

# NEWSTAR FINANCIAL



## Q4 and FY 2015 Overview

February 10, 2016

## Forward Looking Statements

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

*More detailed information about these and other risk factors can be found in NewStar's filings with the Securities and Exchange Commission (the "SEC"), including Item 1A ("Risk Factors") of our 2014 Annual Report on Form 10-KA as may be updated or supplemented by any Risk Factors contained in our subsequent Quarterly Reports on Form 10-Q. NewStar is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.*

# Q4 2015 HIGHLIGHTS

# Credit Platform

## NewStar Credit Platform

- More than \$6.9 billion of assets under management<sup>1</sup>
- Founded in 2004 and publicly-traded since 2006 (Nasdaq: NEWS)
- Established national middle market direct lending franchise
- Over 120 employees with more than 75 credit and investment professionals
- Top-performing broadly syndicated loan business
- Leading middle market loan securitization platform
- Strategic relationship with Blackstone's GSO Capital

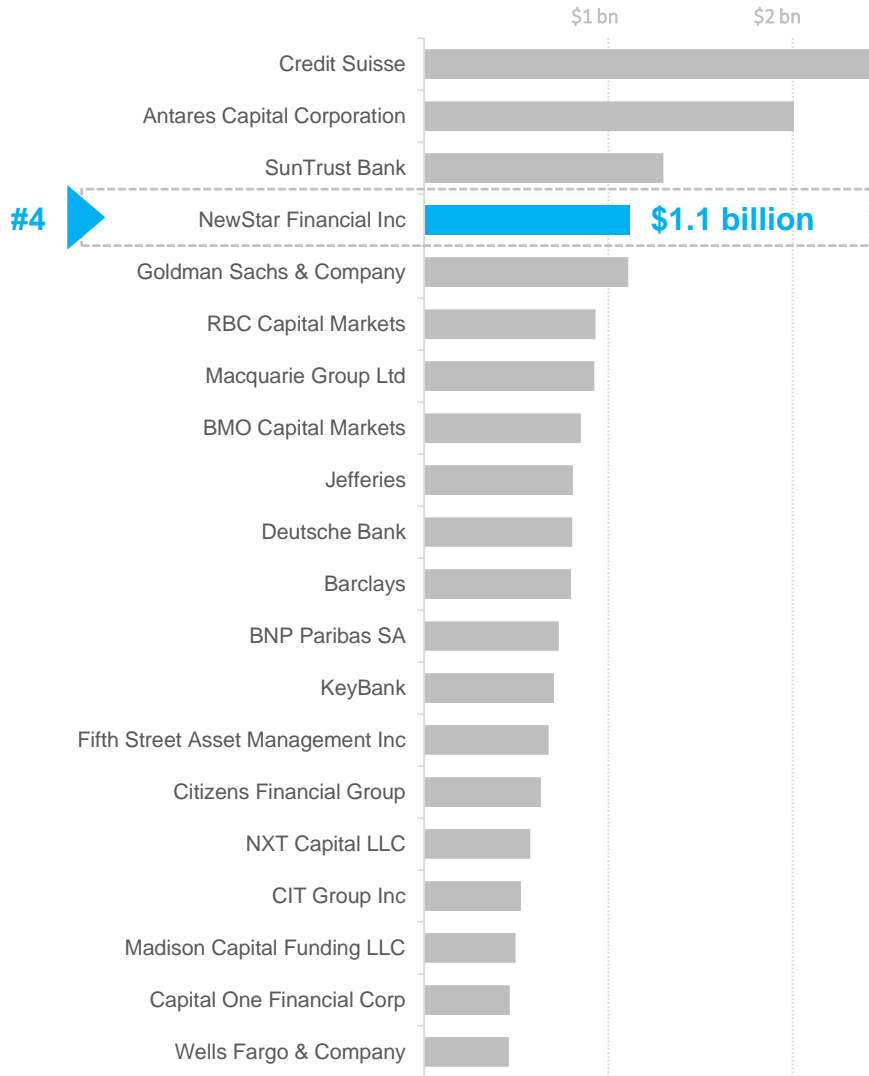


Balance Sheet Lending		Asset Management	
Middle Market Direct Lending		Liquid/tradeable credit	
Internally-managed commercial finance company	Private credit	Broadly syndicated loans	Other Credit Funds/Accounts
<p><b>Over \$3.8 billion of loans and credit investments<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>▪ 1<sup>st</sup> lien 'cashflow' loans</li> <li>▪ Unitranche loans</li> <li>▪ 2<sup>nd</sup> lien loans</li> <li>▪ Asset-based working capital loans</li> <li>▪ Equipment loans and leases</li> <li>▪ Revolving credit facilities</li> <li>▪ Capital markets capabilities</li> <li>▪ \$660 million of permanent equity capital</li> <li>▪ &gt;\$1.3 billion of long-term capital</li> </ul>	<p><b>\$0.8 billion under management<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>▪ 1<sup>st</sup> lien 'cashflow' loans</li> <li>▪ Unitranche loans</li> <li>▪ 2<sup>nd</sup> lien loans</li> <li>▪ Direct, proprietary loans</li> <li>▪ Co-investment strategies</li> </ul>	<p><b>\$2.1 billion under management<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>▪ 1<sup>st</sup> lien loans</li> <li>▪ Liquid/rated loans</li> </ul>	<p><b>\$0.2 billion under management<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>▪ Long/short credit hedge fund</li> <li>▪ Long-only SMAs</li> <li>▪ Retail fund sub-advisory</li> <li>▪ Distressed/stressed</li> </ul>

