the exercise of remedies if not cured. At March 31, 2015, the Company was in

compliance with all such covenants. These covenants are customary and vary depending on the type of facility. These covenants include, but are not limited to, failure to service debt obligations, failure to meet liquidity covenants and tangible net worth covenants,

Table of Contents

and failure to remain within prescribed facility portfolio delinquency, charge-off levels, and overcollateralization tests. In addition, the Company is required to make termination or make-whole payments in the event that certain of its existing credit facilities are prepaid. These termination or make-whole payments, if triggered, could be material to the Company individually or in the aggregate, and in the case of certain facilities, could be caused by factors outside of the Company's control, including as a result of loan prepayment by the borrowers under the loan facilities that collateralize these credit facilities.

The Company has a \$425.0 million credit facility with Wells Fargo to fund leveraged finance loans. On March 6, 2015, the Company entered into an amendment to this facility which, among other things, increased the commitment amount to \$425.0 million from \$375.0 million, with the ability to further increase the commitment amount to \$475.0 million, subject to lender approval and other customary conditions, and modified certain concentration amounts and specified threshold amounts. The credit facility had an outstanding balance of \$163.8 million and unamortized deferred financing fees of \$3.1 million as of March 31, 2015. Interest on this facility accrues at a variable rate per annum. The facility provides for a revolving reinvestment period which ends on November 5, 2015 with a two-year amortization period.

The Company has a \$125.0 million credit facility with DZ Bank that had an outstanding balance of \$89.9 million and unamortized deferred financing fees of \$0.1 million as of March 31, 2015. Interest on this facility accrues at a variable rate per annum. As part of the agreement, there is a minimum interest charge of \$1.6 million per annum. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is assessed to satisfy the minimum requirement. The Company is permitted to use the proceeds of borrowings under the credit facility to fund advances under asset-based loan commitments. The commitment amount under the credit facility provides for reinvestment until it matures on June 30, 2015 with no amortization period.

The Company has a \$110.0 million credit facility with Wells Fargo to fund asset-based loan origination. The credit facility had an outstanding balance of \$89.3 million and unamortized deferred financing fees of \$0.7 million as of March 31, 2015. The credit facility may be increased to an amount up to \$300.0 million subject to lender approval and other customary conditions. Interest on this facility accrues at a variable rate per annum. The credit facility provides for reinvestment until it matures on December 7, 2017 with no amortization period.

The Company has a note purchase agreement with Wells Fargo under the terms of which Wells Fargo agreed to provide a \$75.0 million credit facility to fund equipment leases and loans. The credit facility had an outstanding balance of \$27.0 million and unamortized deferred financing fees of \$0.9 million as of March 31, 2015. Interest on this facility accrues at a variable rate per annum. On April 10, 2015, the Company entered into an amendment to this facility which, among other things, extended the reinvestment period to April 10, 2017 and the final maturity date to April 10, 2019, and modified certain concentration amounts and specified threshold amounts.

On April 4, 2013, Arlington Fund entered into an agreement establishing \$147.0 million of Class A Notes and \$28.0 million of Class B Notes to partially fund eligible leveraged loans. Wells Fargo funded the Class A Notes as the initial Class A lender and the Company funded the Class B Notes as the initial Class B lender. On June 26, 2014, the Class A Notes and the Class B notes were redeemed in connection with the completion of the Arlington Program term debt securitization.

#### Corporate Credit Facility

On January 5, 2010, the Company entered into a note agreement with Fortress Credit Corp., which was subsequently amended on August 31, 2010, January 27, 2012, November 5, 2012, and December 4, 2012. The agreement was amended and restated on May 13, 2013 and further amended on June 3, 2013. On March 6, 2014, as permitted under the corporate credit facility with Fortress Credit Corp., the Company requested and received an increase of \$28.5 million to the Initial Funding under this credit facility. On May 15, 2014, as permitted under the corporate credit facility with Fortress Credit Corp., the Company requested and received a new \$10.0 million term loan (the "Term C Loan"). The credit facility, as amended, consists of a \$238.5 million term note with Fortress Credit Corp. as agent, which consists of the existing outstanding balance of \$100.0 million (the "Existing Funding"), an initial funding of \$98.5 million (the "Initial Funding"), and three subsequent borrowings, of \$5.0 million (the "Delay Draw Term A"), \$25.0 million (the "Delay Draw Term B") and the \$10.0 million Term C Loan. The Existing Funding, the Initial Funding, the Delay Draw Term A, and the Term C Loan mature on May 11, 2018. The Delay Draw Term B matures on June 3,

2016. The Initial Funding, the Existing Funding and the Delay Draw Term A accrue interest at the London Interbank Offered Rate (LIBOR) plus 4.50% with an interest rate floor of 1.00%. The Delay Draw Term B accrues interest at LIBOR plus 3.375% with an interest rate floor of 1.00%. The Term C Loan accrues interest at LIBOR plus 4.25% with an interest rate floor of 1.00%.

The Company is permitted to use the proceeds of borrowings under the credit facility for general corporate purposes including, but not limited to, funding loans, working capital, paying down outstanding debt, acquisitions and repurchasing capital stock and dividend payments up to \$37.5 million, The \$37.5 million may be adjusted upward by the amount of fiscal year-end net income excluding depreciation and amortization expense.

Table of Contents

The term note may be prepaid at any time without a prepayment penalty. The term note may be prepaid at par in the event of a change of control. As of March 31, 2015, the term note had an outstanding principal balance of \$238.3 million and unamortized deferred financing fees of \$3.9 million. On April 22, 2015, we paid off the term note with Fortress Credit Corp.

**Subordinated notes**

On December 4, 2014, the Company completed the initial closing of an investment of long-term capital from funds sponsored by Franklin Square Capital Partners ("Franklin Square") and sub-advised by GSO Capital Partners. The Franklin Square funds purchased \$200.0 million of 10-year subordinated notes (the "Subordinated Notes") that rank junior to the Company's existing and future senior debt. The Company is required to borrow an additional \$100.0 million of notes in increments of at least \$25.0 million by December 2015. The Subordinated Notes were recorded at par less the initial relative fair value of the warrants issued in connection with the investment on December 4, 2014 and January 23, 2015 (see Note 8) which was \$43.2 million as of December 31, 2014 and \$63.4 million as of March 31, 2015. The debt discount will amortize over the life of the notes and will be recorded as non-cash interest expense as the Subordinated Notes accrete to par value. As of March 31, 2015, unamortized deferred financing fees were \$5.9 million. The Subordinated Notes bear interest at 8.25% and include a Payment-in-Kind ("PIK Toggle") feature that allows the Company, at its option, to elect to have interest accrued at a rate of 8.75% added to the principal of the Subordinated Notes instead of paying it in cash. The Subordinated Notes have a ten year term and mature on December 4, 2024. They are callable during the first three years with payment of a make-whole premium. The prepayment premium decreases to 103% and 101% after the third and fourth anniversaries of the closing, respectively. They are callable at par after December 4, 2019. The Subordinated Notes require a mandatory payment at the end of each accrual period, beginning on December 5, 2019. The Company is required to make a cash payment of principal plus accrued interest in an amount required to prevent the Subordinated Notes from being treated as an "Applicable High Yield Discount Obligation" within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended. Events of default under the Subordinated Notes include failure to pay interest or principal when due subject to applicable grace periods, material uncured breaches of the terms of the Subordinated Notes, and bankruptcy/insolvency events.

**Term Debt Securitizations**

In June 2007 the Company completed a term debt securitization transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Trust 2007-1 (the "2007-1 CLO Trust") and sold and contributed \$600.0 million in loans and investments (including unfunded commitments), or portions thereof, to the 2007-1 CLO Trust. The Company remains the servicer of the loans. Simultaneously with the initial sale and contribution, the 2007-1 CLO Trust issued \$546.0 million of notes to institutional investors. The Company retained \$54.0 million, comprising 100% of the 2007-1 CLO Trust's trust certificates. At March 31, 2015, the \$280.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$334.3 million. At March 31, 2015, deferred financing fees were \$0.3 million. The 2007-1 CLO Trust permitted reinvestment of collateral principal repayments for a six-year period which ended in May 2013. During 2012, the Company purchased \$0.2 million of the 2007-1 CLO Trust's Class C notes. During 2010, the Company purchased \$5.0 million of the 2007-1 CLO Trust's Class D notes. During 2009, the Company purchased \$1.0 million of the 2007-1 CLO Trust's Class D notes.

During 2009, Moody's downgraded all of the notes of the 2007-1 CLO Trust. As a result of the downgrade, amortization of the 2007-1 CLO Trust changed from pro rata to sequential, resulting in scheduled principal payments thereafter made in order of the notes seniority until all available funds are exhausted for each payment. During 2010, Standard and Poor's downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes and the Class D notes of the 2007-1 CLO Trust. The downgrade did not have any material consequence as the amortization of the 2007-1 CLO Trust changed from pro rata to sequential after the Moody's downgrade in 2009. During the second quarter of 2011, Moody's upgraded the Class C notes, the Class D notes, and the Class E notes. During 2011, Standard and Poor's upgraded the Class D notes. During the fourth quarter of 2011, Moody's upgraded all of the notes of the 2007-1 CLO Trust. During the third quarter of 2012, Fitch affirmed its ratings of all of the notes of the 2007-1 CLO Trust. During

the second quarter of 2013, Moody's upgraded the Class B notes, the Class C notes, the Class D notes, and the Class E notes and affirmed its ratings of the Class A-1 notes and the Class A-2 notes of the 2007-1 CLO Trust. During the third quarter of 2013, Fitch affirmed its ratings on all of the notes of the 2007-1 CLO Trust. During the first quarter of 2014, Standard and Poor's upgraded its ratings on all notes of the 2007-1 CLO Trust. During the second quarter of 2014, Moody's affirmed the ratings of the Class B notes, the Class C notes, and the Class D notes of the 2007-1 CLO Trust. During the third quarter of 2014, Fitch affirmed its ratings of all of the notes of the 2007-1 CLO Trust. The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the trust certificates when the term debt is retired. If loan collateral in the 2007-1 CLO Trust is in default under the terms of the indenture, the excess interest spread from the 2007-1 CLO Trust could not be distributed until the undistributed cash plus recoveries equals the outstanding balance of the defaulted loan or if the Company elected to remove the defaulted collateral.



Table of Contents

The following table sets forth selected information with respect to the 2007-1 CLO Trust:

	Notes originally issued	Outstanding balance March 31, 2015	Interest rate	Legal final maturity	Ratings (S&P/Moody's/ Fitch)(1)
(\$ in thousands)					
2007-1 CLO Trust					
Class A-1	\$ 336,500	\$ 134,675	Libor+0.24%	September 30, 2022	AAA/Aaa/AAA
Class A-2	100,000	42,365	Libor+0.26%	September 30, 2022	AAA/Aaa/AAA
Class B	24,000	24,000	Libor+0.55%	September 30, 2022	AA+/Aa1/AA
Class C	58,500	58,293	Libor+1.30%	September 30, 2022	A-/A2/A
Class D	27,000	21,000	Libor+2.30%	September 30, 2022	BBB-/Baa2/BBB+
	\$ 546,000	\$ 280,333			

(1) These ratings were initially given in June 2007, are unaudited and are subject to change from time to time. During the first quarter of 2009 Fitch affirmed its ratings on all of the notes. During the first quarter of 2009, Moody's downgraded the Class C notes and the Class D notes. During the third quarter of 2009, Moody's downgraded the Class A-1 notes, the Class A-2 notes and the Class B notes. During the second quarter of 2010, Standard and Poor's downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes, and the Class D notes. During the second quarter of 2011, Moody's upgraded the Class C notes and the Class D notes. During the second quarter of 2011, Standard and Poor's upgraded the Class D notes. During the fourth quarter of 2011, Moody's upgraded all of the notes. During the third quarter of 2012, Fitch affirmed its ratings on all of the notes. During the second quarter of 2013, Moody's upgraded the Class B notes, the Class C notes, the Class D notes and the Class E notes to the ratings shown above, and affirmed its ratings of the Class A-1 notes and the Class A-2 notes. During the third quarter of 2013, Fitch affirmed its ratings on all of the notes. During the first quarter of 2014, Standard and Poor's upgraded its ratings on all notes to the ratings shown above. During the second quarter of 2014, Moody's affirmed the above ratings of the Class B notes, the Class C notes, and the Class D notes. During the third quarter of 2014, Fitch affirmed its ratings on all of the notes.

On December 18, 2012, the Company completed a term debt securitization transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2012-2 LLC (the "2012-2 CLO") and sold and contributed \$325.9 million in loans and investments (including unfunded commitments), or portions thereof, to the 2012-2 CLO. The Company remains the servicer of the loans. Simultaneously with the initial sale and contribution, the 2012-2 CLO issued \$263.3 million of notes to institutional investors. The Company retained \$62.6 million, comprising 100% of the 2012-2 CLO's membership interests, Class E notes, Class F notes, and subordinated notes. At March 31, 2015, the \$263.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$325.9 million. At March 31, 2015, deferred financing fees were \$2.0 million. The 2012-2 CLO permits reinvestment of collateral principal repayments for a three-year period ending in January 2016. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2012-2 CLO is in default under the terms of the indenture, the excess interest spread from the 2012-2 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied. The following table sets forth selected information with respect to the 2012-2 CLO:



Table of Contents

	Notes originally issued	Outstanding balance March 31, 2015	Interest rate	Legal final maturity	Ratings (Moody's/ S&P)(1)
(\$ in thousands)					
2012-2 CLO					
Class A	\$ 190,700	\$ 190,700	Libor+1.90%	January 20, 2023	Aaa/AAA
Class B	26,000	26,000	Libor+3.25%	January 20, 2023	Aa2/N/A
Class C	35,200	35,200	Libor+4.25%	January 20, 2023	A2/N/A
Class D	11,400	11,400	Libor+6.25%	January 20, 2023	Baa2/N/A
	\$263,300	\$263,300			

(1) These ratings were initially given in December 2012, are unaudited and are subject to change from time to time. On September 11, 2013, the Company completed a term debt securitization transaction through its separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2013-1 LLC (the "2013-1 CLO") and sold and contributed \$247.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2013-1 CLO. The Company remains the servicer of the loans. Simultaneously with the initial sale and contribution, the 2013-1 CLO issued \$338.6 million of notes to institutional investors. The Company retained \$61.4 million, comprising 100% of the 2013-1 CLO's membership interests, Class F notes, Class G notes, and subordinated notes. At March 31, 2015, the \$329.1 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$390.5 million. At March 31, 2015, deferred financing fees were \$4.3 million. The 2013-1 CLO permits reinvestment of collateral principal repayments for a three-year period ending in September 2016. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes. The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2013-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2013-1 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied.

Table of Contents

The following table sets forth selected information with respect to the 2013-1 CLO:

	Notes originally issued	Outstanding balance March 31, 2015	Interest rate	Legal final maturity	Ratings (S&P/ Moody's)(2)
(\$ in thousands)					
2013-1 CLO					
Class A-T	\$202,600	\$202,600	Libor+1.65%	September 20, 2023	AAA/Aaa
Class A-R	35,000	25,500	(1)	September 20, 2023	AAA/Aaa
Class B	38,000	38,000	Libor+2.30%	September 20, 2023	AA/N/A
Class C	36,000	36,000	Libor+3.80%	September 20, 2023	A/N/A
Class D	21,000	21,000	Libor+4.55%	September 20, 2023	BBB/N/A
Class E	6,000	6,000	Libor+5.30%	September 20, 2023	BBB-/N/A
	\$338,600	\$329,100			

Class A-R Notes accrue interest at the Class A-R CP Rate so long as they are held by a CP Conduit, and otherwise (1) will accrue interest at the Class A-R LIBOR Rate or, in certain circumstances, the Class A-R Base Rate, but in no event shall interest rate payable pari passu with the Class A-T Notes exceed the Class A-R Waterfall Rate Cap.

