Management Discussion
2021 Audit

Attached hereto are NeighborWorks Capital’s (“NC”) 2021 audited financial statements which were approved by the Board of Directors on April 29, 2022. The statements prepared by Cohn Reznick are presented with an unqualified opinion and present fairly, in all material respects, the financial position of the Organization.

A summary table for the two years covered in the audit is presented below.

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$ 106,269,065</td>
<td>$ 106,804,353</td>
<td>$ 535,288</td>
<td>1%</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$ 60,388,124</td>
<td>$ 55,405,245</td>
<td>$(4,982,879)</td>
<td>-8%</td>
</tr>
<tr>
<td>Net Assets</td>
<td>$ 45,880,941</td>
<td>$ 51,399,108</td>
<td>$ 5,518,167</td>
<td>12%</td>
</tr>
<tr>
<td>Revenue</td>
<td>$ 8,329,192</td>
<td>$ 10,110,314</td>
<td>$ 1,781,122</td>
<td>21%</td>
</tr>
<tr>
<td>Expenses</td>
<td>$ 8,149,851</td>
<td>$ 4,592,147</td>
<td>$(3,557,704)</td>
<td>-44%</td>
</tr>
<tr>
<td>Change in Net Assets</td>
<td>$ 179,341</td>
<td>$ 5,518,167</td>
<td>$ 5,338,826</td>
<td>2977%</td>
</tr>
</tbody>
</table>

NC recorded a $5.3MM increase to net assets, the operating component of this was $1.0MM, grants used for lending capital of $4,330,265, and a small gain of $177,196 related to reduction in the allowance for loan losses. The FY 2021 net asset growth is in contrast to the more modest $179,341 recorded in FY 2020 when NC increased the allowance for loan loss from 3.5% to $6MM. Revenue grew year over year by $1.8MM or 21% with grants accounting for $4.3MM of the total revenue. NC received $2.5MM from NeighborWorks America and $1.8MM from the CDFI Fund’s Rapid Response Program, earned revenue was flat reflecting smaller portfolio balances and originations consistent with FY 2020. Expenses decreased as NC did not add to the allowance for loan loss reserve, but instead elected to maintain and ALLR of 5%, to take a charge-off of $750K for the Spruce Ridge loan. The operating expenses, excluding ALLR, were flat at $4.7MM on a year over year basis.

FY 2021 marks the 12th consecutive year that NC has achieved positive self-sufficiency (earned revenue exceeding expenses). The net interest margin achieved in 2021 was 3.3% consistent with NC’s internal target of 3%, the weighted average interest rate on current principal outstanding was 5.5%.

The financial position of NC reflects the ongoing strong performance of the Organization. Total assets grew year over year by 1% ending at just under $106.8MM up from $106.3MM. This growth is driven by an increase cash and investments which ended the year at $9.8MM compared to $7.1MM. The loan portfolio contracted as gross loans receivable decreased
year over year from $104.4MM to $101.4MM. This despite advances of $31.4MM on portfolio loans and new loans closed, but principal curtailments and loan payoffs outpaced the advances. NC has a weighted average maturity for its loan receivables of 2.8 years (33.3 months). With the increased net assets and the smaller loan portfolio, total liabilities, which are principally comprised of borrowings to support lending, declined from $60.4MM to $55.4MM reducing NC’s overall leverage. Current portion of Notes Payable was $6MM at FYE ($5MM of which has subsequently been repaid, and $1MM in being extended). NC has adequate liquid assets (cash on hand and working capital) and borrowing capacity with loans financed by its own net assets to repay these obligations.

At December 31 2021 the key indicia of portfolio health were:

- There were two loans on nonaccrual $9.5MM compared to $5.0MM at FYE 2020 and 2021. The balance on one of the loans increased substantially ($3MM) as funds were advanced to complete construction of the project. Both assets are subject to workout plans and are being aggressively managed.
- There are no other delinquencies (30-+90 days) at year end 2021.
- The chart below reflects the assets that are on the Watch List or subject to Enhanced Monitoring. The total percentage of assets in these categories remains unchanged between 2020 and 2021 despite the portfolio balances decreasing. There has been a shift in categories as reflected in the table below.

![Watch List and Enhanced Monitoring Chart]

Other key ratios tracked by NC and highlights for the year include:

- 12\textsuperscript{th} straight year of demonstrated self sufficiency
- Leverage of 1.08x
- Strong growth in net assets
- 304 days cash on hand to cover all cash expenses, and a current ratio of 7.56x
- Access to $58MM in additional capital
- Strong relationship with key funder – NeighborWorks America
- Compliance at FYE with all investor covenants