# Market position - 2015 League table highlights

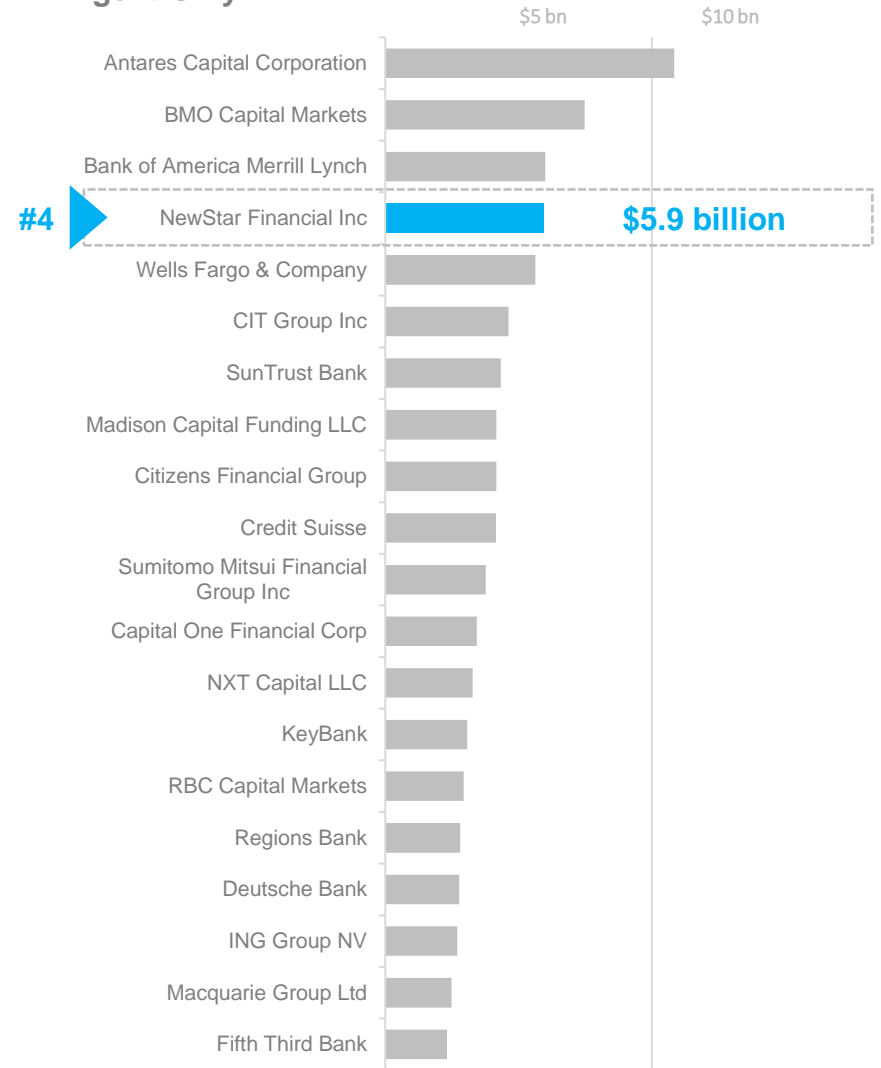
## US Large Middle Market

### Institutional Bookrunner



## US Middle Market Sponsored

### Agent Only



# Q4 2015 Highlights

## Strategic Initiatives

- Added \$2.3 billion of AuM through acquisition of FOC Partners, a private, credit-oriented investment manager
- Served as titled agent on 40 deals totaling \$5.9 billion in 2015, ranking 4<sup>th</sup> on league tables for middle market sponsored lending<sup>1</sup>
- Have completed eight new unitranche transactions and added approximately \$500 million of incremental credit commitments through strategic relationship with GSO Capital in 2015

## Growth

- Originated more than \$705 million of new funded credit investments in Q4 and more than \$3 billion in FY 2015, up 71% from FY 2014
- Grew managed loans and investments by \$2.3 billion in the fourth quarter, or 51%, to nearly \$7 billion
- Increased revenue by 4% over last quarter and 9% for the year compared to 2014 due primarily to growth in net interest income and continued strength in fee income from capital markets and asset management activities

## Capital Management

- Made continued progress toward capital ratio target, increasing leverage to 5.1x
- Have \$1.3 billion of long term debt and equity capital to support growth strategy
- Issued \$25 million of subordinated notes under existing commitment and \$80 million of senior notes and in Q4
- Increased book value per share by \$0.42 to \$14.17 in 2015

## Credit Performance

- Credit costs decreased by \$8.7 million to \$18.4 million for 2015 compared to \$27.1 million in 2014
- Provision expense decreased slightly in the fourth quarter due primarily to a shift in asset mix
- Exposure to legacy, pre-crisis vintages declined to approximately 4%
- Added one impaired legacy loan totaling \$7.7 million and a \$0.4 million equipment lease to non-accrual status

## Market Conditions

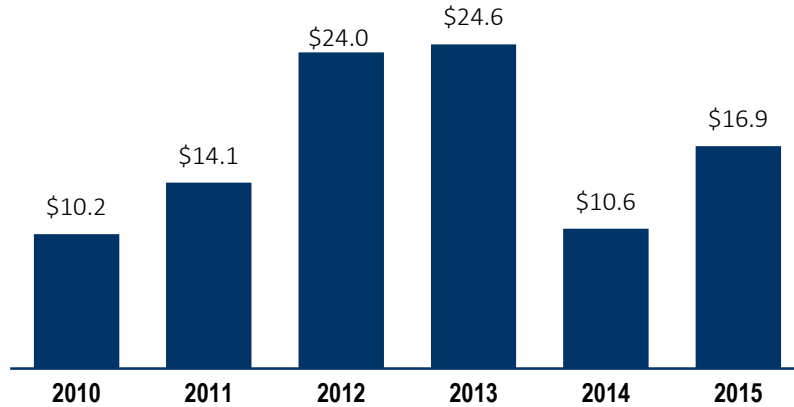
- Uncertainty about the economic outlook and financial market volatility weighed on investor sentiment in Q4
- Regulatory pressure on banks continued to limit their leveraged lending activities
- US MM sponsored issuance volumes slowed at the end of 2015 and were down 28%
- Pricing environment continues to improve

# Operating performance trends

## Net Income

\$MM

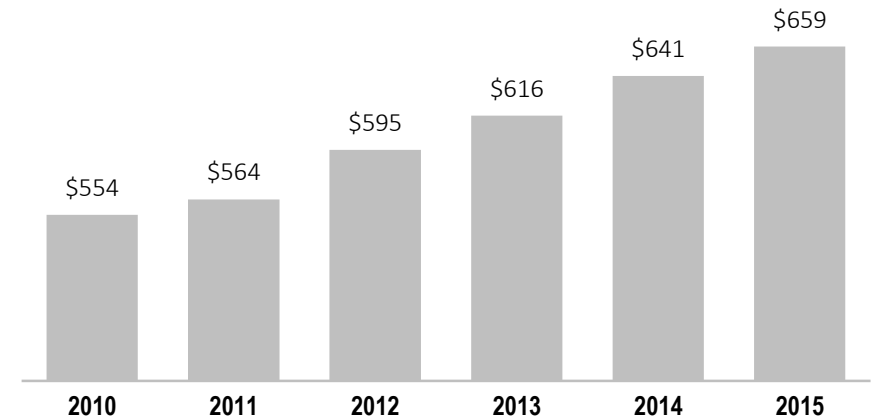
- ▶ Q4 2015 EPS: \$0.09 per fully diluted share
- ▶ FY 2015 EPS: \$0.35 per fully diluted share