(2) These ratings were initially given in September 2013, are unaudited and are subject to change from time to time. On April 17, 2014, the Company completed a term debt securitization transaction through its separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2014-1 LLC (the "2014-1 CLO") and sold and contributed \$249.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2014-1 CLO. The Company remains the servicer of the loans. Simultaneously with the initial sale and contribution, the 2014-1 CLO issued \$289.5 million of notes to institutional investors. The Company retained \$58.9 million, comprising 100% of the 2014-1 CLO's membership interests, Class E notes, Class F notes, and subordinated notes. At March 31, 2015, the \$289.5 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$348.4 million. At March 31, 2015, deferred financing fees were \$3.0 million. The 2014-1 CLO permits reinvestment of collateral principal repayments for a four-year period ending in April 2018. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2014-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2014-1 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied.

The following table sets forth selected information with respect to the 2014-1 CLO:

	Notes originally issued	Outstanding balance March 31, 2015	Interest rate	Legal final maturity	Ratings (Moody's)(2)
(\$ in thousands)					
2014-1 CLO					
Class A	\$202,500	\$202,500	Libor+1.80%	April 20, 2025	Aaa
Class B-1	20,000	20,000	Libor+2.60%	April 20, 2025	Aa2
Class B-2	13,250	13,250	(1)	April 20, 2025	Aa2
Class C	30,250	30,250	Libor+3.60%	April 20, 2025	A2
Class D	23,500	23,500	Libor+4.75%	April 20, 2025	Baa3
	\$289,500	\$289,500			

(1) Class B-2 Notes accrue interest at a fixed rate of 4.902%.

(2) These ratings were initially given in April 2014, are unaudited and are subject to change from time to time.

26

---

Table of Contents

On March 20, 2015, the Company completed a term debt securitization transaction through its separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2015-1 LLC (the “2015-1 CLO”) and sold and contributed \$336.3 million in loans and investments (including unfunded commitments), or portions thereof, to the 2015-1 CLO. The Company remains the servicer of the loans. Simultaneously with the initial sale and contribution, the 2015-1 CLO issued \$410.3 million of notes to institutional investors. The Company retained \$85.8 million, comprising 100% of the 2015-1 CLO’s membership interests and subordinated notes. At March 31, 2015, the \$410.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$496.1 million. At March 31, 2015, deferred financing fees were \$4.3 million. The 2015-1 CLO permits reinvestment of collateral principal repayments for a four-year period ending in April 2019. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2015-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2015-1 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied.

The following table sets forth selected information with respect to the 2015-1 CLO:

	Notes originally issued	Outstanding balance March 31, 2015	Interest rate	Legal final maturity	Ratings (Moody’s/Fitch)(2)
(\$ in thousands)					
2015-1 CLO					
Class A-1	\$253,500	\$253,500	Libor+1.80%	January 20, 2027	Aaa/AAA
Class A-2	35,000	35,000	(1)	January 20, 2027	Aaa/AAA
Class B	50,000	50,000	Libor+2.80%	January 20, 2027	Aa2/ N/A
Class C	38,500	38,500	Libor+3.85%	January 20, 2027	A2/N/A
Class D	33,250	33,250	Libor+5.50%	January 20, 2027	Baa3/N/A
	\$410,250	\$410,250			

(1) Class A-2 Notes accrue interest at a spread over Libor of 1.65% from the closing date to, but excluding March 20, 2017, and 2.00% thereafter.

(2) These ratings were initially given in March 2015, are unaudited and are subject to change from time to time.

Note 7. Repurchase Agreement

Loans sold under agreements to repurchase	Three Months Ended March 31, 2015	Year Ended December 31, 2014
	(\$ in thousands)	
Outstanding at end of period	\$79,760	\$57,227
Maximum outstanding at any month end	79,760	57,891
Average balance for the period	58,015	57,932
Weighted average rate at end of period	4.02	% 5.16

On June 7, 2011, the Company entered into a five-year, \$68.0 million financing arrangement with Macquarie Bank Limited backed primarily by a portfolio of commercial mortgage loans previously originated by the Company. The financing was structured as a master repurchase agreement under which the Company sold the portfolio of commercial mortgage loans to Macquarie for an aggregate purchase price of \$68.0 million. The Company also agreed to repurchase the commercial mortgage loans from time to time (including a minimum quarterly amount), and agreed to repurchase all of the commercial mortgage loans by June 7, 2016. Upon the repurchase of a commercial mortgage loan, the Company is obligated to repay the principal amount related to such mortgage loan plus accrued interest (at a

rate based on LIBOR plus a margin) to the date of repurchase. The Company will continue to service the commercial mortgage loans. On October 2, 2013, the Company entered into an amendment to this financing arrangement which, among other things, extended the date it had agreed to repurchase all of the commercial mortgage loans by one year to June 7, 2017, provided for \$25.5 million of additional advances for existing eligible assets owned by the Company, allowed for the advance of up to \$15.0 million to fund an additional commercial mortgage loan, and released \$41.1 million of principal payments to the Company as unrestricted cash. The facility accrues interest at a variable

Table of Contents

rate per annum, which was 5.17% as of March 31, 2015. As of March 31, 2015, unamortized deferred financing fees were \$0.8 million and the outstanding balance was \$52.6 million. During 2015, the Company made principal payments totaling \$4.6 million. As part of the amended agreement, there is a minimum aggregate interest margin payment of \$9.2 million required to be made over the life of the facility. The Company cannot control the rate at which the underlying commercial mortgage loans are repaid. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is required to be made to satisfy the minimum aggregate interest margin payment. The Company has entered into a repurchase transaction with Deutsche Bank AG, pursuant to the terms of a Global Master Repurchase Agreement (2000 version), dated as of February 13, 2015 between Deutsche Bank AG and NS Bond Funding I LLC (the "Repurchase Agreement"). Pursuant to the Repurchase Agreement, Deutsche Bank AG will purchase securities and simultaneously agree to sell the securities back at a specified date. Under the terms of the Repurchase Agreement, the Company is required at all times to maintain a level of overcollateralization for the obligations, which is maintained through daily margining. As of March 31, 2015, the outstanding balance was \$27.2 million. The Company has made certain representations and warranties and is required to comply with various covenants and requirements customary for financing arrangements of this nature.

## Note 8. Stockholders' Equity

## Stockholders' Equity

As of March 31, 2015 and December 31, 2014, the Company's authorized capital consists of preferred and common stock and the following was authorized and outstanding:

	March 31, 2015		December 31, 2014	
	Shares authorized	Shares outstanding	Shares authorized	Shares outstanding
	(In thousands)			
Preferred stock	5,000	—	5,000	—
Common stock	145,000	46,031	145,000	46,620
Preferred Stock				

Since the completion of the Company's initial public offering on December 13, 2006, the Company's authorized capital stock has included 5,000,000 shares of preferred stock with a par value of \$0.01 per share, all of which remain undesignated.

## Common Stock

On March 24, 2015, the Company repurchased 1,000,000 shares of its common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.3 million.

On December 22, 2014, the Company repurchased 1,000,000 shares of its common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.2 million.

On August 13, 2014, the Company's Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased are determined by the Company's management based on its evaluation of market conditions and other factors. The repurchase program, which will expire on August 15, 2015 unless extended by the Board of Directors, may be suspended or discontinued at any time without notice. As of March 31, 2015, the Company had repurchased 465,092 shares of its common stock under this program at a weighted average price per share of \$11.38.

On May 5, 2014, the Company's Board of Directors authorized the repurchase of up to \$20.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased were determined by the Company's management based on its evaluation of market conditions and other factors. The Company completed repurchase program during July 2014. Under this stock repurchase program, the Company repurchased 1,519,615 shares of its common stock at a weighted average price per share of \$13.13 in the aggregate.

## Warrants

On December 4, 2014, the Company issued warrants to purchase 9.5 million shares of its common stock as part of the strategic relationship with Franklin Square Capital Partners ("Franklin Square"). Each warrant allows the warrant



holder to purchase one share of the Company's common stock at a purchase price equal to \$12.62 per share. The warrants were deemed to be freestanding and indexed to the Company's common stock. As such they were recorded at relative fair value, with no required subsequent re-measurement. The warrants expire on December 4, 2024.

Table of Contents

On January 23, 2015, the Company completed its issuance of warrants as part of the strategic relationship with Franklin Square. The Company issued the second tranche of warrants to purchase 2.5 million shares of its common stock subject to the same terms as the warrants that were issued on December 4, 2014.

**Restricted Stock**

During the three months ended March 31, 2015, the Company issued 355,876 shares of restricted stock to certain employees of the Company pursuant to the Company's 2006 Incentive Plan, as amended. The fair value of the shares of restricted stock is equal to the closing price of the Company's stock on the date of issuance. The shares of restricted stock vest in three equal installments on each of the first three anniversaries of the date of grant.

Restricted stock activity for the three months ended March 31, 2015 was as follows:

	Shares	Grant-date fair value (\$ in thousands)
Non-vested as of December 31, 2014	315,338	\$4,091
Granted	355,876	3,772
Vested	(107,926	) (1,397
Forfeited	—	—
Non-vested as of March 31, 2015	563,288	\$6,466

The Company's compensation expense related to restricted stock was \$0.7 million for the three months ended March 31, 2015 and 2014. The unrecognized compensation cost of \$4.2 million at March 31, 2015 is expected to be recognized over the next three years.

**Stock Options**

Under the Company's 2006 Incentive Plan, the Company's compensation committee may grant options to purchase shares of common stock. Stock options may either be incentive stock options ("ISOs") or non-qualified stock options. ISOs may only be granted to officers and employees. The compensation committee will, with regard to each stock option, determine the number of shares subject to the stock option, the manner and time of exercise, vesting, and the exercise price, which will not be less than 100% of the fair market value of the common stock on the date of the grant. The shares of common stock issuable upon exercise of options or other awards or upon grant of any other award may be either previously authorized but unissued shares or treasury shares.

Stock option activity for the three months ended March 31, 2015 was as follows:

	Options
Outstanding as of January 1, 2014	4,628,439
Granted	—
Exercised	(172,500
Forfeited	(10,000
Outstanding as of March 31, 2015	4,445,939
Vested as of March 31, 2015	4,445,939
Exercisable as of March 31, 2015	4,445,939

As of March 31, 2015 and December 31, 2014, the Company has recognized all compensation costs related to options granted.

**Note 9. Income Per Share**

The computations of basic and diluted income per share for the three months ended March 31, 2015 and 2014 are as follows:

Table of Contents

	Three Months Ended March 31, 2015		2014
	(In thousands)		
Numerator:			
Net income	\$2,539		\$6,203
Denominator:			
Denominator for basic income per common share	46,770		48,730
Denominator:			
Denominator for diluted income per common share	46,770		48,730
Potentially dilutive securities - options	2,636		3,720
Potentially dilutive securities - warrants	—		340
Total weighted average diluted shares	49,406		52,790

Warrants to purchase common stock totaling 12,000,000 were not included in the computation of earnings per share for the three months ended March 31, 2015 due to the fact that the results would be anti-dilutive.

## Note 10. Variable Interest Entities

The Company sponsors the formation of various entities that are considered to be VIEs. The Company evaluates the need to consolidate these entities pursuant to Accounting Standards Codification ("ASC") Topic 810 relating to the consolidation of VIEs. These VIEs were formed to issue term debt securitizations. The assets of the VIEs are primarily comprised of senior secured loans and the liabilities are primarily comprised of debt. The Company's determination of whether it is the primary beneficiary of the VIE is based in part on an assessment of whether or not the Company is exposed to the majority of the risks and rewards of the entity. In instances where the Company retains a significant portion of the equity and remains the servicer of the loans, it was determined that the Company has the power to direct the activities that most significantly impact the economic performance of these VIEs. Additionally, the Company determined that the potential fees that they could receive directly or indirectly from these VIEs represent rights to returns that could potentially be significant to the VIEs. As a result, the Company was deemed the primary beneficiary and therefore has consolidated these entities. VIEs that have been consolidated are disclosed in Note 6. The Company's involvement with term debt securitizations that are VIEs and unconsolidated by the Company is generally limited to that of an investment manager and its investment in the unconsolidated VIE, if any. The Company is not the primary beneficiary of these unconsolidated VIEs. The Company's investment in any unconsolidated VIE generally represent an insignificant equity interest. The Company's exposure to the risk in these entities is generally limited to any capital contributions it has made or is required to make and any earned but uncollected management fees.

The following table sets forth the information with respect to the unconsolidated VIEs for which the Company holds a variable interest in:

	March 31, 2015	December 31, 2014
	(\$ in thousands)	
Unconsolidated VIE assets	\$800,000	\$400,000
Unconsolidated VIE liabilities	728,200	368,750
Equity interest included on the Consolidated Balance Sheet	2,230	—
Maximum risk of loss (1)	24,014	1,047

(1) Includes equity investment the Company has made, or is required to make, and any earned but uncollected management and incentive fees. The Company does not record performance and incentive allocations until the respective measurement period has ended.

In April 2013, the Company formed a new managed credit fund, NewStar Arlington Fund LLC ("Arlington Fund") in partnership with an institutional investor to co-invest in middle market commercial loans originated by the Company's Leveraged Finance group. As the managing member of Arlington Fund, the Company retained full discretion over Arlington Fund's investment decisions, subject to usual and customary limitations, and earned management fees as compensation for its services. For the six months ended June 30, 2014, the management fee was \$0.5 million which

was eliminated in consolidation.

On April 4, 2013, Arlington Fund entered into an agreement establishing \$147.0 million of Class A variable funding notes (the "Class A Notes") and \$28.0 million of Class B variable funding notes (the "Class B Notes") to partially fund eligible middle market loan origination for Arlington Fund. Wells Fargo Bank, National Association funded the Class A Notes as the

30

---

Table of Contents

initial Class A lender and the Company funded the Class B Notes as the initial Class B lender. For the months ended June 30, 2014 interest expense on the Class B Notes totaled \$0.7 million. For the six months ended June 30, 2014 and for the year ended December 31, 2013 the Fund distributed excess cash to its institutional investor totaling \$0.7 million and \$0.6 million, respectively.

From inception, the Company was deemed to be the primary beneficiary of Arlington Fund and, therefore, consolidated the financial results of Arlington Fund with the Company's results of operations and statements of financial position since April 2013.

On June 26, 2014, the NewStar Arlington Senior Loan Program LLC (the "Arlington Program") completed a \$409.4 million term debt securitization comprised of all of the Arlington Fund's loans as well as a portion of the Company's loans classified as held-for-sale. A portion of the proceeds from this term debt securitization were used to repay all advances under the Class A Notes and the Class B Notes. Following repayment, the Class A Notes and the Class B Notes were redeemed. As a result the amortization of \$1.1 million of deferred financing fees was accelerated and recognized during the three months ended June 30, 2014. The Company's membership interests in Arlington Fund were also redeemed and new membership interests in the Arlington Program were issued to its equity investors. The Company did not recognize a gain or a loss on the redemption of its membership interests in the Arlington Fund. The Company acts as collateral manager for the Arlington Program. As a result of the repayment of the Company's advances as the Class B lender under the warehouse facility and the redemption of its membership interests in the Arlington Fund, the Company has no ownership or financial interests in the Arlington Fund or its successors except to the extent that it receives management fees as collateral manager of the Arlington Program. As a result, the Company deconsolidated the Arlington Fund from its statements of financial position beginning on June 26, 2014. The Company determined that it is not the primary beneficiary of the Arlington Program and will not consolidate the Arlington Program's operating results or statements of financial position as of that date.

