

May 26, 2016

To My Fellow Shareholders,

The year ended December 31, 2015, marked Newtek Business Service Corp.'s ("Newtek") first full year as a business development company ("BDC"), and we ended the year having realized many accomplishments including strong and stable profitability and dividend performance. We were recognized as the leading performing BDC in 2015, generating a total annual return based on market value to our shareholders of approximately 24.46%, and outperformed several indices including the NASDAQ Composite, S&P 500, Russell 2000 and the S&P Small Cap 600. We declared \$20.9 million, or \$1.76<sup>1</sup> per share, in cash dividends during 2015, which represented approximately 94.0% of Newtek's estimated taxable income for 2015. On December 31, 2015, Newtek paid a one-time special dividend of approximately \$34.0 million, or \$2.69 per share, with 27% of the dividend paid in cash and 73% paid in newly issued shares of Newtek common stock, which represented the distribution of our pre-BDC conversion earnings and profits accumulated through December 31, 2014. At December 31, 2015, our net asset value ("NAV") equaled \$203.9 million, or \$14.06 per share, and Adjusted net investment income<sup>2</sup> was \$22.2 million, or \$2.06 per share.

Newtek's differentiated business model continued to gain recognition from multiple channels, including our customers, alliance partners and the investment community. We continued to solidify our position as the business service provider of choice offering business solutions to the small- and medium-sized business market. In addition, we continued to garner recognition from the investment community and ended the year with multiple well-known institutional investors having invested in Newtek, as well as the initiation of research coverage on Newtek by five independent research analysts, including JMP Securities LLC, Ladenburg Thalmann & Co., Raymond James, Keefe, Bruyette & Woods and Compass Point Research and Trading. Additionally, we were added to the Wells Fargo Business Development Company Index (Symbol: WFBDC).

We continued to demonstrate our clear understanding of the needs of the independent business owner, and the crucial role technology plays in order to remotely access and communicate with these customers. We continued to leverage our cost-effective client-acquisition strategy using our state-of-the-art patented web-based proprietary referral system, NewTracker<sup>®</sup>, to replace the need for a 'feet-on-the-street' salesforce. We maintained our long-standing alliance relationships with entities such as UBS, Morgan Stanley, Amalgamated Bank, Iberia Bank, Valley National Bank, and The Credit Union National Organization, as well as formed new partnerships with entities such as Meineke Muffler and Jewish Community Center, all of which direct business referrals to us through NewTracker<sup>®</sup>. To date, we have received over 570,000 business referrals through NewTracker<sup>®</sup>, continuing to extend our reach to a broader customer base through our network of alliance partners. Currently, we have several additional alliance partners in the pipeline.

### **Newtek's Differentiated BDC Model**

We entered the BDC market at the end of 2014 with what we believe is an attractively distinct BDC model, setting us apart with many positive attributes not inherent to the typical BDC. We are an internally managed BDC and, as such, do not pay base or incentive fees to external managers. The interests of management of an internally managed BDC are typically more closely aligned with shareholders, and its shares typically trade at a premium to NAV. In addition, we wholly own the majority of our controlled portfolio companies, most for over 10 years and, as a result, own, operate and control these businesses and know them extremely well. We own 100% of the following portfolio companies: Newtek Merchant Solutions, Premier Payments LLC (Newtek Payment Solutions), Newtek Technology Solutions, Newtek Small Business Lending, CDS Business Services,

Inc. (Newtek Business Solutions) and Newtek Insurance Agency, LLC. In addition, we own 90% of Newtek Payroll Solutions. Unlike typical BDCs, our portfolio companies' businesses are typically not credit sensitive and as a BDC we are not investing in static pools of loans; two extremely important distinctions in Newtek's BDC model.