## Equity

\$MM

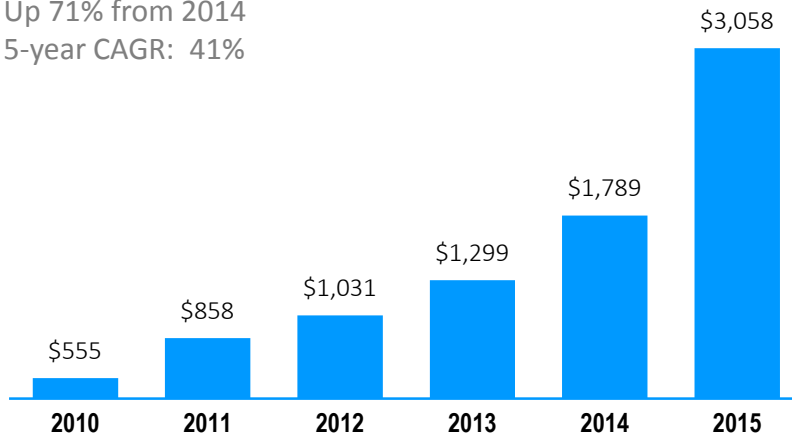
- ▶ Up \$17 million from 2014



## Origination Volume

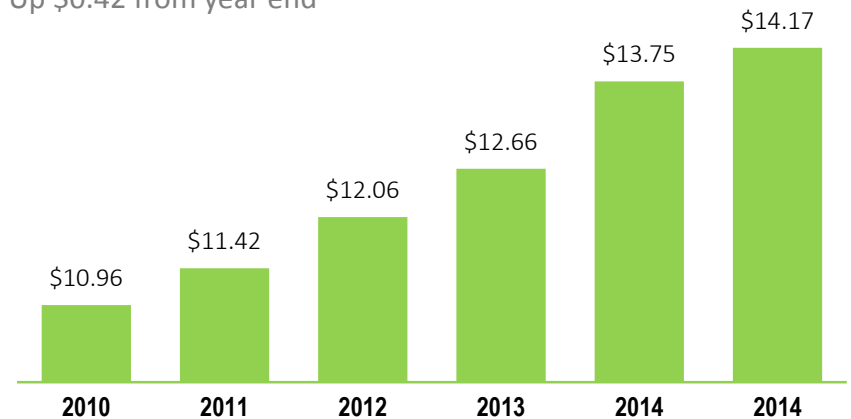
\$MM

- ▶ Up 71% from 2014
- ▶ 5-year CAGR: 41%



## Book Value per Share

- ▶ Up \$0.42 from year end



# Strategic relationship

## GSO Strategic Relationship Benefiting Each Business Line

### Leveraged Finance

- Ability to commit more capital to existing customers and offer more complete set of financing options
- New lending opportunities in the upper middle market
- Completed 8 unitranche deals in 2015 and serve as administrative agent on 18 transactions

### Asset-based Lending

- ABL revolvers in tandem with unitranche loans
- DIP financing in connection with special situations and turnarounds
- Completed four ABL transactions, including one DIP

### Equipment Finance

- Cross-sell equipment finance opportunities in Blackstone and FSIC portfolio companies
- Lease line transactions in tandem with new GSO/FSIC deals

### Asset Management

- Anchor investments in new credit funds and access to credit assets used to seed portfolios
- Closed \$400MM Clarendon Fund with anchor investment from GSO/FSIC
- Provided financing to GSO for Cumberland Park CLO warehouse

Commitments totaling approximately \$500MM closed with GSO – Targeting \$500MM+ for 2016





# FINANCIAL RESULTS

## Summary of Q4 and FY 2015 financial results

Q4 2015 <i>(\$ in thousands, except per share amounts)</i>	Three months ended		
	December 31, 2015	September 30, 2015	December 31, 2014
Net Income	\$4,209	\$5,142	\$1,226
Net Income per share:			
Basic	\$0.09	\$0.11	\$0.03
Diluted	\$0.09	\$0.11	\$0.02
Weighted average shares outstanding:			
Basic	45,601,534	45,744,881	47,571,956
Diluted	46,954,059	48,238,467	50,527,250

FY 2015 <i>(\$ in thousands, except per share amounts)</i>	Year ended	
	December 31, 2015	December 31, 2014
Net Income	\$16,890	\$10,594
Net Income per share:		
Basic	\$0.37	\$0.22
Diluted	\$0.35	\$0.21
Weighted average shares outstanding:		
Basic	45,630,867	48,266,731
Diluted	47,535,016	51,575,491