Although the Company consolidated all of the assets and liabilities of Arlington Fund, during the period from April 4, 2013 through June 26, 2014, its maximum exposure to loss was limited to its investments in membership interests in Arlington Fund, its Class B Note receivable, as well as the management fee receivable from Arlington Fund. These items defined the Company's economic relationship with Arlington Fund but were eliminated upon consolidation. The Company managed the assets of Arlington Fund solely for the benefit of its lenders and investors. If the Company were to have liquidated, the assets of Arlington Fund would not have been available to the Company's general creditors. Conversely, the investors in the debt of Arlington Fund had no recourse to the Company's general assets. Therefore, the Company did not consider this debt its obligation.

During the period from April 4, 2013 through June 26, 2014 when the Company consolidated the Arlington Fund as a variable interest entity, or VIE, the membership interests representing equity ownership of Arlington Fund were characterized as debt in the Company's consolidated statement of financial position. The Company applied an imputed interest rate to that debt and recorded the resulting interest expense in its consolidated statement of operations. In the consolidation, the Company eliminated the economic results of its related portion of the membership interests and the applied interest expense from its results of operations and statements of financial position.

**Note 11. Financial Instruments with Off-Balance Sheet Risk**

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its borrowers. These financial instruments include unfunded commitments and standby letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unused lines of credit are commitments to lend to a borrower if certain conditions have been met. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each borrower's creditworthiness on a case-by-case basis. The

amount of collateral required is based on factors that include management's credit evaluation of the borrower and the borrower's compliance with financial covenants. Due to their fluctuating nature, the Company cannot know with certainty the aggregate amounts that will be required to fund its unfunded commitments. The aggregate amount of these unfunded commitments currently exceeds the Company's available funds and will likely continue to exceed its available funds in the future.

At March 31, 2015, the Company had \$330.0 million of unused lines of credit. Of these unused lines of credit, unfunded commitments related to revolving credit facilities were \$292.0 million and unfunded commitments related to delayed draw term

Table of Contents

loans were \$32.0 million. \$6.0 million of the unused revolving commitments are unavailable to the borrowers, which may be related to the borrowers' inability to meet covenant obligations or other similar events.

Revolving credit facilities allow the Company's borrowers to draw up to a specified amount, subject to customary borrowing conditions. The unfunded revolving commitments of \$292.0 million are further categorized as either contingent or unrestricted. Contingent commitments limit a borrower's ability to access the revolver unless it meets an enumerated borrowing base covenant or other restrictions. At March 31, 2015, the Company categorized \$169.2 million of the unfunded commitments related to revolving credit facilities as contingent. Unrestricted commitments represent commitments that are currently accessible, assuming the borrower is in compliance with certain customary loan terms and conditions. At March 31, 2015, the Company had \$122.8 million of unfunded unrestricted revolving commitments.

During the three months ended March 31, 2015, revolver usage averaged approximately 50%, which is in line with the average of 49% over the previous four quarters. Management's experience indicates that borrowers typically do not seek to exercise their entire available line of credit at any point in time. During the three months ended March 31, 2015, revolving commitments increased \$19.3 million.

Delayed draw credit facilities allow the Company's borrowers to draw predefined amounts of the approved loan commitment at contractually set times, subject to specific conditions, such as capital expenditures or acquisitions in corporate loans or for tenant improvements in commercial real estate loans. During the three months ended March 31, 2014, delayed draw credit facility commitments decreased \$9.7 million.

Standby letters of credit are conditional commitments issued by us to guarantee the performance by a borrower to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit to our borrowers. On December 4, 2014, the Company entered into a total return swap ("TRS") for senior floating rate loans with Citibank. The TRS with Citibank enables the Company, through a wholly-owned financing subsidiary NewStar TRS I LLC, to obtain the economic benefits of the loans subject to the TRS, despite the fact that such loans will not be directly owned by it, in return for an interest payment to Citibank. The Company acts as the manager of the TRS and selects the specific loans to be subject to the TRS. The TRS does not qualify for hedge accounting treatment as it does not offset the risks of another investment position. As of March 31, 2015, the fair value of the underlying loan portfolio was \$141.2 million and \$109.2 million as of December 31, 2014. Interest accrues at one-month LIBOR+1.60% per annum. At March 31, 2015 and December 31, 2014, the Company had interest receivable from the TRS of \$0.8 million and \$0.1 million, respectively, included in Other assets. The Company is required to cash collateralize a specified percentage of each loan included under the TRS in accordance with margin requirements. As of March 31, 2015 and December 31, 2014, the Company had cash collateral on deposit with Citibank of \$49.1 million and \$39.0 million, respectively. The Company's obligations under the TRS are non-recourse to it, and its exposure is limited to the value of the cash collateral. At March 31, 2015, the TRS had an unrealized gain of \$0.3 million compared to an unrealized loss of \$0.9 million at December 31, 2014 that was included in Other assets and the change was recorded in Non-interest income.

Financial instruments with off-balance sheet risk are summarized as follows:

	March 31, 2015	December 31, 2014
	(\$ in thousands)	
Unused lines of credit	\$330,041	\$317,583
Standby letters of credit	7,974	7,911

#### Note 12. Fair Value

ASC 820, Fair Value Measurements ("ASC 820") establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the

financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

32

---



Table of Contents

The following table presents recorded amounts of assets and liabilities measured at fair value on a recurring and nonrecurring basis as of March 31, 2015, by caption in the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above).

	Quoted Prices in Active Markets for Identical Assets (Level 1) (\$ in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value in Consolidated Balance Sheet
Recurring Basis:				
Investments in debt securities, available-for-sale	\$—	\$—	\$79,891	\$79,891
TRS	\$—	\$1,176	\$—	\$1,176
Total assets recorded at fair value on a recurring basis	\$—	\$1,176	\$79,891	\$81,067
Nonrecurring Basis:				
Loans, net	\$—	\$—	\$27,685	\$27,685
Total assets recorded at fair value on a nonrecurring basis	\$—	\$—	\$27,685	\$27,685

At March 31, 2015, “Investments in debt securities, available-for-sale” consisted of collateralized loan obligations. The fair value measurement is obtained through a third party pricing service or by using internally developed financial models.

At March 31, 2015, Other assets included TRS with Citibank. The TRS has a maximum notional amount of \$150.0 million and is carried at an estimated fair value of \$1.2 million, comprised of \$0.8 million of interest receivable and an unrealized gain of \$0.3 million on the underlying loan portfolio. The fair value measurement is obtained through a third party pricing service.

At March 31, 2015, “Loans, net” measured at fair value on a nonrecurring basis consisted of impaired collateral-dependent commercial real estate loans. The fair values of these loans are based on third party appraisals of the underlying collateral value as well as the Company’s internal analysis. During the three months ended March 31, 2015, the Company recorded \$0.07 million of specific allowance for credit losses related to “Loans, net” measured at fair value at March 31, 2015.

The following table presents a summary of significant unobservable inputs and valuation techniques of the Company’s Level 3 fair value measurements at March 31, 2015.

	Fair value (\$ in thousands)	Valuation Techniques	Unobservable Input	Range
Financial assets:				
Investments in debt securities, available-for-sale	\$79,891	Third-party pricing	Pricing assumptions such as prepayment rates, interest rates, loss assumptions, cash flow projections, and comparisons to similar financial instruments	
Loans and leases, net	27,685	Market comparables Valuation model	Cost to sell Marketability discount	3% - 7% 5%-30%
Total:	\$107,576			

The following table presents recorded amounts of assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2014, by caption in the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above).



Table of Contents

	Quoted Prices in Active Markets for Identical Assets (Level 1) (\$ in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value in Consolidated Balance Sheet
Recurring Basis:				
Investments in debt securities, available-for-sale	\$—	\$—	\$46,881	\$46,881
TRS	—	(740	) —	(740
Total assets recorded at fair value on a recurring basis	\$—	\$(740	) \$46,881	\$46,141
Nonrecurring Basis:				
Loans, net	\$—	\$—	\$27,719	\$27,719
Total assets recorded at fair value on a nonrecurring basis	\$—	\$—	\$27,719	\$27,719

At December 31, 2014, “Investments in debt securities, available-for-sale” consisted of collateralized loan obligations. The fair value measurement is obtained through a third party pricing service or by using internally developed financial models.

At December 31, 2014, Other assets included TRS with Citibank. The TRS has a maximum notional amount of \$125.0 million and is carried at an estimated fair value of \$(0.8) million, comprised of \$0.1 million of interest receivable and an unrealized loss of \$0.9 million on the underlying loan portfolio. The fair value measurement is obtained through a third party pricing service.

At December 31, 2014, “Loans, net” measured at fair value on a nonrecurring basis consisted of impaired collateral-dependent commercial real estate loans. The fair values of these loans are based on third party appraisals of the underlying collateral value as well as the Company’s internal analysis. During 2014, the Company released \$0.07 million of specific allowance for credit losses related to “Loans, net” measured at fair value at December 31, 2014. The following table presents a summary of significant unobservable inputs and valuation techniques of the Company’s Level 3 fair value measurements at December 31, 2014.

	Fair value (\$ in thousands)	Valuation Techniques	Unobservable Input	Range
Financial assets:				
Investments in debt securities, available-for-sale	\$46,881	Third-party pricing	Pricing assumptions such as prepayment rates, interest rates, loss assumptions, cash flow projections, and comparisons to similar financial instruments	
Loans and leases, net	27,719	Market comparables Valuation model	Cost to sell Marketability discount	3% - 7% 5%-30%
Total:	\$74,600			

Changes in level 3 recurring fair value measurements

The table below illustrates the change in balance sheet amounts during the three months ended March 31, 2015 and 2014 (including the change in fair value), for financial instruments measured on a recurring basis and classified by the Company as level 3 in the valuation hierarchy. When a determination is made to classify a financial instrument as level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. The Company did not transfer any financial instruments in or out of

level 1, 2, or 3 during the three months ended March 31, 2015 and 2014.  
For the three months ended March 31, 2015:

34

---

Table of Contents

	Investments in Debt Securities, Available-for-sale (\$ in thousands)
Balance as of December 31, 2014	\$46,881
Total gains or losses (realized/unrealized)	
Included in earnings	111
Included in other comprehensive income	185
Purchases	32,714
Issuances	—
Settlements	—
Balance as of March 31, 2015	\$79,891
For the three months ended March 31, 2014:	

	Investments in Debt Securities, Available-for-sale (\$ in thousands)
Balance as of December 31, 2013	\$22,198
Total gains or losses (realized/unrealized)	
Included in earnings	56
Included in other comprehensive income	290
Purchases	—
Issuances	—
Settlements	—
Balance as of March 31, 2014	\$22,544

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2015 and December 31, 2014. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	March 31, 2015		December 31, 2014	
	Carrying amount (\$ in thousands)	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$28,666	\$28,666	\$33,033	\$33,033
Restricted cash	214,853	214,853	95,411	95,411
Cash collateral on deposit with custodian	49,082	49,082	38,975	38,975
Loans held-for-sale	149,609	149,609	200,569	200,569
Loans and leases, net	2,496,564	2,500,094	2,305,896	2,314,271
Investments in debt securities available-for-sale	79,891	79,891	46,881	46,881
Other assets	13,134	13,134	15,613	15,613
Financial liabilities:				
Credit facilities	\$369,894	\$369,894	\$487,768	\$487,768
Term debt	1,572,484	1,555,162	1,193,187	1,163,803
Repurchase agreements	79,760	85,603	57,227	63,507
Corporate debt	238,300	238,300	238,500	238,500
Subordinated notes	136,578	189,477	156,831	184,087

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions.



Table of Contents

The following table presents the carrying amounts, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments at March 31, 2015 and December 31, 2014. The table excludes financial instruments for which the carrying amount approximates fair value such as cash and cash equivalents, restricted cash, loans held-for-sale (as applicable), investments in debt securities available-for-sale, credit facilities, and financial information disclosed above.

March 31, 2015	Carrying amount Fair value (\$ in thousands)	Fair value	Fair Value Measurements		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and leases, net	\$2,496,564	\$2,500,094	\$—	\$—	\$2,500,094
Financial liabilities:					
Term debt securitizations	1,572,484	1,555,162	—	1,555,162	—
Repurchase agreements	79,760	85,603	—	85,603	—
Subordinated notes	136,578	189,477	—	—	189,477
December 31, 2014	Carrying amount Fair value (\$ in thousands)	Fair value	Fair Value Measurements		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and leases, net	\$2,305,896	\$2,314,271	\$—	\$—	\$2,314,271
Financial liabilities:					
Term debt securitizations	1,193,187	1,163,803	—	1,163,803	—
Repurchase agreements	57,227	63,507	—	63,507	—
Subordinated notes	156,831	184,087	—	—	184,087

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:  
Cash and cash equivalents and restricted cash: The carrying amounts approximate fair value because of the short maturity of these instruments.

Loans held-for-sale, net: The fair values are based on quoted prices, where available, cost, or are determined by discounting estimated cash flows using model-based valuation techniques. Inputs into the model-based valuations can include changes in market indexes, selling prices of similar loans, management's assumption related to credit rating of the loan, prepayment assumptions and other factors, such as credit loss assumptions.

Loans and leases, net: The fair value was determined as the present value of expected future cash flows discounted at current market interest rates offered by similar lending institutions for loans with similar terms to companies with comparable credit risk. This method of estimating fair value does not incorporate the exit price concept of fair value and is based on significant unobservable inputs. The amount included in the above table excludes impaired collateral-dependent commercial real estate loans.

Investments in debt securities: The fair values of debt securities are based on quoted market prices, when available, at the reporting date for those or similar investments. When no market data is available, we estimate fair value using various valuation tools including cash flow models that utilize financial statements and business plans, as well as qualitative factors.

Credit facilities: Due to the adjustable rate nature of the borrowings, the fair values of the credit facilities are estimated to be their carrying values. Rates currently are comparable to those offered to the Company for similar debt instruments of comparable maturities by the Company's lenders.

Term debt securitizations: The fair value was determined by applying prevailing term debt securitization market interest rates to the Company's current term debt securitization structure.

Repurchase agreements: The fair value was determined by applying prevailing repurchase agreement market interest rates to the Company's current repurchase agreement structure.

Other assets: Comprised of non-public investments which are initially valued at transaction price and subsequently adjusted when evidence is available to support such adjustments when appropriate. The estimated fair value was determined based on the Company's valuation techniques, including discounting estimated cash flows and model-based valuations.

Note 13. Related-Party Transactions

36

---



Table of Contents

On January 15, 2015, the Company announced the closing of the NewStar Clarendon Fund CLO LLC (the “Clarendon Fund”), a \$400.0 million term debt securitization. The Clarendon Fund is the third credit fund established by the Company to co-invest in directly originated middle market commercial loans. To comply with EU risk retention rules, the Company holds 5% of each class of note in the securitization. The Clarendon Fund employs an independent investment professional who is responsible for investment decision making on behalf of the program. The Company has determined that it is not the primary beneficiary of the Clarendon Fund and will not consolidate the Clarendon Fund’s operating results or statements of financial position. Pursuant to a Collateral Management Agreement dated January 15, 2015, the Company serves as collateral manager of the Clarendon Fund. The Company is entitled to receive a fee, which will accrue quarterly based on the fee basis amount in arrears payable on each payment date. For the three months ended March 31, 2015, the Clarendon Fund’s collateral management fee was \$0.4 million.

Pursuant to a Collateral Management Agreement dated June 26, 2014, the Company serves as collateral manager of the Arlington Program. The Company is entitled to receive a fee, which will accrue quarterly based on the fee basis amount in arrears payable on each payment date. For the three months ended March 31, 2015, the Arlington Program’s collateral management fee was \$0.5 million.