### **SBA Lending Business**

In 2015, Newtek Small Business Finance retained its position as the nation's largest non-bank lender by dollar volume of approved loans, and once again ranked in the top 10 of all bank and non-bank SBA lenders. We have been in the SBA lending business for 13 years, through multiple lending and interest rate cycles, and have amassed a substantial amount of loan performance data as well as a wealth of overall experience in this discipline. During our tenure as an SBA lender we have steadily grown our lending platform with strict adherence to underwriting guidelines ensuring we maintain the credit quality of the loans we originate. Not sacrificing credit quality for the sake of growth has always been and will remain the central tenet of our lending philosophy. We do not invest in high-risk debt securities and are not a lender in mezzanine capital; typical investments of most other BDCs. We are a true senior-secured lender without any direct exposure to oil and gas with a diversified loan portfolio of small-balance loans, all of which we view as a tremendous and unique value proposition inherent to our lending model. We believe our adherence to such guidelines has enabled us to build a well-balanced loan portfolio of senior-secured floating-rate loan participations with an average loan balance of \$176,000 at year end. Furthermore, we are not dominated by any one particular credit which we believe is yet another major distinction between Newtek and many other BDCs.

Throughout 2015 we continued to steadily grow our lending platform and achieved a close to 20% growth in SBA 7(a) loan fundings, reaching a total of \$242.5 million for the year. For 2016 we plan to continue this upward trajectory of annual loan fundings and forecast funding approximately \$320 million in SBA 7(a) and SBA 504 loans (note: SBA 504 loans are originated by one of Newtek's controlled portfolio companies), which would represent an approximate 32% increase over 2015. In addition, we continued to realize an upward trend in the premiums we received on the sale of the government guaranteed portions of SBA loans to \$29.6 million for 2015. We have been successfully originating SBA loans and selling the government guaranteed portions of these loans for 13 years, which we believe qualifies as a reoccurring event.

In the third quarter of 2015, we completed our largest securitization to date of \$40.8 million S&P AA rated Unguaranteed SBA 7(a) Loan-Backed Notes, which was accomplished as an amendment and supplement to the 2010-1 securitization. Testament to our historic credit performance and Newtek's 13-year history as an SBA 7(a) loan originator, the Notes were priced and sold to investors at a yield of 2.5%; an approximate 100 basis point improvement in the overall yield since the Company's prior securitization. In addition, there was strong investor demand with this transaction and, as a result, it was oversubscribed garnering new investors to our securitization investment program.

### **Portfolio Company Performance & Opportunity**

Our electronic payment processing line of business which includes Newtek Merchant Solutions and Premier Payments LLC (Newtek Payment Solutions), as of July 23, 2015, ended 2015 with a 9.1% increase in revenue to \$99.5 million and a 53.5% increase in Adjusted EBITDA to \$10.9 million. We believe there are many opportunities to further expand this business with the addition of new alliance partners, the existence of tablet and mobile-based opportunities within the marketplace, as well as our ability to offer Europay, MasterCard and Visa ("EMV") compliance solutions.

Newtek Technology Solutions had a challenging year, but we are optimistic about the current and future opportunities for this portfolio company. It ended the year with \$13.6 million in revenue and \$3.2 million in

Adjusted EBITDA. We anticipate that we can realize a reversal of the downward trend going forward, and in the first quarter of 2016 we began to see improved metrics for this line of business. Like all of our portfolio companies, we know this business well and look at the independent business owners' migration to the cloud as a valuable positioning opportunity in our portfolio.

### **Expanding Our Business – Investment Opportunities**

Paramount to our decision to convert to a BDC was our belief that our business model would be better suited as a BDC, enabling us to unlock significant shareholder value and further expand the business within our existing business services footprint. Throughout 2015, we actively sought out potential investments to grow our business and undertook many initiatives to support our planned growth. In July 2015, Newtek invested in Premier Payments LLC (Newtek Payment Solutions), one of the Country's leading electronic payment processors. This new wholly owned portfolio company powers billions of dollars in credit and debit card transactions on an annual basis. With its established reputation as a first class sales engine in high potential growth areas such as e-commerce, mobile tablet-based and non-tablet based point-of-sale terminals, we believe Newtek Payment Solutions will play a significant role as we expand our presence in the merchant processing space. Our acquisition of Newtek Payment Solutions was accretive to our earnings shortly after the transaction was closed, and generated approximately \$1.4 million of Adjusted EBITDA for 2015, proving to be additive to our 2015 dividend income. Finally, we were proud to report by the end of 2015, we realized over \$5.5 billion in electronic payment processing volume almost \$1.0 billion more than in 2014.

It is our intention to continue to seek attractive investment opportunities that are synergistic to our existing businesses, which we believe can expand Newtek from both an operational and financial standpoint. In fact, in May 2016, we reported that we have four specific investments in the pipeline within our business services footprint, two for which we have signed letters of intent and that we anticipate will be completed in near term, and two additional investment targets.