# FY 2015 Financial highlights

## Financial Highlights

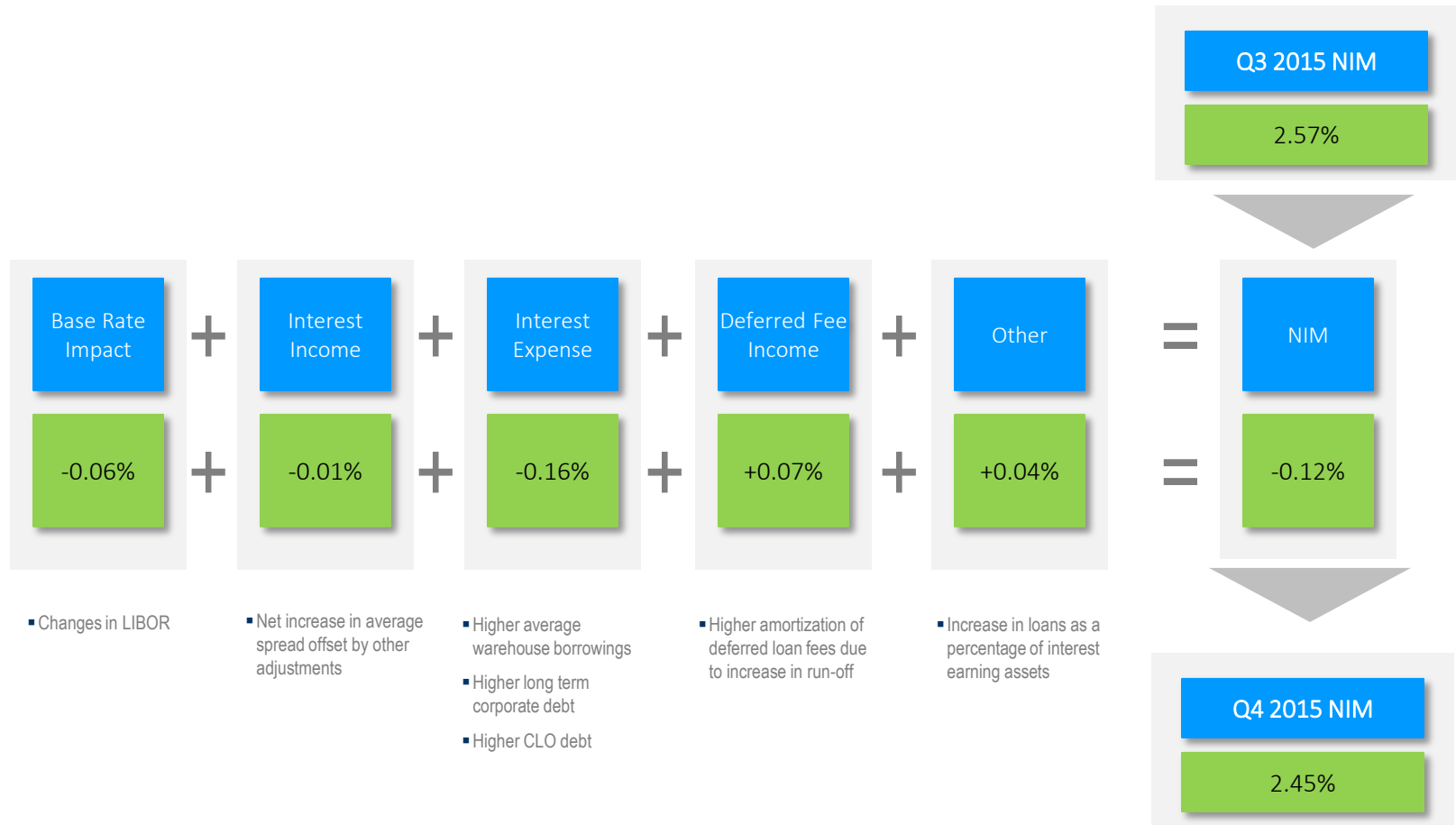
\$ in Millions

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	FY 2014
<b>Balance sheet</b>						
Loans and leases, net	\$2,497	\$2,689	\$2,991	\$3,134	\$3,134	\$2,306
Total assets	3,120	3,507	3,869	4,092	4,092	2,811
Warehouse and term debt	2,022	2,278	2,654	2,779	2,779	1,738
Senior notes	--	300	300	379	379	--
Corporate debt	238	--	--	--	--	239
Subordinated notes	137	138	190	215	215	157
Equity	656	657	660	659	659	641
<b>Income statement</b>						
Interest income	\$39.7	\$46.9	\$54.6	\$60.6	\$201.8	\$136.2
Net interest income	17.4	15.8	23.2	24.4	80.8	78.4
Total revenue	21.5	23.2	26.7	27.7	99.2	89.6
Operating expenses	10.2	11.4	13.4	16.9	51.9	45.5
Provisions	7.0	3.2	4.5	3.7	18.4	27.1
Net income	2.5	5.0	5.1	4.2	16.9	10.6
<b>Key ratios</b>						
Portfolio yield	6.00%	6.31%	6.32%	6.33%	6.27%	6.09%
Net interest margin	2.51%	1.99%	2.57%	2.45%	2.39%	3.17%
Expense ratio	1.44%	1.39%	1.45%	1.68%	1.51%	1.80%
Net charge off rate	0.00%	0.56%	0.00%	-0.06%	0.11%	1.10%
Pre-tax return on average equity	2.67%	5.23%	5.31%	4.28%	4.38%	2.93%

## Summary

- Originated new loan volume of \$3.1 billion for 2015 up 71% from 2014.
- Increased managed assets by \$3.6 billion in 2015 to \$6.9 billion. Total assets held by managed funds were approximately \$3 billion.
- Issued \$455 million of long term capital comprising \$380 million of senior notes and \$75 million of subordinated notes
- Margin narrowed to 2.39% in 2015 from 3.17% in 2014 due primarily the issuance of higher cost long-term debt.
- Credit costs decreased to 57 bps on average loans and investments in 2015.
- Book value per share increased \$0.42 to \$14.17 due primarily to issuance of warrants, retention of comprehensive income, option exercises and a reduction in share count from buybacks.

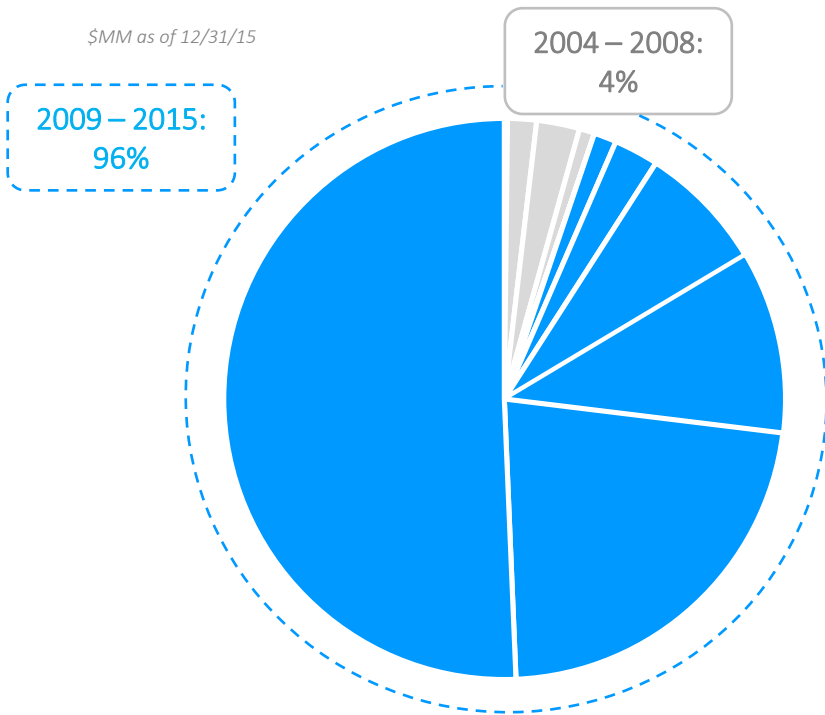
# Net interest margin analysis



<sup>1</sup> Net interest margin excluding accelerated amortization of deferred financing fees in connection with debt prepayment