Pursuant to an Investment Management Agreement dated August 3, 2005, the Company serves as investment manager of the NewStar Credit Opportunities Fund, Ltd. (the “Fund”), a Cayman Islands exempted company limited by shares incorporated under the provisions of The Companies Law of the Cayman Islands. The Fund pays the Company a fee when cash is distributed to its investors. For the three months ended March 31, 2015 and 2014, the Fund paid the Company \$0.01 million and \$0.02 million, respectively.

Note 14. Subsequent Event

On April 22, 2015, the Company completed the sale of \$300.0 million in aggregate principal amount of 7.25% Senior Notes due 2020. The Company subsequently paid off its corporate credit facility with Fortress Credit Corp. with a portion of the net proceeds from this offering.

On May 5, 2015, the Company entered into a \$175.0 million credit facility with Citibank, N.A. to fund leverage finance loans. The facility provides for a reinvestment period which ends on May 5, 2018 with a two-year amortization period.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains forward-looking statements. Important factors that may cause actual results and circumstances to differ materially from those described in such statements are described in Item 1A of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2014, as well as throughout this Item 2. You are cautioned not to place undue reliance on the forward-looking statements contained in this document. These statements speak only as of the date of this document, and we undertake no obligation to update or revise these statements, except as may be required by law.

Overview

NewStar Financial, Inc. is an internally-managed, commercial finance company with specialized lending platforms focused on meeting the complex financing needs of companies and private investors in the middle market. The Company is also a registered investment adviser and provides asset management services to institutional investors through a series of managed credit funds that co-invest in certain types of loans originated by the Company. Through its specialized lending platforms, the Company provides a range of senior secured debt financing options to mid-sized companies to fund working capital, growth strategies, acquisitions and recapitalizations, as well as, purchases of equipment and other capital assets.

These lending activities require specialized skills and transaction experience, as well as, a significant investment in personnel and operating infrastructure. To meet these demands, our loans and leases are originated directly by teams of credit-trained bankers and experienced marketing officers organized around key industry and market segments. These teams represent specialized lending groups that are supported by centralized credit management and operating platforms. This structure enables us to leverage common standards, systems, and industry and professional expertise across multiple businesses.

We target our marketing and origination efforts at private equity firms, mid-sized companies, corporate executives, banks, real estate investors and a variety of other referral sources and financial intermediaries to develop new

customer relationships and source lending opportunities. Our origination network is national in scope and we target companies with business operations across a broad range of industry sectors. We employ highly experienced bankers, marketing officers and credit professionals to identify and structure new lending opportunities and manage customer relationships. We believe that the quality of our professionals, the breadth of their relationships and referral networks, and their ability to develop creative solutions for customers position us to be a valued partner and preferred lender for mid-sized companies and private equity funds with middle market investment strategies.

## Table of Contents

Our emphasis on direct origination is an important aspect of our marketing and credit strategy. Our national network is designed around specialized origination channels intended to generate a large set of potential lending opportunities. That allows us to be highly selective in our credit process and to allocate capital to market segments that we believe represent the most attractive opportunities. Our direct origination network also generates proprietary lending opportunities with yield characteristics that we believe would not otherwise be available through intermediaries. In addition, direct origination provides us with direct access to management teams and enhances our ability to conduct detailed due diligence and credit analysis of prospective borrowers. It also allows us to negotiate transaction terms directly with borrowers and, as a result, advise our customers' financial strategies and capital structures, which we believe benefits our credit performance.

The Company typically provides financing commitments to companies in amounts that range in size from \$10 million to \$50 million. The size of financing commitments depends on various factors, including the type of loan, the credit characteristics of the borrower, the economic characteristics of the loan, and our role in the transaction. We also selectively arrange larger transactions that we may retain on our balance sheet or syndicate to other lenders, which may include funds that we manage for third party institutional investors. By syndicating loans to other lenders and our managed funds, we are able to provide larger financing commitments to our customers and generate fee income, while limiting our risk exposure to single borrowers. From time to time, however, our balance sheet exposure to a single borrower may exceed \$35 million.

NewStar offers a set of credit products and services that have many common attributes, but which are highly specialized by lending group and market segment. Although both the Leveraged Finance and Business Credit lending groups structure loans as revolving credit facilities and term loans, the style of lending and approach to credit management is highly specialized. The Equipment Finance group broadens our product offering to include a range of lease financing options. The operational intensity of each product also varies by lending group.

Although NewStar operates as a single segment, the Company derives revenues from our asset management activities and four specialized lending groups that target market segments in which we believe that we have competitive advantages:

Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, which are primarily used to finance acquisitions of mid-sized companies with annual cash flow (EBITDA) typically between \$10 million and \$50 million by private equity investment funds managed by established professional alternative asset managers;

Business Credit, provides senior, secured asset-based loans primarily to fund working capital needs of mid-sized companies with sales revenue typically totaling between \$25 million and \$500 million;

Real Estate, provides first mortgage debt primarily to finance acquisitions of commercial real estate properties typically valued between \$10 million and \$50 million by professional commercial real estate investors;

Equipment Finance, provides leases, loans and lease lines to finance purchases of equipment and other capital expenditures typically for companies with annual sales of at least \$25 million; and

Asset Management, provides opportunities for qualified institutions to invest in credit funds managed by the Company with strategies to co-invest in loans originated by its Leveraged Finance lending group.

### Market Conditions

As a specialized commercial finance company, we compete in various segments of the loan market to extend credit to mid-sized companies through our national specialized lending platforms. We rely primarily on large banks for warehouse lines of credit to partially fund new loan origination and the capital markets for longer term funding through the issuance of asset-backed notes that are used to refinance bank lines and provide funding with matched duration for our leveraged loan portfolio.

Market conditions in most segments of the loan market that we target were mixed in the first quarter compared to the prior quarter. Although the first quarter tends to be a seasonally slower quarter for volumes, according to Thomson Reuters, overall middle market loan volume in the first quarter decreased as compared to the fourth quarter and as compared to the same period last year, with volume of approximately \$25 billion versus \$53 billion in the fourth quarter and \$42 billion in the first quarter last year. The markets remained highly competitive and liquid as the supply of new capital continued to outpace demand for new financing for growth or acquisitions. The volume represented by

new middle market transactions, as opposed to refinancings, decreased in the first quarter to \$11.3 billion; refinancing volume was \$14.1 billion. As a percentage of total volume, new transactions remained steady at 45% versus the prior quarter but decreased from 48% in the same period last year.

After hitting a trough in early 2014, the pricing environment in the broader loan market has generally strengthened since the middle of 2014 but dipped again in the first quarter of 2015. We believe that conditions in the middle market remained somewhat insulated from the impact of excessive liquidity evident in the broader loan markets as yields remained relatively stable through the first half of 2014 and have since trended upward into the first quarter of 2015. Loan yields in the large corporate market decreased in the first quarter while middle market loan yields remained relatively stable. Large corporate loan yields were down to 5.6% from 5.9% in the fourth quarter but up from 4.5% in the same quarter last year. Middle market loan yields were up to 6.7% from 6.6% in the fourth quarter and from 5.7% in the same quarter last year. With most of the new

## Table of Contents

money flowing into the loan market from CLO issuance and retail loan funds targeted for broadly syndicated loans, we believe that market conditions will continue to be more challenging for large corporate lenders and that the middle market will continue to compare favorably.

Our different lending platforms provide us with certain flexibility to allocate capital and redirect our origination focus to market segments with the most favorable conditions in terms of demand and relative value. As the pricing environment for larger, more liquid loans has remained comparatively weak in the first quarter and loan demand among private equity firms in the lower middle market remained somewhat firmer, we continued to emphasize direct lending to smaller companies during the quarter. We believe that the yields on our new loan origination will continue to reflect a combination of these broad market trends and shifts in the mix of loans we originate.

Conditions in our core funding markets have remained steady in the first quarter as many fixed income investors continued to target structured investment alternatives such as CLOs to meet their return objectives. The market had been unsettled through much of the year last year, however, as regulatory headwinds dampened demand for CLOs among banks. The broader fixed income markets remained active in the quarter as the market seems to have adjusted to changes in the Federal Reserve's monetary policies. As a result, we believe that investors will be more cautious about holding fixed rate debt, leading to less capital flowing into the high yield market in favor of high yielding investments with shorter duration, including floating rate bank loans and CLO bonds.

New U.S. CLO issuance in the first quarter was approximately \$29 billion, a 31% increase versus the same quarter in 2014, a year that saw over \$123 billion in total CLO issuance. Total U.S. CLO issuance in 2013 and 2012 was \$81 billion and \$55 billion, respectively. After trending slightly upward through the second half of 2014, despite interest rate uncertainty and a steepening yield curve, CLO credit spreads have remained relatively steady since the end of 2014 and into the first quarter however, as regulatory uncertainty slowly diminishes. We believe marginal funding costs will be somewhat range bound at current levels until investors reset rate expectations and resolve regulatory issues. Despite this trend in the pricing environment, we believe that market conditions remain supportive for us to issue new CLOs. We also believe the availability and cost of warehouse financing among banks has continued to improve as more banks have begun to provide this type of financing and existing providers have increased their lending activity. As a result, we believe that the terms and conditions for financings available to established firms like NewStar have improved.

Loan demand in the middle market is strongly influenced by the level of refinancing, acquisition activity and private investment, which is driven largely by changes in the perceived risk environment, prevailing borrowing rates and private investment activity. These factors were generally favorable in the fourth quarter as we originated \$[TBD] million of new loans at attractive yields. After declining through the first half of 2014 in a muted M&A volume environment, yields have since rebounded. Although pricing remained thinner and leverage continued to trend higher in the broad loan market, conditions in our primary target markets remained somewhat more favorable with pricing widening and leverage stabilizing at levels that compare favorably to the broader loan market, in which larger corporations typically borrow from syndicates of banks and loans are issued, priced and traded in a bond-style market that is more highly correlated with the high yield debt market. We believe that demand for new middle market loans and credit products will remain relatively consistent with current levels in the near term and exhibit usual seasonality. Over the long-term, we believe that demand will improve because private equity firms have substantial un-invested capital, which we believe that they will deploy through investment strategies that emphasize investments in mid-sized companies. As a result of these factors, we anticipate that demand for loans and leases offered by the Company and conditions in our lending markets will remain favorable through 2015 and continue to provide opportunities for us to increase our origination volume.

### Recent Developments

#### Liquidity

On May 5, 2015, we entered into a \$175.0 million credit facility with Citibank, N.A. to fund leverage finance loans. The facility provides for a reinvestment period which ends on May 5, 2018 with a two-year amortization period.

On April 22, 2015, we completed the sale of \$300.0 million in aggregate principal amount of 7.25% Senior Notes due 2020. We subsequently paid off our corporate credit facility with Fortress Credit Corp. with a portion of the net proceeds from this offering.

On April 10, 2015, we entered into an amendment to our credit facility with Wells Fargo Bank, National Association to fund equipment finance leases and loans. The amendment, among other things, extended the advance termination date from April 10, 2015 to April 10, 2017 and the final legal maturity date to April 10, 2019, and increased the maximum single lessee hold size to \$4.0 million, subject to concentration limits.

On March 20, 2015, we completed a \$496.1 million term debt securitization. As part of the securitization, investors purchased approximately \$410.3 million of the floating-rate asset-backed notes. We retained all of the remaining notes and equity, which totaled approximately \$85.8 million. The notes are expected to mature in January 2027.

Table of Contents

On March 6, 2015, we entered into an amendment to our credit facility with Wells Fargo Bank, National Association to fund leveraged finance loans. The amendment, among other things, increased the commitment amount from \$375.0 million to \$425.0 million, increased the maximum amount that the credit facility may be increased to \$475.0 million, subject to lender approval, and modified certain concentration amounts and specified threshold amounts.

**Stock Repurchase**

On March 24, 2015, we repurchased 1,000,000 shares of our common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.3 million.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014**

NewStar's basic and diluted income per share for the three months ended March 31, 2015 was \$0.05 on net income of \$2.5 million, compared to basic and diluted income per share for the three months ended March 31, 2014 of \$0.13 and \$0.12, respectively, on net income of \$6.2 million. Our managed portfolio was \$3.7 billion at March 31, 2015 compared to \$3.4 billion at December 31, 2014. Our managed assets totaled \$4.1 billion at March 31, 2015 compared to \$3.8 billion as of December 31, 2014.

**Loan portfolio yield**

Loan portfolio yield, which is interest income on our loans and leases divided by the average balances outstanding of our loans and leases, was 6.00% and 6.18% for the three ended March 31, 2015 and 2014, respectively. The decrease in loan portfolio yield was primarily driven by a decrease in our average yield on interest earning assets from new loan and lease origination and re-pricings subsequent to March 31, 2014, and the average yield on loans which were repaid subsequent to March 31, 2014 was higher than the average yield on loans in our total loan portfolio.

**Net interest margin**

Net interest margin, which is net interest income divided by average interest earning assets, was 2.51% for the three months ended March 31, 2015 and 3.50% for the three months ended March 31, 2014. The primary factors impacting net interest margin for the three months ended March 31, 2015 and 2014 were the composition of interest earning assets, non-accrual loans, changes in three-month LIBOR, credit spreads and cost of borrowings.

**Efficiency ratio**

Our efficiency ratio, which is total operating expenses divided by net interest income before provision for credit losses plus total non-interest income, was 47.50% for the three months ended March 31, 2015 and 42.72% for the three months ended March 31, 2014. The increase in our efficiency ratio for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 was primarily due to increased interest expense driven by an increase in our interest bearing liabilities.

**Allowance for credit losses ratio**

Allowance for credit losses ratio, which is allowance for credit losses divided by outstanding gross loans and leases excluding loans held-for-sale, was 1.97% at March 31, 2015 and 1.84% as of December 31, 2014. The increase in the allowance for credit losses ratio from December 31, 2014 is primarily due to the increase in general provision resulting from the increase in outstanding loans due to new loan origination during the three months ended March 31, 2015, and an increase in the specific allowance of \$3.0 million. During the three months ended March 31, 2015, we recorded \$3.0 million of net specific provision for credit losses on impaired loans and had recoveries totaling \$0.1 million. At March 31, 2015, the specific allowance for credit losses was \$23.7 million, and the general allowance for credit losses was \$27.0 million. At December 31, 2014, the specific allowance for credit losses was \$20.7 million, and the general allowance for credit losses was \$23.0 million. We continually evaluate our allowance for credit losses methodology. If we determine that a change in our allowance for credit losses methodology is advisable, as a result of the rapidly changing economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of allowance. Moreover, actual losses under our current or any revised methodology may differ materially from our estimate.

**Delinquent loan rate**

Delinquent loan rate, which is total delinquent loans net of charge offs with outstanding cash receivables that are 60 days or more past due, divided by outstanding gross loans and leases, was 1.68% as of March 31, 2015 as compared to 1.84% as of December 31, 2014. We had delinquent loans with an outstanding balance of \$43.2 million and \$43.6 million as of March 31, 2015 and December 31, 2014, respectively. We expect the delinquent loan rate to correlate to

current economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase.



Table of Contents

Delinquent loan rate for accruing loans 60 days or more past due

Delinquent loan rate for accruing loans 60 days or more past due, which is total delinquent accruing loans net of charge offs with outstanding cash receivables that are 60 days or more past due and less than 90 days past due, divided by outstanding gross loans and leases. We did not have any delinquent accruing loans as of March 31, 2015 or December 31, 2014. We expect the delinquent accruing loan rate to correlate to current economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase.