### **Success in the Capital Markets**

The capital markets continued to have a positive view of our business model and recognized its inherent value. In 2015 and early 2016, we successfully accessed both the debt and equity markets in an effort to secure capital to invest in the continued growth of our business. During the third quarter of 2015, we created a new debt channel and closed a public offering of \$8.3 million in aggregate principal amount of 7.5% Notes due 2022. This was our first issuance of publicly traded senior corporate debt and we were pleased with the execution of the deal. These Notes are listed on Nasdaq Global Market under trading symbol "NEWTZ." In addition, in October 2015, we closed an underwritten offering of 2.3 million shares of common stock at a public offering price of \$16.50 per share, for total proceeds of approximately \$36.0 million. Through this offering in particular, we obtained new institutional investors and ended the year with several well-known institutions as top shareholders including Wellington Management Company, Zelman Capital, Bard & Associates, Northpointe, Royce & Associates and West Family Investments to name a few. Most recently, in April 2016, we closed a \$35.0 million public offering of 7.00% Notes due 2021. Due to overwhelming investor demand, the size of this offering was increased by approximately 40% from \$25.0 million to \$35.0 million in aggregate principal amount (in each case, excluding any overallotment option). The Notes trade on the Nasdaq Global Market under the trading symbol "NEWTL." At the time I am writing this letter, we believe we have an ample amount of capital available to invest in and further grow our business.

### **Management & Office Expansion Initiatives**

To support our continued growth from a staffing perspective, we augmented our already-talented senior management team with top-level executives to fill key positions within the Company. Specifically, in 2015 we

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added John Raven, Chief Operating Officer of Newtek Technology Solutions; and Michael Campbell, Chief Credit Officer and Chief Risk Officer of Newtek Merchant Solutions. Most recently, in April 2016, we hired Nilesh Joshi, Executive Vice President and Chief Information Officer. We believe their seasoned experience and expertise in their respective areas has been and will continue to be a huge asset to the success and growth of our Company.

During the middle of 2015, we signed a lease for approximately 34,000 square feet of new office space in Lake Success, NY, which is located in western Long Island. We have since moved into this space, and it will now serve as the Company's primary operating location with Newtek and five of our controlled portfolio companies in one central location. Having all of our business lines in one central location will further promote our goal of enhancing our datamining capabilities and effectuating a comprehensive well-organized cross-marketing and cross-selling program to further introduce our existing customer base to the vast array of products and services we offer.

### **Moving Forward 2016 & Beyond**

Following a successful year in 2015, we are experiencing a strong start to 2016, and continue to realize positive trends in our business. We recently increased our annual dividend forecast to \$22.0 million, or \$1.52<sup>3</sup> per share, from \$21.8 million, or \$1.50 per share, of which \$0.35 per share was paid on March 31, 2016. To more accurately reflect the foundation and competitive advantage we believe is inherent to our business model, we have embarked on a brand repositioning initiative. In the near future, we will fully introduce our new website and domain - NewtekOne™ - and are already using our new slogan "Your Business Solutions Company™." Newtek and its controlled portfolio companies together offer a comprehensive suite of business solutions coupled with top-notch service that can be customized to fit the needs of the independent business owner. There are 27 million small- and medium-sized businesses in the U.S. and we look forward to capturing additional market opportunity by further penetrating this underserved market. We are a unique company with a unique model. We thank all of our shareholders for their continued support and belief in our ability to continue to achieve success. We look forward to another great year in 2016.

Sincerely,

A handwritten signature in black ink, appearing to be the name "Barry Sloane". The signature is written in a cursive style with a long, sweeping underline.

Barry Sloane  
Founder, Chairman, President and Chief Executive Officer

<sup>1</sup> Paid a total of \$1.36 per share in cash dividends in the calendar year 2015, with the fourth quarter 2015 dividend of \$0.40 per share paid on January 19, 2016.

<sup>2</sup> Adjusted net investment income (loss) = Net investment income (loss) + Net realized gains recognized from the sale of guaranteed portions of SBA 7(a) loans.

<sup>3</sup> Amount and timing of dividends, if any, remain subject to the discretion of the Company's Board of Directors. 2016 dividend forecast based on shares outstanding at March 31, 2016.