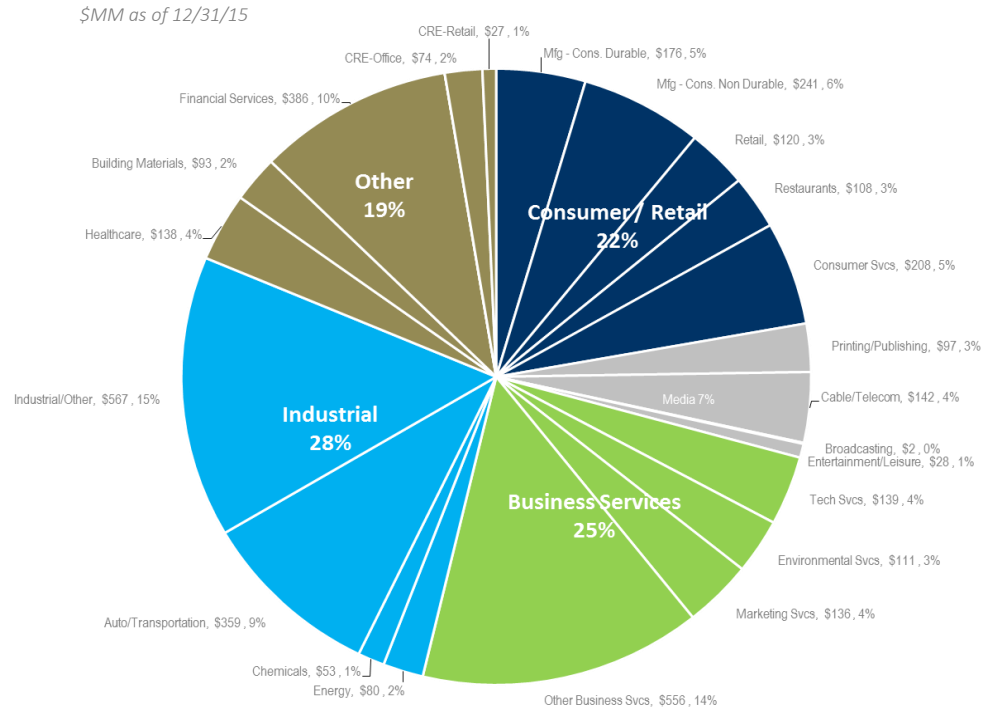
# Loan and investment portfolio

## Loan Portfolio by Vintage



High quality portfolio; more than 96% of loans originated post-crisis

## Loan Portfolio by Industry



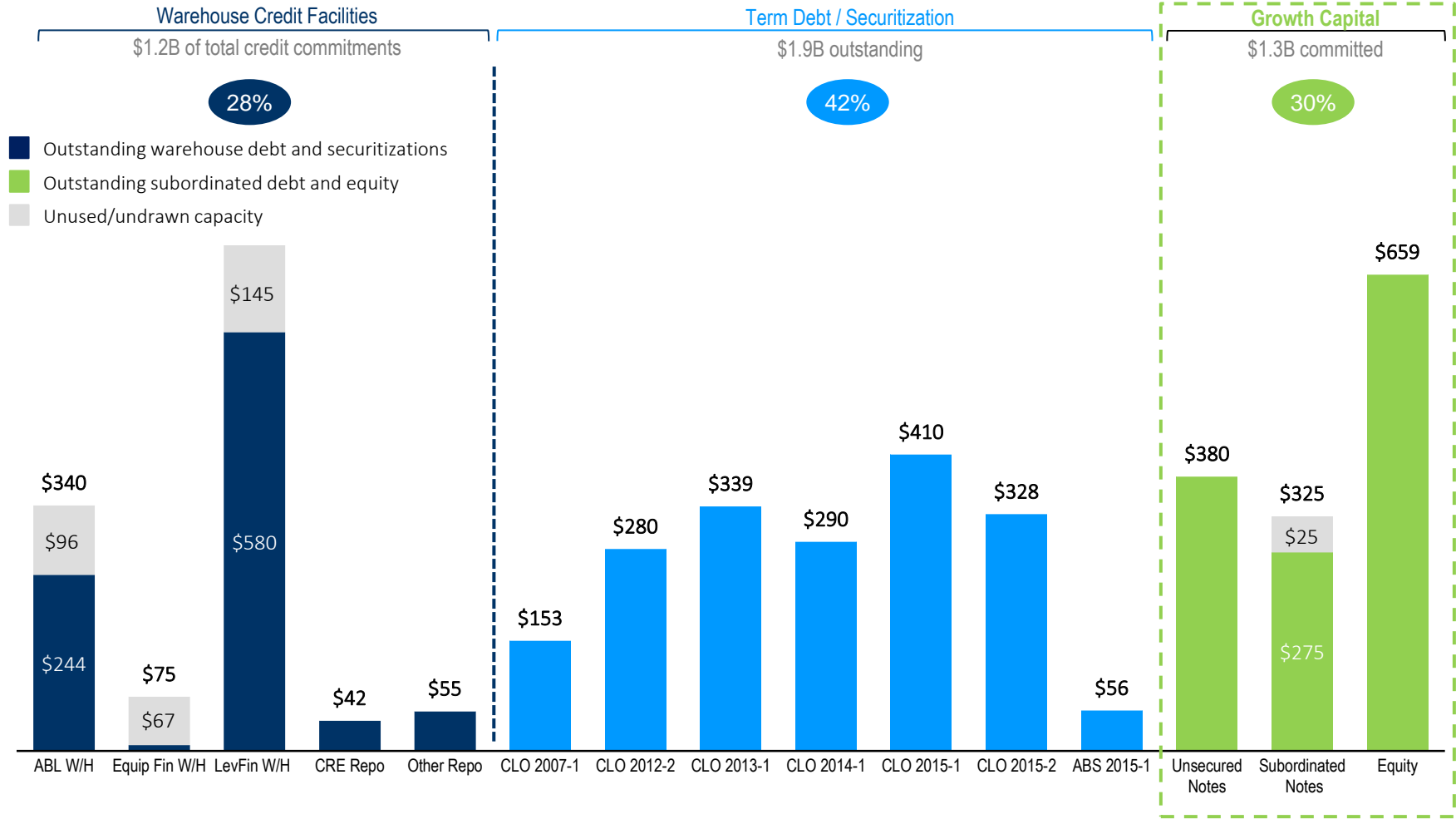
Highly diversified portfolio; largest single obligor represents only 1.1% of total loans

# Capital structure

## Capital Structure in Place to Support Growth

\$MM, as of 12/31/2015

**Total Capital Commitments: \$4.4B**



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

Note: CLO balances include all classes of notes, net of retained notes and equity interests, as well as, repurchases. Reinvestment period for CLO 2007-1 and 2012-2 has expired and the trusts are amortizing.