Non-accrual loan rate

Non-accrual loan rate is defined as total balances outstanding of loans on non-accrual status divided by the total outstanding balance of our loans and leases held for investment. Loans are put on non-accrual status if they are 90 days or more past due or if management believes it is probable that the Company will be unable to collect contractual principal and interest in the normal course of business. The non-accrual loan rate was 3.90% as of March 31, 2015 and 3.70% as of December 31, 2014. As of March 31, 2015 and December 31, 2014, the aggregate outstanding balance of non-accrual loans was \$100.3 million and \$87.8 million, respectively and total outstanding loans and leases held for investment was \$2.6 billion and \$2.4 billion, respectively. We expect the non-accrual loan rate to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

Non-performing asset rate

Non-performing asset rate is defined as the sum of total balances outstanding of loans on non-accrual status and other real estate owned, divided by the sum of the total outstanding balance of our loans and leases held for investment and other real estate owned. The non-performing asset rate was 4.01% as of March 31, 2015 and 3.84% as of December 31, 2014. As of March 31, 2015 and December 31, 2014, the sum of the aggregate outstanding balance of non-performing assets was \$103.3 million and \$91.0 million, respectively. We expect the non-performing asset rate to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

Net charge off rate (end of period loans and leases)

Net charge off rate as a percentage of end of period loan and lease portfolio is defined as annualized charge-offs net of recoveries divided by the total outstanding balance of our loans and leases held for investment. A charge-off occurs when management believes that all or part of the principal of a particular loan is no longer recoverable and will not be repaid. Typically a charge off occurs in a period after a loan has been identified as impaired and a specific allowance has been established. We did not have any charge offs during the three months ended March 31, 2015. The net charge-off rate was 1.42% for the three months ended March 31, 2014. We expect the net charge-off rate (end of period loans and leases) to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

Net charge off rate (average period loans and leases)

Net charge off rate as a percentage of average period loan and lease portfolio is defined as annualized charge-offs net of recoveries divided by the average total outstanding balance of our loans and leases held for investment for the period. We did not have any charge offs during the three months ended March 31, 2015. The net charge-off rate was 1.41% for the three months ended March 31, 2014. We expect the net charge-off rate (average period loans and leases) to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

Return on average assets

Return on average assets, which is net income divided by average total assets, was 0.36% for the three months ended March 31, 2015 and 0.98% for the three months ended March 31, 2014.

Return on average equity

Return on average equity, which is net income divided by average equity, was 1.57% for the three months ended March 31, 2015 and 4.05% for the three months ended March 31, 2014.

Review of Consolidated Results

A summary of NewStar Financial's consolidated financial results for the three months ended March 31, 2015 and 2014 follows:

41

---

Table of Contents

	Three Months Ended	
	March 31,	2014
	2015	
	(\$ in thousands)	
Net interest income:		
Interest income	\$39,749	\$33,127
Interest expense	22,334	12,501
Net interest income	17,415	20,626
Provision for credit losses	6,978	5,807
Net interest income after provision for credit losses	10,437	14,819
Non-interest income:		
Fee income	1,158	770
Asset management income	920	25
Loss on derivatives	(9	) (4
Loss on sale of loans	(15	) (166
Other income	2,072	6,093
Total non-interest income	4,126	6,718
Operating expenses:		
Compensation and benefits	6,733	7,759
General and administrative expenses	3,499	4,369
Total operating expenses	10,232	12,128
Operating income before income taxes	4,331	9,409
Results of Consolidated Variable Interest Entity		
Interest income	—	2,653
Interest expense – credit facilities	—	878
Interest expense – Fund membership interest	—	595
Other income	—	8
Operating expenses	—	60
Net results from Consolidated Variable Interest Entity	—	1,128
Income before income taxes	4,331	10,537
Income tax expense	1,792	4,334
Net income	\$2,539	\$6,203

## Comparison of the Three Months Ended March 31, 2015 and 2014

Interest income. Interest income increased \$3.9 million, to \$39.7 million for the three months ended March 31, 2015 from \$35.8 million for the three months ended March 31, 2014. The increase was primarily due to an increase in average balance of our interest earning assets to \$2.8 billion from \$2.5 billion primarily due to new loan origination subsequent to March 31, 2014.

Interest expense. Interest expense increased \$8.3 million, to \$22.3 million for the three months ended March 31, 2015 from \$14.0 million for the three months ended March 31, 2014. The increase is primarily due to an increase in the average balance of our interest bearing liabilities to \$2.2 billion from \$1.9 billion, and an increase in the average cost of funds to 4.11% from 2.97%, primarily due to increased borrowings under certain credit facilities with higher interest rates and the subordinated notes.

Net interest margin. Net interest margin decreased to 2.51% for the three months ended March 31, 2015 from 3.50% for the three months ended March 31, 2014. The decrease in net interest margin was primarily due to an increase in our average cost of interest bearing liabilities. The net interest spread, the difference between gross yield on our interest earning assets and the total cost of our interest bearing liabilities, decreased to 1.61% from 2.77%.

The following table summarizes the yield and cost of interest earning assets and interest bearing liabilities for the three months ended March 31, 2015 and 2014:



Table of Contents

	Three Months Ended March 31, 2015 (\$ in thousands)			Three Months Ended March 31, 2014				
	Average Balance	Interest Income/ Expense	Average Yield/ Cost		Average Balance	Interest Income/ Expense	Average Yield/ Cost	
Total interest earning assets	\$2,817,452	\$39,749	5.72	%	\$2,528,474	\$35,780	5.74	%
Total interest bearing liabilities	2,205,096	22,334	4.11		1,905,993	13,974	2.97	
Net interest spread		\$17,415	1.61	%		\$21,806	2.77	%
Net interest margin			2.51	%			3.50	%

Provision for credit losses. The provision for credit losses increased \$1.2 million to \$7.0 million for the three months ended March 31, 2015 from \$5.8 million for the three months ended March 31, 2014. The increase in the provision was primarily due to an increase of \$2.3 million of general provisions, which was primarily a result of loan growth, partially offset by a decrease of \$1.1 million in specific provisions recorded during the three months ended March 31, 2015 as compared to three months ended March 31, 2014. During the three months ended March 31, 2015, we recorded net specific provisions for impaired loans of \$3.0 million compared to \$4.1 million recorded during the three months ended March 31, 2014. [The net specific component of the provision for credit losses was primarily focused around negative credit migration related to one previously identified impaired loan]. Our general allowance for credit losses covers probable losses in our loan and lease portfolio with respect to loans and leases that are not impaired and for which no specific impairment has been identified. A specific provision for credit losses is recorded with respect to loans for which it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement for which there is impairment recognized. The Company employs a variety of internally developed and third-party modeling and estimation tools for measuring credit risk, which are used in developing an allowance for loan and lease losses on outstanding loans and leases. The Company's allowance framework addresses economic conditions, capital market liquidity and industry circumstances from both a top-down and bottom-up perspective. The Company considers and evaluates a number of factors, including but not limited to, changes in economic conditions, credit availability, industry, loss emergence period, and multiple obligor concentrations in assessing both probabilities of default and loss severities as part of the general component of the allowance for loan and lease losses.

On at least a quarterly basis, loans and leases are internally risk-rated based on individual credit criteria, including loan and lease type, loan and lease structures (including balloon and bullet structures common in the Company's Leveraged Finance and Real Estate loans), borrower industry, payment capacity, location and quality of collateral if any (including the Company's Real Estate loans). Borrowers provide the Company with financial information on either a monthly or quarterly basis. Ratings, corresponding assumed default rates and assumed loss severities are dynamically updated to reflect any changes in borrower condition or profile.

For Leveraged Finance loans and Equipment Finance products, the data set used to construct probabilities of default in its allowance for loan losses model, Moody's CRD Private Firm Database, primarily contains middle market loans that share attributes similar to the Company's loans. The Company also considers the quality of the loan or lease terms and lender protections in determining a loan loss in the event of default.

For Business Credit loans, the Company utilizes a proprietary model to risk rate the loans on a monthly basis. This model captures the impact of changes in industry and economic conditions as well as changes in the quality of the borrower's collateral and financial performance to assign a final risk rating. The Company has also evaluated historical loss trends by risk rating from a comprehensive industry database covering more than twenty-five years of experience of the majority of the asset based lenders operating in the United States. Based upon the monthly risk rating from the model, the reserve is adjusted to reflect the historical average for expected loss from the industry database.

For Real Estate loans, the Company employs two mechanisms to capture the impact of industry and economic conditions. First, a loan's risk rating, and thereby its assumed default likelihood, can be adjusted to account for overall commercial real estate market conditions. Second, to the extent that economic or industry trends adversely affect a substandard rated borrower's loan-to-value ratio enough to impact its repayment ability, the Company applies a stress

multiplier to the loan's probability of default. The multiplier is designed to account for default characteristics that are difficult to quantify when market conditions cause commercial real estate prices to decline.

For consolidated variable interest entities to which the Company is providing transitional capital, we utilize a qualitative analysis which considers the business plans related to the entity, including expected hold periods, the terms of the agreements related to the entity, the Company's historical credit experience, the credit migration of the entity's loans in determining expected loss, as well as conditions in the capital markets. The Company provided capital on a transitional basis to the Arlington Fund. We deconsolidated the Arlington Fund on June 26, 2014. We did not recognize any losses on loans on the date of deconsolidation.

Table of Contents

The Company periodically reviews its allowance for credit loss methodology to assess any necessary adjustments based upon changing economic and capital market conditions. If the Company determines that changes in its allowance for credit losses methodology are advisable, as a result of changes in the economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of allowance. There have been no material modifications to the allowance for credit losses methodology during 2015. Given uncertain market conditions, actual losses under the Company's current or any revised allowance methodology may differ materially from the Company's estimate.

Additionally, when determining the amount of the general allowance, the Company supplements the base amount with an environmental reserve amount which is governed by a score card system comprised of ten individually weighted risk factors. The risk factors are designed based on those outlined in the Comptrollers of the Currency's Allowance for Loan and Lease Losses Handbook. The Company also performs a ratio analysis of comparable money center banks, regional banks and finance companies. While the Company does not rely on this peer group comparison to set the level of allowance for credit losses, it does assist management in identifying market trends and serves as an overall reasonableness check on the allowance for credit losses computation.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment of a loan is based upon (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price, or (iii) the fair value of the collateral if the loan is collateral dependent, depending on the circumstances and our collection strategy. Impaired loans are identified based on the loan-by-loan risk rating process described above. Impaired loans include all non-accrual loans, loans with partial charge-offs and loans which are Troubled Debt Restructurings. It is the Company's policy during the reporting period to record a specific provision for credit losses to cover the identified impairment on a loan.

Impaired loans at March 31, 2015 were in Leveraged Finance, Real Estate, and Business Credit over a range of industries impacted by the then current economic environment including the following: Media and Communications, Industrial, Commercial Real Estate, Other Business Services, Consumer/Retail, and Building Materials. For impaired Leveraged Finance loans, the Company measured impairment based on expected cash flows utilizing relevant information provided by the borrower and consideration of other market conditions or specific factors impacting recoverability. Such amounts are discounted based on original loan terms. For impaired Real Estate loans, the Company determined that the loans were collateral dependent and measured impairment based on the fair value of the related collateral utilizing recent appraisals from third-party appraisers, as well as internal estimates of market value. As of March 31, 2015, we had impaired loans with an aggregate outstanding balance of \$215.7 million. Impaired loans with an aggregate outstanding balance of \$174.3 million have been restructured and classified as troubled debt restructurings. At March 31, 2015, the Company had a \$23.7 million specific allowance for impaired loans with an aggregate outstanding balance of \$129.2 million. As of March 31, 2015, we had two restructured impaired loans which had an outstanding balance greater than \$20 million and one restructured impaired loan which had an outstanding balance greater than \$30 million. In each of these cases, we added to our position to maximize our potential recovery of the outstanding principal.

Non-interest income. Non-interest income decreased \$2.6 million, to \$4.1 million for the three months ended March 31, 2015 from \$6.7 million for the three months ended March 31, 2014. For the three months ended March 31, 2015, non-interest income was primarily comprised of a \$1.2 million unrealized gain on a total return swap, \$1.2 million of fee income, \$0.9 million of asset management fees, \$0.5 million of unused fees, and \$0.2 million of income from other real estate owned properties. For the three months ended March 31, 2014, non-interest income was primarily comprised of a \$6.5 million gain on the sale of an equity interest in an impaired borrower, a \$1.6 million loss from equity method of accounting interests, \$0.8 million of fee income, \$0.7 million of income from other real estate owned properties, and \$0.4 million of unused fees.

As a result of certain of our troubled debt restructurings, we have received equity interests in several of our impaired borrowers. The equity interests in certain impaired borrowers is initially recorded at fair value when the debt is restructured and is subsequently analyzed at the end of each quarter. In situations where we are deemed to be under the equity method of accounting, we record our ownership share of the borrowers' results of operations in non-interest

income. Additionally, our corresponding share of our borrowers' results of operations may directly impact the remaining net book value of these respective loans. These equity interests may give rise to potential capital gains or losses, for tax purposes. This could impact future period tax rates depending on our ability to recognize capital losses to the extent of any capital gains.

Operating expenses. Operating expenses decreased \$2.0 million, to \$10.2 million for the three months ended March 31, 2015 from \$12.2 million for the three months ended March 31, 2014. Compensation and benefits expense decreased \$1.0 million and general and administrative expenses decreased \$1.0 million.

Results of Consolidated Variable Interest Entity. In April 2013, we announced that we had formed a new managed credit fund, the Arlington Fund, in partnership with an institutional investor to co-invest in middle market commercial loans originated by NewStar. As the managing member of Arlington Fund, we retained full discretion over Arlington Fund's investment decisions, subject to usual and customary limitations, and earned management fees as compensation for our services. From inception, the Company was deemed to be the primary beneficiary of Arlington Fund and, therefore,



Table of Contents

consolidated the financial results of Arlington Fund with the Company's results of operations and statements of financial position since April 2013.

Upon completion of the Arlington Program's term debt securitization on June 26, 2014, our membership interests in Arlington Fund were redeemed and new membership interests in the Arlington Program were issued to its equity investors. As a result of the repayment of our advances as the Class B lender under the warehouse facility and the redemption of our membership interests in the Arlington Fund, we have no ownership or financial interests in the Arlington Fund or its successors except to the extent that we receive management fees as collateral manager of the Arlington Program. Additionally, the Arlington Program employs an independent investment professional who is responsible for investment decision making on behalf of the program. As a result, we deconsolidated the Arlington Fund from our statements of financial position beginning on June 26, 2014 and will not consolidate the Arlington Program's operating results or statements of financial position as of that date.

Although we consolidated all of the assets and liabilities of Arlington Fund during the period from April 4, 2013 through June 26, 2014, our maximum exposure to loss was limited to our investments in membership interests in Arlington Fund, our Class B Note receivable, and the management fee receivable from Arlington Fund. These items defined our economic relationship with Arlington Fund but were eliminated upon consolidation. We managed the assets of Arlington Fund solely for the benefit of its lenders and investors. If we were to have liquidated, the assets of Arlington Fund would not have been available to our general creditors. Conversely, the investors in the debt of Arlington Fund had no recourse to our general assets. Therefore, we did not consider this debt our obligation.

Income taxes. For the three months ended March 31, 2015 and 2014, we provided for income taxes based on an effective tax rate of approximately 41% for each period.