## Q4 2015 Credit performance

### Credit Costs

- Credit costs remained within expected range
- Provision expense decreased by \$0.9 million in Q4 2015 compared to Q3 2015 due primarily to a shift in asset mix
- Specific provision increased by \$0.8 million to \$2.4 million in Q4 2015 from \$1.6 million in the prior quarter

### Non-performing assets

- NPAs decreased to 3.44% in Q4 from 3.48% in Q3 due primarily to asset growth
- One legacy loan totaling \$7.7 million and a \$0.4 million equipment lease were placed on non-accruing status in the fourth quarter

### Allowance for loan losses

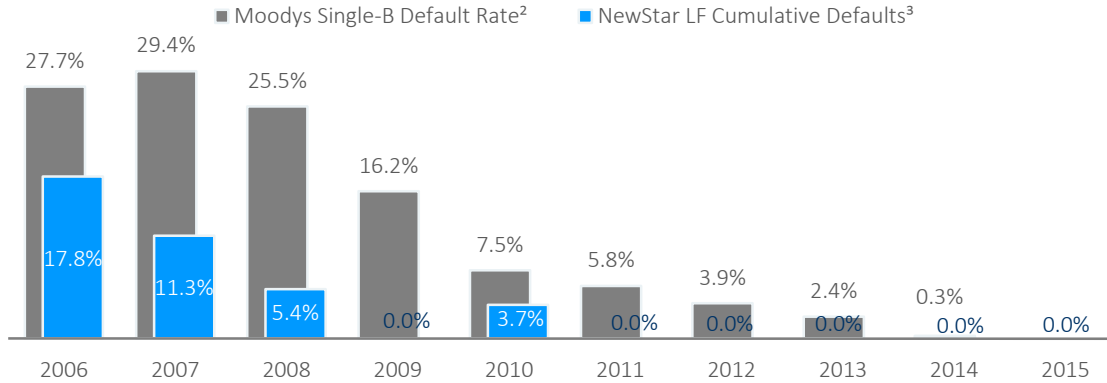
- The allowance for credit losses increased by \$4.3 million to \$58.7 million, or 1.81% of loans as of December 31, 2015 from \$54.5 million, or 1.76% of loans, as of September 30, 2015 due to \$1.2 million of general provision and \$2.4 million of specific provision expense.
- Net charge-offs in the fourth quarter reflected recoveries totaling \$0.7 million and a charge-off of \$0.1 million.

(\$ in thousands)	December 31, 2015	September 30, 2015	December 31, 2014
<b>Credit quality ratios:</b>			
Delinquent loan rate (at period end)	0.84%	0.93%	1.84%
Non-accrual loan rate (at period end)	3.43%	3.48%	3.70%
Non-performing asset rate (at period end)	3.44%	3.48%	3.84%
Annualized net charge-off rate (end of period loans)	(0.07)%	--	0.59%
Allowance for credit losses ratio (at period end)	1.81%	1.76%	1.84%
<b>Allowance for credit losses activity:</b>			
Balance as of beginning of period	\$54,481	\$49,947	\$41,910
General provision for credit losses	1,244	2,925	2,946
Specific provision for credit losses	2,422	1,609	2,334
Net (charge-offs) recoveries	579	--	(3,497)
Balance as of end of period	\$58,726	\$54,481	\$43,693

# Historical credit performance

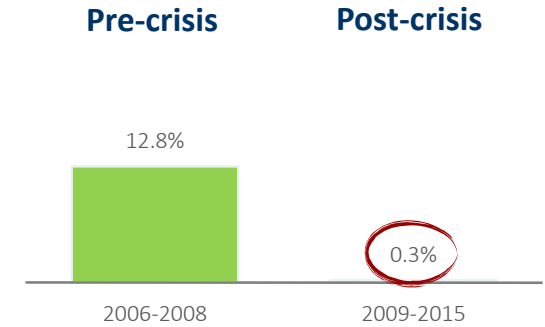
**0.23% of cumulative origination charge-offs on average per year since inception<sup>1</sup>**

## Cumulative Default % by Origination Vintage Year<sup>1</sup>

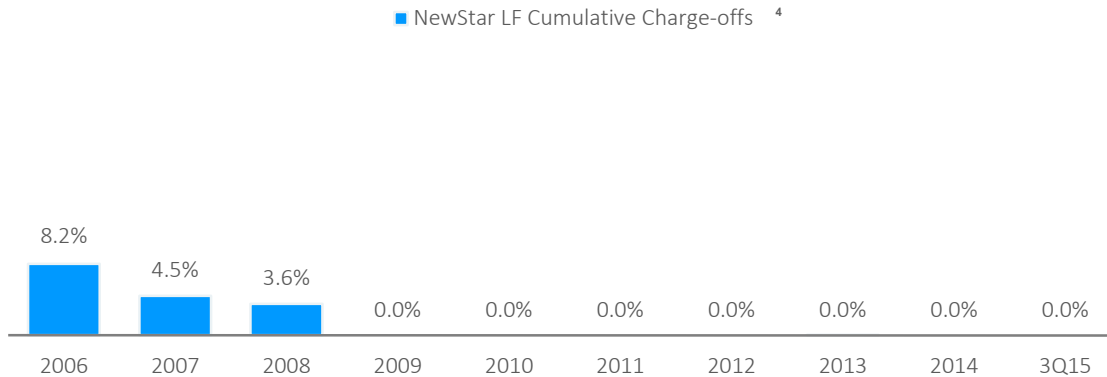


## NewStar – weighted average

Weighted average cumulative default rate (%)

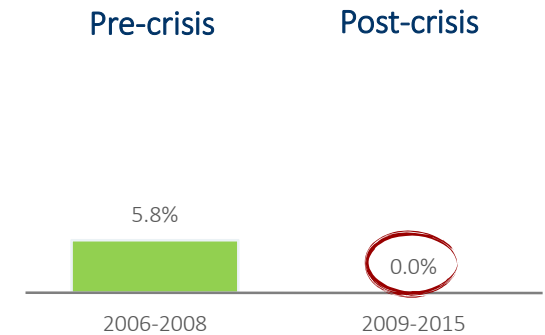


## Cumulative Loss % by Origination Vintage Year<sup>1</sup>



## NewStar – weighted average

Weighted average cumulative loss rate (%)



**Notes:**

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

<sup>2</sup> Moody's market data from "2014 Moody's Annual Default Study: Corporate Default and Recovery Rates"

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

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



## Balance sheet as of December 31, 2015

(\$ in thousands)	December 31, 2015	September 30, 2015	December 31, 2014
<b>Assets:</b>			
Cash and cash equivalents	\$35,933	\$57,472	\$33,033
Restricted cash	153,992	140,854	95,411
Cash collateral on deposit with custodian	61,081	53,738	38,975
Investments in debt securities, available-for-sale	94,177	94,328	46,881
Loans held-for-sale, net	478,785	427,418	200,569
Loans and leases, net	3,134,072	2,991,370	2,305,896
Deferred financing costs, net	40,733	41,606	26,514
Interest receivable	13,932	9,668	7,477
Property and equipment, net	638	624	660
Deferred income taxes, net	33,133	35,627	28,078
Income tax receivable	5,342	–	3,388
Goodwill	17,884	–	–
Identified intangible asset, net	910	–	–
Other assets	21,504	16,816	24,127
<b>Total assets</b>	<b>\$4,092,116</b>	<b>\$3,869,521</b>	<b>\$2,811,009</b>

## Balance sheet as of December 31, 2015 (Cont'd)

(\$ in thousands)	December 31, 2015	September 30, 2015	December 31, 2014
<b>Liabilities:</b>			
Repurchase agreements	\$96,789	\$137,640	\$57,227
Credit facilities	843,896	625,595	487,768
Term debt securitizations	1,837,889	1,890,765	1,193,187
Senior notes	379,232	300,000	–
Corporate debt	–	–	238,500
Senior secured debt	3,157,806	2,954,000	1,976,682
Subordinated notes	215,018	189,852	156,831
Total debt	\$3,372,824	\$3,143,852	\$2,133,513
Accrued interest payable	18,073	28,261	6,576
Income tax payable	–	3,352	–
Other liabilities	41,741	33,776	29,923
<b>Total liabilities</b>	<b>3,432,638</b>	<b>3,209,241</b>	<b>2,170,012</b>
<b>Total stockholders' equity</b>	<b>659,478</b>	<b>660,280</b>	<b>640,997</b>
<b>Total liabilities and stockholders' equity</b>	<b>4,092,116</b>	<b>3,869,521</b>	<b>\$2,811,009</b>
Secured debt / equity	4.8x	4.5x	3.1x
Total debt / equity	5.1x	4.8x	3.3x

## Q4 2015 Income statement

(\$ in thousands, except per share amounts)	Three Months Ended		
	December 31, 2015	September 30, 2015	December 31, 2014
<b>Net interest income:</b>			
Interest income	\$60,591	\$54,574	\$35,601
Interest expense	36,222	31,345	17,102
Net interest income	24,369	23,229	18,499
Provision for credit losses	3,667	4,534	5,280
Net interest income after provision for credit losses	20,702	18,695	13,219
<b>Non-interest income:</b>			
Fee income	2,999	4,573	495
Asset management income	3,707	1,019	511
Loss on derivatives	(5)	(5)	(12)
Gain / (Loss) on sale of loans	154	360	(41)
Other income (loss)	(3,545)	(2,455)	(1,212)
Total non-interest income (loss)	3,310	3,492	(259)
<b>Operating expenses</b>			
Compensation and benefits	11,905	9,561	7,100
General and administrative expenses	4,967	3,819	3,652
Total operating expenses	16,872	13,380	10,752
<b>Income before income taxes</b>	7,140	8,807	2,208
Income tax expense	2,931	3,665	982
<b>Net income</b>	<b>\$4,209</b>	<b>\$5,142</b>	<b>\$1,226</b>
<b>Net income per share:</b>			
Basic	\$0.09	\$0.11	\$0.03
Diluted	\$0.09	\$0.11	\$0.02
<b>Weighted average shares outstanding:</b>			
Basic	45,601,534	45,744,881	47,571,956
Diluted	46,954,059	48,238,467	50,527,250

## FY 2015 Income statement

(\$ in thousands, except per share amounts)	Years Ended	
	December 31, 2015	December 31, 2014
<b>Net interest income:</b>		
Interest income	\$201,785	\$136,171
Interest expense	120,986	57,775
Net interest income	80,799	78,396
Provision for credit losses	18,387	27,108
Net interest income after provision for credit losses	62,412	51,288
<b>Non-interest income:</b>		
Fee income	13,508	2,467
Asset management income	6,661	1,054
Loss on derivatives	(29)	(39)
Gain / (Loss) on sale of loans	467	(230)
Other income (loss)	(2,250)	7,964
Total non-interest income (loss)	18,357	11,216
<b>Operating expenses</b>		
Compensation and benefits	35,909	30,383
General and administrative expenses	16,019	15,133
Total operating expenses	51,928	45,516
<b>Operating Income before income taxes</b>	28,841	16,988
<b>Results of Consolidated VIE</b>		
Interest income	–	5,268
Interest expense – credit facilities	–	2,865
Interest expenses – fund membership interest	–	1,292
Other income	–	229
Operating expenses	–	249
Net results from consolidated VIE	–	1,091
<b>Income before income taxes</b>	28,841	18,079
Income tax expense	11,951	7,485
<b>Net income</b>	<b>\$16,890</b>	<b>\$10,594</b>
<b>Net income per share:</b>		
Basic	\$0.37	\$0.22
Diluted	\$0.35	\$0.21
<b>Weighted average shares outstanding:</b>		
Basic	45,630,867	48,266,731
Diluted	47,535,016	51,575,491