As of March 31, 2015 and December 31, 2014, we had net deferred tax assets of \$30.4 million and \$28.1 million, respectively. In assessing if we will be able to realize our deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We considered all available evidence, both positive and negative, in determining the realizability of deferred tax assets at March 31, 2015. We considered carryback availability, the scheduled reversals of deferred tax liabilities, projected future taxable income during the reversal periods, and tax planning strategies in making this assessment. We also considered our recent history of taxable income, trends in our earnings and tax rate, positive financial ratios, and the impact of the downturn in the current economic environment (including the impact of credit on allowance and provision for loan losses; and the impact on funding levels) on the Company. Based upon our assessment, we believe that a valuation allowance was not necessary as of March 31, 2015. As of March 31, 2015, our deferred tax asset was primarily comprised of \$26.8 million related to our allowance for credit losses and \$9.6 million related to equity compensation, which was partially offset by deferred tax liabilities related to our Equipment finance portfolio.

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity consist of cash flow from operations, credit facilities, term debt securitizations and proceeds from equity and debt offerings. We believe that these sources will be sufficient to fund our current operations, lending activities and other short-term liquidity needs. Subject to market conditions, we continue to explore opportunities for the Company to increase its leverage, including through the issuance of high yield debt securities, convertible debt securities, share repurchases, secured or unsecured senior debt or revolving credit facilities, to support loan portfolio growth and/or strategic acquisitions, which may be material to us. In addition to opportunistic funding related to potential growth initiatives, our future liquidity needs will be determined primarily based on prevailing market and economic conditions, the credit performance of our loan portfolio and loan origination volume. We may need to raise additional capital in the future based on various factors including, but not limited to: faster than expected increases in the level of non-accrual loans; lower than anticipated recoveries or cash flow from operations; and unexpected limitations on our ability to fund certain loans with credit facilities. We may not be able to raise debt or equity capital on acceptable terms or at all. The incurrence of additional debt will increase our leverage and interest expense, and the issuance of any equity or securities exercisable, convertible or exchangeable into Company common stock may be dilutive for existing shareholders.

During the first quarter of 2015, the U.S. economy showed mixed signals while growth has seemed to moderate somewhat as the quarter saw steady-to-favorable trends in employment, consumer confidence and consumer spending,

while most indicators in manufacturing and housing were generally steady-to-unfavorable. The Fed has continued to maintain it will act carefully to keep interest rates low until the economy is stronger and that any potential interest rate increases would be considered on a meeting-to-meeting basis, citing sluggish wage growth and low inflation as concerns. We expect broader favorable trends and slow growth in the U.S. to continue and monetary policy to remain conducive to moderate growth in the near term. We expect Treasury and investment grade bond rates remain relatively low and investors to continue to focus on allocating capital to riskier, higher yielding, fixed and floating rate asset classes in order to generate additional yield from their investments. The larger, more liquid segments of the securitization markets also continued to display strong volume and

Table of Contents

pricing. With the strengthening of the high yield loan markets as well as the broader securitization market, conditions in the securitization market for loans (the CLO market) remain attractive for issuers such as NewStar, despite some lingering uncertainty surrounding regulatory changes. We believe that the CLO market, which the Company partially relies upon for funding, has stabilized to a point that it will provide a reliable source of capital for companies like NewStar. In addition to these signs of stabilizing market conditions, we believe the Company has substantially greater financial flexibility and increased financing options due to the improvement in our financial performance.

We believe that our ability to access the capital markets, secure new credit facilities, and renew and/or amend our existing credit facilities continues to demonstrate an overall improvement in the market conditions for funding and indicates progress in our ability to obtain financings on improved terms in the future. Despite these signs of improving market conditions and relative stability in recent years, we cannot assure these conditions will continue, and it is possible that the financial markets could experience stress, volatility, and/or illiquidity. If they do, we could face materially higher financing costs and reductions in leverage, which would affect our operating strategy and could materially and adversely affect our financial condition.

**Cash and Cash Equivalents**

As of March 31, 2015 and December 31, 2014, we had \$28.7 million and \$33.0 million, respectively, in cash and cash equivalents. We may invest a portion of cash on hand in short-term liquid investments. From time to time, we may use a portion of our unrestricted cash to pay down our credit facilities creating undrawn capacity which may be redrawn to meet liquidity needs in the future.

**Restricted Cash**

Separately, we had \$214.9 million and \$95.4 million of restricted cash as of March 31, 2015 and December 31, 2014, respectively. The restricted cash represents the balance of the principal and interest collections accounts and pre-funding amounts in our credit facilities, our term debt securitizations and customer holdbacks and escrows. The use of the principal collection accounts' cash is limited to funding the growth of our loan and portfolio within the facilities or paying down related credit facilities or term debt securitizations. As of March 31, 2015, we could use \$29.3 million of restricted cash to fund new or existing loans. The interest collection account cash is limited to the payment of interest, servicing fees and other expenses of our credit facilities and term debt securitizations and, if either a ratings downgrade or failure to receive ratings confirmation occurs on the rated notes in a term debt securitization at the end of the funding period or if coverage ratios are not met, paying down principal with respect thereto. Cash to fund the growth of our loan portfolio and to pay interest on our term debt securitizations represented a large portion of our restricted cash balance at March 31, 2015.

**Asset Quality and Allowance for Loan and Lease Losses**

If a loan is 90 days or more past due, or if management believes it is probable we will be unable to collect contractual principal and interest in the normal course of business, it is our policy to place the loan on non-accrual status. If a loan financed by a term debt securitization is placed on non-accrual status, the loan may remain in the term debt securitization and excess interest spread cash distributions to us will cease until cash accumulated in the term debt securitization equals the outstanding balance of the non-accrual loan, or if an overcollateralization test is present, excess interest spread cash is diverted, and used to de-lever the securitization to bring the ratio back into compliance. When a loan is on non-accrual status, accrued interest previously recognized as interest income subsequent to the last cash receipt in the current year will be reversed, and the recognition of interest income on that loan will stop until factors indicating doubtful collection no longer exist and the loan has been brought current. We may make exceptions to this policy if the loan is well secured and is in the process of collection. As of March 31, 2015, we had impaired loans with an aggregate outstanding balance of \$215.7 million. Impaired loans with an aggregate outstanding balance of \$174.3 million have been restructured and classified as troubled debt restructurings. Impaired loans with an aggregate outstanding balance of \$100.3 million were on non-accrual status. During the three months ended March 31, 2015, we had recoveries of impaired loans totaling \$0.1 million and no charge-off of impaired loans. Impaired loans of \$43.2 million were greater than 60 days past due and classified as delinquent. During the three months ended March 31, 2015, we recorded \$3.0 million of net specific provisions for impaired loans. Included in our specific allowance for impaired loans was \$9.3 million related to delinquent loans.

We closely monitor the credit quality of our loans and leases which are partly reflected in our credit metrics such as loan delinquencies, non-accruals, and charge-offs. Changes to these credit metrics are largely due to changes in economic conditions and seasoning of the loan and lease portfolio.

We have provided an allowance for loan and lease losses to provide for probable losses inherent in our loan and lease portfolio. Our allowance for loan and lease losses as of March 31, 2015 and December 31, 2014 was \$49.9 million and \$43.0 million, respectively, or 1.94% and 1.81% of loans and leases, gross, respectively. As of March 31, 2015, we also had a \$0.8 million allowance for unfunded commitments, resulting in an allowance for credit losses of 1.97%.

Table of Contents

The allowance for credit losses is based on a review of the appropriateness of the allowance for credit losses and its two components on a quarterly basis. The estimate of each component is based on observable information and on market and third-party data believed to be reflective of the underlying credit losses being estimated.

It is the Company's policy that during the reporting period to record a specific provision for credit losses for all loans which we have identified impairments. Subsequently, we may charge-off the portion of the loan for which a specific provision was recorded. All of these loans are classified as impaired (if they have not been so classified already as a result of a troubled debt restructuring) and are disclosed in the Allowance for Credit Losses footnote to the financial statements.

Activity in the allowance for loan losses for the three months ended March 31, 2015 and for the year ended December 31, 2014 was as follows:

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
	(\$ in thousands)	
Balance as of beginning of period	\$42,983	\$41,403
General provision for loan and lease losses	3,905	4,779
Specific provision for loan losses	2,981	22,070
Net (charge offs) recoveries	68	(25,269)
Balance as of end of period	49,937	42,983
Allowance for losses on unfunded loan commitments	802	710
Allowance for credit losses	\$50,739	\$43,693

During the three months ended March 31, 2015 we recorded a total provision for credit losses of \$7.0 million. The Company increased its allowance for credit losses to 1.97% of gross loans at March 31, 2015 compared to 1.84% at December 31, 2014.

**Borrowings and Liquidity**

As of March 31, 2015 and December 31, 2014, we had outstanding borrowings totaling \$2.5 billion and \$2.2 billion, respectively. Borrowings under our various credit facilities and term debt securitizations are used to partially fund our positions in our loan portfolio.

As of March 31, 2015, our funding sources, maximum debt amounts, amounts outstanding and unused debt capacity, subject to certain covenants and conditions, are summarized below:

Funding Source	Maximum Debt Amount (\$ in thousands)	Amounts Outstanding	Unused Debt Capacity	Maturity
Credit facilities	\$735,000	\$369,894	\$365,106	2015-2017
Term debt securitizations(1)	1,581,983	1,572,484	9,499	2022-2027
Repurchase agreement	79,760	79,760	—	2017
Corporate debt	238,500	238,300	200	2016-2018
Subordinated notes	300,000	200,000	100,000	2024
Total	\$2,935,243,000	\$2,460,438,000	\$474,805,000	

(1) Maturities for term debt are based on contractual maturity dates. Actual maturities may occur earlier.

We must comply with various covenants. The breach of certain of these covenants could result in a termination event and the exercise of remedies if not cured. At March 31, 2015, we were in compliance with all such covenants. These covenants are customary and vary depending on the type of facility. These covenants include, but are not limited to, failure to service debt obligations, failure to meet liquidity covenants and tangible net worth covenants, and failure to remain within prescribed facility portfolio delinquency, charge-off levels, and overcollateralization tests. In addition, we are required to make termination or make-whole payments in the event that certain of our existing credit facilities

are prepaid. These termination or make-whole payments, if triggered, could be material to us individually or in the aggregate, and in the case of certain facilities, could be caused by factors outside of our control, including as a result of loan prepayment by the borrowers under the loan facilities that collateralize these credit facilities.

Table of Contents

## Credit Facilities

As of March 31, 2015 we had four credit facilities through certain of our wholly-owned subsidiaries: (i) a \$425 million credit facility with Wells Fargo Bank, National Association (“Wells Fargo”) to fund leveraged finance loans, (ii) a \$125 million credit facility with DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt (“DZ Bank”) to fund asset-based loans, (iii) a \$110 million credit facility with Wells Fargo to fund asset-based loans, and (iv) a \$75 million credit facility with Wells Fargo to fund equipment leases and loans.

We have a \$425.0 million credit facility with Wells Fargo to fund leveraged finance loans. On March 6, 2015, we entered into an amendment to this facility which, among other things, increased the commitment amount to \$425.0 million from \$375.0 million, with the ability to further increase the commitment amount to \$475.0 million, subject to lender approval and other customary conditions, and modified certain concentration amounts and specified threshold amounts. The credit facility had an outstanding balance of \$163.8 million and unamortized deferred financing fees of \$3.1 million as of March 31, 2015. Interest on this facility accrued at a variable rate per annum. The facility provides for a revolving reinvestment period which ends on November 5, 2015 with a two-year amortization period.

We have a \$125.0 million credit facility with DZ Bank that had an outstanding balance of \$89.9 million and unamortized deferred financing fees of \$0.1 million as of March 31, 2015. Interest on this facility accrues at a variable rate per annum. As part of the agreement, there is a minimum interest charge of \$1.6 million per annum. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is assessed to satisfy the minimum requirement. We are permitted to use the proceeds of borrowings under the credit facility to fund advances under asset-based loan commitments. The commitment amount under the credit facility provides for reinvestment until it matures on June 30, 2015 with no amortization period.

We have a \$110.0 million credit facility with Wells Fargo to fund asset-based loan origination. The credit facility had an outstanding balance of \$89.3 million and unamortized deferred financing fees of \$0.7 million as of March 31, 2015. The credit facility may be increased to an amount up to \$300.0 million subject to lender approval and other customary conditions. Interest on this facility accrues at a variable rate per annum. The credit facility provides for reinvestment until it matures on December 7, 2017 with no amortization period.

We have a note purchase agreement with Wells Fargo under the terms of which Wells Fargo agreed to provide a \$75.0 million credit facility to fund equipment leases and loans. The credit facility had an outstanding balance of \$27.0 million and unamortized deferred financing fees of \$0.9 million as of March 31, 2015. Interest on this facility accrues at a variable rate per annum. On April 10, 2015, we entered into an amendment to this facility which, among other things, extended the reinvestment period to April 10, 2017 and the final maturity date to April 10, 2019, and modified certain concentration amounts and specified threshold amounts.

## Corporate Credit Facility

On January 5, 2010, we entered into a note agreement with Fortress Credit Corp., which was subsequently amended on August 31, 2010, January 27, 2012, November 5, 2012, and December 4, 2012. The agreement was amended and restated on May 13, 2013 and further amended on June 3, 2013. On March 6, 2014, as permitted under the corporate credit facility with Fortress Credit Corp., we requested and received an increase of \$28.5 million to the Initial Funding under this credit facility. On May 15, 2014, as permitted under the corporate credit facility with Fortress Credit Corp., we requested and received a new \$10.0 million term loan (the “Term C Loan”). The credit facility, as amended, consists of a \$238.5 million term note with Fortress Credit Corp. as agent, which consists of the existing outstanding balance of \$100.0 million (the “Existing Funding”), an initial funding of \$98.5 million (the “Initial Funding”), and three subsequent borrowings, of \$5.0 million (the “Delay Draw Term A”), \$25.0 million (the “Delay Draw Term B”) and the \$10.0 million Term C Loan. The Existing Funding, the Initial Funding, the Delay Draw Term A, and the Term C Loan mature on May 11, 2018. The Delay Draw Term B matures on June 3, 2016. The Initial Funding, the Existing Funding and the Delay Draw Term A accrue interest at the London Interbank Offered Rate (LIBOR) plus 4.50% with an interest rate floor of 1.00%. The Delay Draw Term B accrues interest at LIBOR plus 3.375% with an interest rate floor of 1.00%. The Term C Loan accrues interest at LIBOR plus 4.25% with an interest rate floor of 1.00%.

We are permitted to use the proceeds of borrowings under the credit facility for general corporate purposes including, but not limited to, funding loans, working capital, paying down outstanding debt, acquisitions and repurchasing capital stock and dividend payments up to \$37.5 million. The \$37.5 million may be adjusted upward by the amount of fiscal

year-end net income excluding depreciation and amortization expense.

The term note may be prepaid at any time without a prepayment penalty. The term note may be prepaid at par in the event of a change of control. As of March 31, 2015, the term note had an outstanding principal balance of \$238.3 million and unamortized deferred financing fees of \$3.9 million. On April 22, 2015, we paid off the term note with Fortress Credit Corp.