# CONCLUSION

# FY 2015 Performance vs. guidance

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	2015 guidance		
						lo	hi	
Funded loan volume	\$609	\$1,021	\$723	\$705	\$3,058	\$2,900	\$3,100	▲
New loan yields	6.07%	6.56%	6.66%	6.80%	6.54%	6.00%	6.50%	▲
Run-off rate	20%	60%	27%	45%	45%	30%	40%	▼
Net loan growth	29%	59%	50%	23%	46%	40%	60%	▲
Portfolio yield	6.00%	6.31%	6.32%	6.33%	6.27%	5.75%	6.25%	▲
Cost of funds / Adj Cost of Funds	4.11%	4.80%	4.31%	4.32%	4.35%	3.50%	3.75%	▼
Net interest margin / Adj Net Interest Margin	2.51%	1.99%	2.57%	2.45%	2.39%	2.25%	2.75%	▲
Non-interest income	0.62%	1.00%	0.40%	0.35%	0.57%	0.40%	0.60%	▲
Provision expense	1.05%	0.43%	0.53%	0.38%	0.57%	0.75%	1.00%	▲
Operating expenses	1.44%	1.39%	1.45%	1.68%	1.51%	1.25%	1.75%	▲
Leverage	3.7x	4.1x	4.4x	5.1x	5.1x	4.5x	5.0x	▲
Loans	\$2,811	\$3,225	\$3,623	\$3,830	\$3,830	\$3,750	\$4,250	▲
Managed loan portfolio	\$3,745	\$4,158	\$4,604	\$6,949	\$6,949	\$5,000	\$5,500	▲
Pre-tax ROE / Adj Pre-tax ROE	2.7%	5.2%	5.5%	4.3%	4.4%	4.0%	6.0%	▲

# FY 2016 Outlook

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	2016 guidance	
						lo	hi
Funded loan volume	\$609	\$1,021	\$723	\$705	\$3,058	\$2,500	\$3,500
New loan yields	6.07%	6.56%	6.66%	6.80%	6.54%	6.50%	7.00%
Run-off rate	20%	60%	27%	45%	45%	30%	40%
Net loan growth	29%	59%	50%	23%	46%	10%	30%
Portfolio yield	6.00%	6.31%	6.32%	6.33%	6.27%	6.25%	6.75%
Cost of funds	4.11%	4.80%	4.31%	4.32%	4.35%	4.00%	4.35%
Net interest margin	2.51%	1.99%	2.57%	2.45%	2.39%	2.25%	2.75%
Non-interest income	0.62%	1.00%	0.40%	0.35%	0.57%	0.75%	1.00%
Provision expense	1.05%	0.43%	0.53%	0.38%	0.57%	0.50%	1.00%
Operating expenses	1.44%	1.39%	1.45%	1.68%	1.51%	1.25%	1.75%
Leverage	3.7x	4.1x	4.4x	5.1x	5.1x	5.0x	6.0x
Loans	2811.0	\$3,225	\$3,623	\$3,830	\$3,830	\$4,250	\$5,000
AuM	\$3,745	\$4,158	\$4,604	\$6,949	\$6,949	\$7,500	\$9,000
Pre-tax ROE / Adj Pre-tax ROE	2.7%	5.2%	5.5%	4.3%	4.4%	7.5%	10.0%

# Summary

## Unique Platform

- Specialized direct lending platforms focused on attractive market sectors
- Originate loans directly through four specialized lending platforms with more than 75 credit and investment professionals, located in eight cities across the U.S., serving more than 100 core financial sponsor relationships and 278 current obligors
- Credit-focused investment management platform with \$3 billion managed for third parties

## Attractive Underlying Markets

- Established position in large, fragmented markets that offer compelling relative value to other fixed income asset classes
- Competitive position improved by increasing regulatory constraints on banks

## Strong Credit Performance

- Weighted average default and loss rates of 0.3% and 0.0%, respectively, on loans originated post crisis<sup>1</sup>
- Focus on senior secured lending provides downside protection
- Institutional quality credit management and servicing capabilities drives differentiated credit performance

## Meaningful Strategic Relationship

- Strategic relationship driving significant scale benefits, increasing origination across all business lines and accelerating asset management strategy
- Enhances competitive position in core markets and provides access to valuable co-lending opportunities in the “upper middle market”
- Relationship includes long-term investment to fund growth with additional capital available to anchor new credit funds

## Clear Pathway to Improved Returns

- Scalable platform with significant portfolio and earnings growth potential
- Improved returns driven by combination of operating and financial leverage
- \$6.9 billion of managed assets and more than \$3 billion originated volume in 2015



# APPENDIX

## Non-GAAP quarterly financial measures

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

	Three Months Ended		
	December 31, 2015	September 30, 2015	December 31, 2014
(\$ in thousands)			
<b>Performance Ratios:</b>			
Adjusted operating expenses as a percentage of average total assets	1.60	1.36	1.53
<b>Consolidated Statement of Operations Adjustments <sup>(1)</sup>:</b>			
Operating expenses	\$ 16,872	\$ 13,380	\$ 10,752
Less: non-cash equity compensation expense <sup>(2)</sup>	823	839	789
Adjusted operating expenses	<u>\$ 16,049</u>	<u>\$ 12,541</u>	<u>\$ 9,963</u>
<b>Average Balances:</b>			
Equity	\$ 661,339	\$ 658,375	\$ 616,440
Adjusted equity	<u>\$ 661,339</u>	<u>\$ 658,375</u>	<u>\$ 616,440</u>
	Three Months Ended		
	December 31, 2015	September 30, 2015	December 31, 2014
<b>Risk-adjusted revenue</b>			
Net interest income after provision for credit losses	\$ 20,702	\$ 18,695	\$ 13,219
Non-interest income	3,310	3,492	(259)
Risk-adjusted revenue	<u>\$ 24,012</u>	<u>\$ 22,187</u>	<u>\$ 12,960</u>

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

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

# Non-GAAP annual financial measures

(\$ in thousands)	Year Ended December 31,	
	2015	2014
<b>Performance Ratios:</b>		
Efficiency ratio	49.07	47.47
<b>Consolidated Statement of Operations Adjustments<sup>(1)</sup>:</b>		
Operating expenses	\$ 51,928	\$ 45,765
Less: non-cash equity compensation expense <sup>(2)</sup>	3,273	2,586
Adjusted operating expenses	<u>\$ 48,655</u>	<u>\$ 43,179</u>
<b>Risk-adjusted revenue</b>		
Net interest income after provision for credit losses	\$ 62,412	\$ 52,399
Non-interest income	18,357	11,445
Risk-adjusted revenue	<u>\$ 80,769</u>	<u>\$ 63,844</u>

(1) Adjustments are pre-tax.

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