Subordinated notes

48

---



Table of Contents

On December 4, 2014, we completed the initial closing of an investment of long-term capital from funds sponsored by Franklin Square Capital Partners ("Franklin Square") and sub-advised by GSO Capital Partners. The Franklin Square funds purchased \$200.0 million of 10-year subordinated notes (the "Subordinated Notes") that rank junior to the Company's existing and future senior debt. The Company is required to borrow an additional \$100.0 million of notes in increments of at least \$25.0 million by December 2015. The Subordinated Notes were recorded at par less the initial relative fair value of the warrants issued in connection with the investment on December 4, 2014 and January 23, 2015 (see Note 8) which was \$43.2 million as of December 31, 2014 and \$63.4 million as of March 31, 2015. The debt discount will amortize over time and will be recorded as non-cash interest expense as the Subordinated Notes accrete to par value. As of March 31, 2015, unamortized deferred financing fees were \$5.9 million. The Subordinated Notes bear interest at 8.25% and include a Payment-in-Kind ("PIK Toggle") feature that allows the Company, at its option, to elect to have interest accrued at a rate of 8.75% added to the principal of the Subordinated Notes instead of paying it in cash. The Subordinated Notes have a ten year term and mature on December 4, 2024. They are callable during the first three years with payment of a make-whole premium. The prepayment premium decreases to 103% and 101% after the third and fourth anniversaries of the closing, respectively. They are callable at par after December 4, 2019. The Subordinated Notes require a mandatory payment at the end of each accrual period, beginning on December 5, 2019. The Company is required to make a cash payment of principal plus accrued interest in an amount required to prevent the Subordinated Notes from being treated as an "Applicable High Yield Discount Obligation" within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended. Events of default under the Subordinated Notes include failure to pay interest or principal when due subject to applicable grace periods, material uncured breaches of the terms of the Subordinated Notes, and bankruptcy/insolvency events.

## Term Debt Securitizations

In June 2007 we completed a term debt securitization transaction. In conjunction with this transaction we established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Trust 2007-1 (the "2007-1 CLO Trust") and sold and contributed \$600 million in loans and investments (including unfunded commitments), or portions thereof, to the 2007-1 CLO Trust. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2007-1 CLO Trust issued \$546.0 million of notes to institutional investors. We retained \$54.0 million, comprising 100% of the 2007-1 CLO Trust's trust certificates. At March 31, 2015, the \$280.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$334.3 million. At March 31, 2015, deferred financing fees were \$0.3 million. The 2007-1 CLO Trust permitted reinvestment of collateral principal repayments for a six-year period which ended in May 2013. During 2012, we purchased \$0.2 million of the 2007-1 CLO Trust's Class C notes. During 2010, we purchased \$5.0 million of the 2007-1 CLO Trust's Class D notes. During 2009, we purchased \$1.0 million of the 2007-1 CLO Trust's Class D notes.

During 2009, Moody's downgraded all of the notes of the 2007-1 CLO Trust. As a result of the downgrade, amortization of the 2007-1 CLO Trust changed from pro rata to sequential, resulting in scheduled principal payments thereafter made in order of the notes seniority until all available funds are exhausted for each payment. During 2010, Standard and Poor's downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes and the Class D notes of the 2007-1 CLO Trust. The downgrade did not have any material consequence as the amortization of the 2007-1 CLO Trust changed from pro rata to sequential after the Moody's downgrade in 2009. During the second quarter of 2011, Moody's upgraded the Class C notes, the Class D notes, and the Class E notes. During 2011, Standard and Poor's upgraded the Class D notes. During the fourth quarter of 2011, Moody's upgraded all of the notes of the 2007-1 CLO Trust. During the third quarter of 2012, Fitch affirmed its ratings of all of the notes of the 2007-1 CLO Trust. During the second quarter of 2013, Moody's upgraded the Class B notes, the Class C notes, the Class D notes, and the Class E notes and affirmed its ratings of the Class A-1 notes and the Class A-2 notes of the 2007-1 CLO Trust. During the third quarter of 2013, Fitch affirmed its ratings on all of the notes of the 2007-1 CLO Trust. During the first quarter of 2014, Standard and Poor's upgraded its ratings on all notes of the 2007-1 CLO Trust. During the second quarter of 2014, Moody's affirmed the ratings of the Class B notes, the Class C notes, and the Class D notes of the 2007-1 CLO Trust.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of the trust certificates when the term debt is retired. If loan collateral in the 2007-1 CLO Trust is in default under the terms of the indenture, the excess interest spread from the 2007-1 CLO Trust could not be distributed until the undistributed cash plus recoveries equals the outstanding balance of the defaulted loan or if we elected to remove the defaulted collateral.

The following table sets forth selected information with respect to the 2007-1 CLO Trust:

49

---

Table of Contents

	Notes originally issued	Outstanding balance March 31, 2015	Borrowing spread to LIBOR	Ratings (S&P/Moody's/ Fitch)(1)
(\$ in thousands)				
2007-1 CLO Trust				
Class A-1	\$336,500	\$134,675	0.24	% AAA/Aaa/AAA
Class A-2	100,000	42,365	0.26	AAA/Aaa/AAA
Class B	24,000	24,000	0.55	AA+/Aa1/AA
Class C	58,500	58,293	1.30	A-/A2/A
Class D	27,000	21,000	2.30	BBB-/Baa2/BBB+
Total notes	546,000	\$280,333		
Class E (trust certificates)	29,100	\$29,100	N/A	CCC-/Ba3/BB
Class F (trust certificates)	24,900	24,900	N/A	N/A
Total for 2007-1 CLO Trust	\$600,000	\$334,333		

These ratings were initially given in June 2007, are unaudited and are subject to change from time to time. During the first quarter of 2009, Fitch affirmed its ratings on all of the notes. During the first quarter of 2009, Moody's downgraded the Class C notes and the Class D notes. During the third quarter of 2009, Moody's downgraded the Class A-1 notes, the Class A-2 notes and the Class B notes. During the second quarter of 2010, Standard and Poor's downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes, and the Class D notes. During the second quarter of 2011, Moody's upgraded the Class C notes and the Class D notes. During the second quarter of 2011, (1) Standard and Poor's upgraded the Class D notes. During the fourth quarter of 2011, Moody's upgraded all of the notes. During the third quarter of 2012, Fitch affirmed its ratings on all of the notes. During the second quarter of 2013, Moody's upgraded the Class B notes, the Class C notes, the Class D notes and the Class E notes to the ratings shown above, and affirmed its ratings of the Class A-1 notes and the Class A-2 notes. During the third quarter of 2013, Fitch affirmed its ratings on all of the notes. During the first quarter of 2014, Standard and Poor's upgraded its ratings on all notes to the ratings shown above. During the second quarter of 2014, Moody's affirmed the above ratings of the Class B notes, the Class C notes, and the Class D notes.

On December 18, 2012, we completed a term debt securitization transaction. In conjunction with this transaction we established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2012-2 LLC (the "2012-2 CLO") and sold and contributed \$325.9 million in loans and investments (including unfunded commitments), or portions thereof, to the 2012-2 CLO. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2012-2 CLO issued \$263.3 million of notes to institutional investors. We retained \$62.6 million, comprising 100% of the 2012-2 CLO's membership interests, Class E notes, Class F notes, and subordinated notes. At March 31, 2015, the \$263.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$325.9 million. At March 31, 2015, deferred financing fees were \$2.0 million. The 2012-2 CLO permits reinvestment of collateral principal repayments for a three-year period ending in January 2016. Should we determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2012-2 CLO is in default under the terms of the indenture, the excess interest spread from the 2012-2 CLO may not be distributed if the overcollateralization ratio, or other collateral quality tests, is not satisfied.

The following table sets forth selected information with respect to the 2012-2 CLO:



Table of Contents

	Notes originally issued (\$ in thousands)	Outstanding balance March 31, 2015	Borrowing spread to LIBOR	Ratings (Moody's/S&P)(1)
2012-2 CLO				
Class A	\$190,700	\$190,700	1.90	Aaa/AAA
Class B	26,000	26,000	3.25	Aa2/N/A
Class C	35,200	35,200	4.25	A2/N/A
Class D	11,400	11,400	6.25	Baa2/N/A
Total notes	263,300	263,300		
Class E	16,300	16,300	N/A	Ba1/N/A
Class F	24,100	24,100	N/A	B2/N/A
Subordinated notes	22,183	22,183	N/A	N/A
Total for 2012-2 CLO	\$325,883	\$325,883		

(1) These ratings were initially given in December 2012, are unaudited and are subject to change from time to time. On September 11, 2013, we completed a term debt securitization transaction through our separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2013-1 LLC (the "2013-1 CLO") and sold and contributed \$247.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2013-1 CLO. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2013-1 CLO issued \$338.6 million of notes to institutional investors. We retained \$61.4 million, comprising 100% of the 2013-1 CLO's membership interests, Class F notes, Class G notes, and subordinated notes. At March 31, 2015, the \$329.1 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$390.5 million. At March 31, 2015, deferred financing fees were \$4.3 million. The 2013-1 CLO permits reinvestment of collateral principal repayments for a three-year period ending in September 2016. Should we determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2013-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2013-1 CLO may not be distributed if the overcollateralization ratio, or other collateral quality tests, is not satisfied.

The following table sets forth selected information with respect to the 2013-1 CLO:

	Notes originally issued (\$ in thousands)	Outstanding balance March 31, 2015	Borrowing spread to LIBOR	Ratings (S&P/Moody's)(2)
2013-1 CLO				
Class A-T	\$202,600	\$202,600	1.65	AAA/Aaa
Class A-R	35,000	25,500	(1)	AAA/Aaa
Class B	38,000	38,000	2.30	AA/N/A
Class C	36,000	36,000	3.80	A/N/A
Class D	21,000	21,000	4.55	BBB/N/A
Class E	6,000	6,000	5.30	BBB-/N/A
Total notes	338,600	329,100		
Class F	17,400	17,400	N/A	N/A
Class G	15,200	15,200	N/A	N/A
Subordinated notes	28,800	28,800	N/A	N/A

Total for 2013-1 CLO	\$400,000	\$390,500
----------------------	-----------	-----------

51

---

Table of Contents

Class A-R Notes accrue interest at the Class A-R CP Rate so long as they are held by a CP Conduit, and otherwise (1) will accrue interest at the Class A-R LIBOR Rate or, in certain circumstances, the Class A-R Base Rate, but in no event shall interest rate payable pari passu with the Class A-T Notes exceed the Class A-R Waterfall Rate Cap.

(2) These ratings were initially given in September 2013, are unaudited and are subject to change from time to time. On April 17, 2014, we completed a term debt securitization transaction through our separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2014-1 LLC (the “2014-1 CLO”) and sold and contributed \$249.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2014-1 CLO. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2014-1 CLO issued \$289.5 million of notes to institutional investors. We retained \$58.9 million, comprising 100% of the 2014-1 CLO’s membership interests, Class E notes, Class F notes, and subordinated notes. At March 31, 2015, the \$289.5 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$348.4 million. At March 31, 2015, deferred financing fees were \$3.0 million. The 2014-1 CLO permits reinvestment of collateral principal repayments for a four-year period ending in April 2018. Should we determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2014-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2014-1 CLO may not be distributed if the overcollateralization ratio, or other collateral quality tests, is not satisfied.

The following table sets forth selected information with respect to the 2014-1 CLO:

	Notes originally issued (\$ in thousands)	Outstanding balance March 31, 2015	Borrowing spread to LIBOR	Ratings (Moody’s)(2)
2014-1 CLO				
Class A	\$202,500	\$202,500	1.80	Aaa
Class B-1	20,000	20,000	2.60	Aa2
Class B-2	13,250	13,250	(1)	Aa2
Class C	30,250	30,250	3.60	A2
Class D	23,500	23,500	4.75	Baa3
Total notes	289,500	289,500		
Class E	18,500	18,500	N/A	N/A
Class F	14,000	14,000	N/A	N/A
Subordinated notes	26,375	26,375	N/A	N/A
Total for 2014-1 CLO	\$348,375	\$348,375		

(1) Class B-2 Notes accrue interest at a fixed rate of 4.902%.

(2) These ratings were initially given in April 2014, are unaudited and are subject to change from time to time. On March 20, 2015, we completed a term debt securitization transaction through our separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2015-1 LLC (the “2015-1 CLO”) and sold and contributed \$336.3 million in loans and investments (including unfunded commitments), or portions thereof, to the 2015-1 CLO. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2015-1 CLO issued \$410.3 million of notes to institutional investors. We retained \$85.8 million, comprising 100% of the 2015-1 CLO’s membership interests and subordinated notes. At March 31, 2015, the \$410.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$496.1 million. At March 31, 2015, deferred financing fees were \$3.0 million. The 2015-1 CLO permits reinvestment of collateral principal repayments for a four-year period ending in April 2019.

Should we determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes it owns in accordance with the transaction documents. We expect to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2015-1 CLO is in default under the terms of the



Table of Contents

indenture, the excess interest spread from the 2015-1 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied.

The following table sets forth selected information with respect to the 2015-1 CLO:

	Notes originally issued (\$ in thousands)	Outstanding balance March 31, 2015	Borrowing spread to LIBOR	Ratings (Moody's/Fitch)(2)
2015-1 CLO				
Class A-1	\$253,500	\$253,500	1.80%	Aaa/AAA
Class A-2	35,000	35,000	(1)	Aaa/AAA
Class B	50,000	50,000	2.80%	Aa2/ N/A
Class C	38,500	38,500	3.85%	A2/N/A
Class D	33,250	33,250	5.50%	Baa3/N/A
Total notes	410,250	410,250		
Subordinated notes	85,815	85,815	N/A	N/A
Total for 2015-1 CLO	\$496,065	\$496,065		

(1) Class A-2 Notes accrue interest at a spread over Libor of 1.65% from the closing date to, but excluding March 20, 2017, and 2.00% thereafter.

(2) These ratings were initially given in March 2015, are unaudited and are subject to change from time to time.

#### Repurchase Agreement

On June 7, 2011, we entered into a five-year, \$68.0 million financing arrangement with Macquarie Bank Limited backed primarily by a portfolio of commercial mortgage loans previously originated by us. The financing was structured as a master repurchase agreement under which we sold the portfolio of commercial mortgage loans to Macquarie for an aggregate purchase price of \$68.0 million. We also agreed to repurchase the commercial mortgage loans from time to time (including a minimum quarterly amount), and agreed to repurchase all of the commercial mortgage loans by June 7, 2016. Upon the repurchase of a commercial mortgage loan, we are obligated to repay the principal amount related to such mortgage loan plus accrued interest (at a rate based on LIBOR plus a margin) to the date of repurchase. We will continue to service the commercial mortgage loans. On October 2, 2013, we entered into an amendment to this financing arrangement which, among other things, extended the date it had agreed to repurchase all of the commercial mortgage loans by one year to June 7, 2017, provided for \$25.5 million of additional advances for existing eligible assets owned by us, allowed for the advance of up to \$15.0 million to fund an additional commercial mortgage loan, and released \$41.1 million of principal payments to us as unrestricted cash. The facility accrues interest at a variable rate per annum, which was 5.17% as of March 31, 2015. As of March 31, 2015, unamortized deferred financing fees were \$0.8 million and the outstanding balance was \$52.6 million. During the three months ended March 31, 2015, we made principal payments totaling \$4.6 million. As part of the amended agreement, there is a minimum aggregate interest margin payment of \$9.2 million required to be made over the life of the facility. We cannot control the rate at which the underlying commercial mortgage loans are repaid. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is required to be made to satisfy the minimum aggregate interest margin payment.

We entered into a repurchase transaction with Deutsche Bank AG, pursuant to the terms of a Global Master Repurchase Agreement (2000 version), dated as of February 13, 2015 between Deutsche Bank AG and NS Bond Funding I LLC (the "Repurchase Agreement"). Pursuant to the Repurchase Agreement, Deutsche Bank AG will purchase securities and simultaneously agree to sell the securities back at a specified date. Under the terms of the Repurchase Agreement, we are required at all times to maintain a level of overcollateralization for the obligations, which is maintained through daily margining. As of March 31, 2015, the outstanding balance was \$27.2 million. We have made certain representations and warranties and is required to comply with various covenants and requirements customary for financing arrangements of this nature.

#### Stock Repurchase Program

On March 24, 2015, the Company repurchased 1,000,000 shares of its common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.3 million.

On December 22, 2014, the Company repurchased 1,000,000 shares of its common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.2 million.

## Table of Contents

On August 13, 2014, the Company's Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased are determined by the Company's management based on its evaluation of market conditions and other factors. The repurchase program, which will expire on August 15, 2015 unless extended by the Board of Directors, may be suspended or discontinued at any time without notice. As of March 31, 2015, the Company had repurchased 465,092 shares of its common stock under this program at a weighted average price per share of \$11.38.

On May 5, 2014, the Company's Board of Directors authorized the repurchase of up to \$20.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased were determined by the Company's management based on its evaluation of market conditions and other factors. The Company completed repurchase program during July 2014. Under this stock repurchase program, the Company repurchased 1,519,615 shares of its common stock at a weighted average price per share of \$13.13 in the aggregate.

### DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We maintain an overall risk management strategy that may incorporate the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our operations are subject to risks resulting from interest rate fluctuations on our interest-earning assets and our interest-bearing liabilities. We seek to provide maximum levels of net interest income, while maintaining acceptable levels of interest rate and liquidity risk. As such, we may enter into interest rate swap and interest rate cap agreements to hedge interest rate exposure to interest rate fluctuations on floating rate funding agreement liabilities that are matched with fixed rate securities. Under the interest rate swap contracts, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount. We record the exchanged amount in net interest income in our statements of operations. Under the interest rate cap contracts, we agree to exchange, at specified intervals, the difference between a specified fixed interest (the cap) and floating interest amounts calculated on an agreed-upon notional principal amount, but only if the floating interest rate exceeds the cap rate. The interest rate caps may not be matched to specific assets or liabilities and would not qualify for hedge accounting.

Gains and losses on derivatives not designated as hedges, including any cash payments made or received, are reported as gain or (loss) on derivatives in our consolidated statements of operations.

On December 4, 2014, we entered into a total return swap ("TRS") for senior floating rate loans with Citibank, N.A. ("Citibank"). The TRS with Citibank enables us, through a wholly owned financing subsidiary NewStar TRS I LLC, to obtain the economic benefits of the loans subject to the TRS, despite the fact that such loans will not be directly owned by us, in return for an interest payment to Citibank. The underlying loan portfolio of the TRS is typically large, liquid broadly syndicated loans. We act as the manager of the TRS and select the specific loans to be subject to the TRS. The TRS does not qualify for hedge accounting treatment as it does not offset the risks of another investment position. The initial maximum market value (determined at the time such loan becomes subject to the TRS) of the portfolio of loans subject to the TRS was \$75.0 million. On March 2, 2015, we entered into an amendment to the TRS that increased the maximum value to \$150.0 million. As of March 31, 2015, the fair value of the underlying loan portfolio was \$141.2 million. Interest accrues at one-month LIBOR+1.60% per annum. We are required to cash collateralize a specified percentage of each loan included under the TRS in accordance with margin requirements. As of March 31, 2015, we had cash collateral on deposit with Citibank of \$49.1 million. Our obligations under the TRS are non-recourse to us, and or exposure is limited to the value of the cash collateral. Citibank may terminate the TRS on or after December 4, 2015, and we can terminate the TRS at any time upon providing 10 days notice, subject to a termination fee if terminated prior to December 4, 2015. At March 31, 2015 the TRS had an unrealized gain of \$0.3 million.

### OFF BALANCE SHEET ARRANGEMENTS

We are party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our borrowers. These financial instruments include unfunded commitments and standby letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement we

have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Unused lines of credit are commitments to lend to a borrower if certain conditions have been met. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each borrower's creditworthiness on a case-by-case basis. The amount of collateral required is based

Table of Contents

on factors that include management's credit evaluation of the borrower and the borrower's compliance with financial covenants. Due to their nature, we cannot know with certainty the aggregate amounts that will be required to fund our unfunded commitments. The aggregate amount of these unfunded commitments currently exceeds our available funds and will likely continue to exceed our available funds in the future.

At March 31, 2015, we had \$330.0 million of unused lines of credit. Of these unused lines of credit, unfunded commitments related to revolving credit facilities were \$292.0 million and unfunded commitments related to delayed draw term loans were \$32.0 million. \$6.0 million of the unused revolving commitments are unavailable to the borrowers, which may be related to the borrowers' inability to meet covenant obligations or other similar events. Revolving credit facilities allow our borrowers to draw up to a specified amount, subject to customary borrowing conditions. The unfunded revolving commitments of \$292.0 million are further categorized as either contingent or unrestricted. Contingent commitments limit a borrower's ability to access the revolver unless it meets an enumerated borrowing base covenant or other restrictions. At March 31, 2015, we categorized \$169.2 million of the unfunded commitments related to revolving credit facilities as contingent. Unrestricted commitments represent commitments that are currently accessible, assuming the borrower is in compliance with certain customary loan terms and conditions. At March 31, 2015, we had \$122.8 million of unfunded unrestricted revolving commitments.

During the three months ended March 31, 2015, revolver usage averaged approximately 50%, which is in line with the average of 49% over the previous four quarters. Management's experience indicates that borrowers typically do not seek to exercise their entire available line of credit at any point in time. During the three months ended March 31, 2015, revolving commitments decreased \$19.3 million.

Delayed draw credit facilities allows our borrowers to draw predefined amounts of the approved loan commitment at contractually set times, subject to specific conditions, such as capital expenditures or acquisitions in corporate loans or for tenant improvements in commercial real estate loans. During the three months ended March 31, 2015, delayed draw credit facility commitments increased \$9.7 million.

Standby letters of credit are conditional commitments issued by us to guarantee the performance by a borrower to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit to our borrowers. At March 31, 2015 we had \$8.0 million of standby letters of credit.

**CRITICAL ACCOUNTING POLICIES**

The Company's consolidated financial statements are prepared based on the application of accounting policies, the most significant of which are described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 2 to the consolidated financial statements included in the Company's 2014 Annual Report, as updated in Note 2 to the unaudited consolidated financial statements in this Quarterly Report. These policies require numerous estimates and assumptions, which may prove inaccurate or subject to variations. Changes in underlying factors, assumptions or estimates could have a material impact on the Company's future financial condition and results of operations. The most critical of these significant accounting policies are the policies for revenue recognition, allowance for credit losses, income taxes, stock compensation and valuation methodologies. As of the date of this report, the Company does not believe that there has been a material change in the nature or categories of its critical accounting policies or its estimates and assumptions from those discussed in its 2014 Annual Report.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to changes in market values of our loans held-for-sale, which are carried at lower of cost or market, and our investment in debt securities, available-for-sale and derivatives, which are carried at fair value. Fair value is defined as the market price for those securities for which a market quotation is readily available and for all other investments and derivatives, fair value is determined pursuant to a valuation policy and a consistent valuation process. Where a market quotation is not readily available, we estimate fair value using various valuation methodologies, including cash flow analysis, as well as qualitative factors.

As of March 31, 2015 and December 31, 2014, investments in debt securities available-for-sale totaled \$79.9 million and \$46.9 million, respectively. At March 31, 2015 and December 31, 2014, our net unrealized gain on those debt securities totaled \$0.2 million and \$0.01 million, respectively. Any unrealized gain or loss on these investments is included in Other Comprehensive Income in the equity section of the balance sheet, until realized.

Interest rate risk represents a market risk exposure to us. Interest rate risk is measured as the potential volatility to our net interest income caused by changes in market interest rates.

As of March 31, 2015, approximately 5% of the loans in our portfolio were at fixed rates and approximately 95% were at variable rates. Additionally, for the loans at variable rates, approximately 92% contain an interest rate floor. Our credit facilities

55

---

Table of Contents

and term debt securitizations all bear interest at variable rates without interest rate floors, however, our corporate credit facility contains an interest rate floor set at a rate of 1.00%.

The presence of interest rate floors in our loan agreements results in assets with hybrid fixed and floating rate loan characteristics. Provided that the contractual interest rate remains at or below the interest rate floor, a performing loan will typically behave as a fixed rate instrument. If contractual interest rates are in excess of the interest rate floor, a performing loan will typically behave as a floating rate instrument. In a low interest rate environment, floors provide a benefit as we are able to earn additional income equal to the difference between the stated rate of the interest rate floor and the corresponding contractual rate. If interest rates rise, the potential benefit provided by interest rate floors would decrease resulting in lower net interest income. The cost of our variable rate debt would increase, while interest income from loans with interest rate floors would not change until interest rates exceed the stated rate of the interest rate floors or upon the re-pricing or principal repayment of the loans.

The following table shows the hypothetical estimated change in net interest income over a 12-month period based on a static, instantaneous parallel shift in interest rates applied to our portfolio and cash and cash equivalents as of March 31, 2015. Our modeling is based on contractual terms and does not consider prepayment or changes in the composition of our portfolio or our current capital structure. It further generalizes that both variable rate assets and liabilities are indexed to a flat 3 month LIBOR yield curve. Although we believe these measurements are representative of our interest rate sensitivity, we can give no assurance that actual results would not differ materially from our modeled outcomes.

	Rate Change (Basis Points)	Estimated Change in Net Interest Income Over 12 Months (\$ in thousands)
Decrease of	100	\$13,460
Increase of	100	(9,140 )
Increase of	200	(3,170 )
Increase of	300	3,380

The estimated changes in net interest income reflect the potential effect of interest rate floors on loans totaling approximately \$2.2 billion. Due to the presence of these interest rate floors, as interest rates begin to rise from current levels, the cost of our variable rate debt increases. The interest rate on performing loans will remain fixed until the contractual rate exceeds the stated rate on the interest rate floors. Consequently, the result is a negative net interest income impact as interest rates initially increase until they reach an inflection point. Beyond this inflection point, which is typically close to the portfolios weighted average stated floor rate, the benefit of rising rates begins to accrue to us as the interest rate on performing loans starts to adjust upward.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, these disclosure controls and procedures are effective.

##### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control over financial reporting that occurred during the first quarter of 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time we expect to be party to legal proceedings. We are not currently subject to any material legal proceedings.



Table of Contents

Item 1A. Risk Factors.

There have been no material changes to the Company's risk factors since our most recently filed Annual Report on Form 10-K, as amended.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth the repurchases we made for the three-month period ending on March 31, 2015:

Period	Total Number of Shares Purchased (1)(2)(3)	Average Price Paid Per Share (1)(2)(3)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (4)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (4)
January 1-31, 2015	—	\$ —	—	\$5,580,417
February 1-28, 2015	29,148	10.39	—	5,580,417
March 1-31, 2015	1,088,309	10.29	82,093	4,705,955
Total: Three months ended March 31, 2015	1,117,457	10.29	82,093	4,705,955

The Company repurchased 82,093 shares during the period pursuant to the share repurchase program that we (1) announced on August 13, 2014 (the "August Repurchase Program"). Certain of these shares were repurchased on the open market pursuant to a trading plan under Rule 10b5-1 of the Exchange Act.

Includes an aggregate of 35,364 shares of Common Stock acquired from individuals in order to satisfy tax (2) withholding requirements in connection with the vesting of restricted stock awards under equity compensation plans during the second quarter.

(3) The Company repurchased 1,000,000 shares on March 24, 2015 in a privately negotiated transaction with an unaffiliated third party.

(4) The August Repurchase Program provides for the repurchase of up to \$10.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions.

Item 6. Exhibits.

Exhibit Number	Description	Method of Filing
3(a)	Amended and Restated Certificate of Incorporation of the Company.	Previously filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on April 2, 2007 (File No. 001-33211) and incorporated herein by reference.
3(b)	Amended and Restated Bylaws of the Company.	Previously filed as Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on April 2, 2007 (File No. 001-33211) and incorporated herein by reference.
4(a)		

Edgar Filing: NewStar Financial, Inc. - Form 10-Q

Indenture by and between NewStar  
Commercial Loan Funding 2015-1 LLC, as  
Issuer, and U.S. Bank National Association, as  
Trustee, dated as of March 20, 2015.

Previously filed as Exhibit 4.1 to the  
Company's Current Report on Form 8-K  
(File No. 001-33211) filed on March 24,  
2015 and incorporated herein by reference.

Table of Contents

10(a)(1)	Third Amendment to Fifth Amended and Restated Loan and Servicing Agreement, dated as of January 13, 2015, by and among NewStar CP Funding LLC, the Company, Wells Fargo Bank, National Association, Capital One, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 16, 2015 and incorporated herein by reference.
10(a)(2)	Fourth Amendment to Fifth Amended and Restated Loan and Servicing Agreement, dated as of March 6, 2015, by and among NewStar CP Funding LLC, the Company, Wells Fargo Bank, National Association, Capital One, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 11, 2015 and incorporated herein by reference.
10(b)(1)	Master Loan Sale Agreement by and among the Company, NewStar Commercial Loan Depositor 2015-1 LLC, and NewStar Commercial Loan Funding 2015-1 LLC, dated as of March 20, 2015.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 24, 2015 and incorporated herein by reference.
10(b)(2)	Collateral Management Agreement by and between the Company and NewStar Commercial Loan Funding 2015-1 LLC, dated as of March 20, 2015.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 24, 2015 and incorporated herein by reference.
31(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certifications pursuant to 18 U.S.C. Section 1350.	Filed herewith.
101	The following materials from the Quarterly Report of NewStar Financial, Inc. on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014,	Filed herewith.

(iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014,  
(iv) Condensed Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2015 and 2014, (v) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, and (vi) Notes to the Condensed Consolidated Financial Statements.

101.INS

XBRL Instance Documents

58

---

Table of Contents

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEWSTAR FINANCIAL, INC.

Date: May 7, 2015

By: /S/ JOHN KIRBY BRAY  
John Kirby Bray  
Chief Financial Officer

60

---

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description	Method of Filing
3(a)	Amended and Restated Certificate of Incorporation of the Company.	Previously filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on April 2, 2007 (File No. 001-33211) and incorporated herein by reference.
3(b)	Amended and Restated Bylaws of the Company.	Previously filed as Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed on April 2, 2007 (File No. 001-33211) and incorporated herein by reference.
4(a)	Indenture by and between NewStar Commercial Loan Funding 2015-1 LLC, as Issuer, and U.S. Bank National Association, as Trustee, dated as of March 20, 2015.	Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 24, 2015 and incorporated herein by reference.
10(a)(1)	Third Amendment to Fifth Amended and Restated Loan and Servicing Agreement, dated as of January 13, 2015, by and among NewStar CP Funding LLC, the Company, Wells Fargo Bank, National Association, Capital One, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 16, 2015 and incorporated herein by reference.
10(a)(2)	Fourth Amendment to Fifth Amended and Restated Loan and Servicing Agreement, dated as of March 6, 2015, by and among NewStar CP Funding LLC, the Company, Wells Fargo Bank, National Association, Capital One, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 11, 2015 and incorporated herein by reference.
10(b)(1)	Master Loan Sale Agreement by and among the Company, NewStar Commercial Loan Depositor 2015-1 LLC, and NewStar Commercial Loan Funding 2015-1 LLC, dated as of March 20, 2015.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 24, 2015 and incorporated herein by reference.
10(b)(2)	Collateral Management Agreement by and between the Company and NewStar Commercial Loan Funding 2015-1 LLC, dated as of March 20, 2015.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 24, 2015 and incorporated herein by reference.

- 31(a) Certification of Chief Executive Officer  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31(b) Certification of Chief Financial Officer  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.



Table of Contents

32 Certifications pursuant to 18 U.S.C. Section 1350. Filed herewith.

The following materials from the Quarterly Report of NewStar Financial, Inc. on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014, (iii)

101 Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014, (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2015 and 2014, (v) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, and (vi) Notes to the Condensed Consolidated Financial Statements. Filed herewith.

- 101.INS XBRL Instance Documents
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Taxonomy Presentation Linkbase Document

62