“In any business having a partner who understands your vision and needs is an important part of finding success. In this sense I see Pathway Lending as a trusted partner, providing Tennessee businesses with financial solutions, education, and encouragement they need to achieve and grow. Our willingness to understand what makes each business unique, make the right connections, and craft the right solutions is why I’m proud to serve as a member of the Board of Directors.”

James Carter, Board of Directors Chairman
Dear STAKEHOLDERS:

From the start, Pathway Lending has made client success its top priority. Even as we experienced tremendous growth over the past few years, our commitment to our clients has not wavered. We have always gauged our accomplishments by the success of those we serve. And we always will.

To this end, our goals are simple: Identify needs and develop solutions that help entrepreneurs succeed, grow and create jobs. Pathway Lending continually focuses on providing education, innovation and partnerships to deliver long-term opportunities to our clients.

You’ll see throughout this annual report our many accomplishments in 2012 and how each has strengthened the Tennessee business community. For example, we joined the first-ever Goldman Sachs 10,000 Small Businesses CDFI Growth Collaborative. Through this initiative we work with other leaders in the Community Development Financial Institution industry to strengthen our own best practices and gain new perspectives that improve the way we operate. This opportunity pushes us to learn and innovate, making us a stronger community partner.

We also continued supporting local economic development initiatives through several new partnerships, understanding that loan capital is often the missing puzzle piece to achieving success. Furthermore, we increased the resources dedicated to Pathway Lending’s education and advisory services areas to bring a complete solution to our clients and help take their businesses to the next level.

As this annual report will reveal, these activities and many others have translated into substantial results. In 2012, Pathway Lending had its best year to date. The organization deployed more than $15.7 million to businesses and entrepreneurs across Tennessee, provided more than 2,000 hours of one-on-one and classroom training and positively influenced the jobs of more than 2,500 people.

We continuously strive to impact more businesses and to create more opportunities across Tennessee. In the year ahead we will do what we have done since 1999, pressing forward with our efforts to be a strong community resource and a statewide leader in financing business growth in Tennessee.

Sincerely,

Clint Gwin
Mission
Focused

At Pathway Lending our vision is to be one of the best Community Development Financial Institutions, recognized locally, regionally, and nationally for the work we do. We pursue partnerships and opportunities that advance our mission and positively impact businesses and communities in the markets we serve.

Grants Awarded
- Bank of America Loan Loss Reserve Program
- Goldman Sachs 10,000 Small Businesses Initiative
- Starbucks Create Jobs for USA Initiative
- CDFI Financial Assistance Program Award

Awards & Recognition Received
- 2012 Community Reinvestment Award: Partnership with Pinnacle National Bank
- Lipscomb University Sustainable Innovator of the Year

Associations & Partnerships Joined
- National Governors Association: Policy Academy on Industrial Energy Efficiency
- Clinton Global Initiative: Market Based Approaches
- Appalachian Community Capital: ARC CDFI Intermediary
- Goldman Sachs 10,000 Small Businesses CDFI Collaborative
- The Food Trust: Tennessee Grocery Access Taskforce

Mission
Driven

“Providing underserved small businesses with lending solutions and educational services that result in job creation and economic development.”
What a business can do with a Pathway Lending loan...

**Business Acquisition**

Acquiring a business or real estate is a smart strategy to accelerate your company’s growth. But financing the acquisition is often complex. Pathway Lending provides flexible capital to support your business acquisition or real estate needs and experienced staff to offer advice along the way. The combination is a powerful tool that can set your business on a trajectory for long-term growth.

**Energy Efficiency**

Energy efficiency improvements are smart investments for Tennessee businesses. With the Tennessee Energy Efficiency Loan Program, businesses get below market rates and flexible terms that make projects such as lighting retrofits, HVAC replacements and renewable energy projects cash flow positive from Day 1. Energy Efficiency is a resource that generates big returns for your business.

**MicroEnterprise**

Entrepreneurs are the heart of our business community, with passion, enthusiasm, and vision that creates jobs and moves the economy forward. Yet, entrepreneurs face many challenging “firsts”, and the first loan these entrepreneurs need to grow is often the most challenging to acquire. Pathway Lending’s MicroEnterprise program provides a capital resource and trusted advisors to get smaller firms with a growth opportunity well on their way to success.

**Equipment Financing**

Growing companies need the proper formula of resources to grow: people, facilities, capital and equipment. Pathway Lending makes it easier for your business to succeed by delivering intelligent advice and effective capital solutions to acquire equipment that enables your business to grow. With flexible, long-term capital you can acquire equipment without sacrificing the other resources your company needs to be successful.

**Working Capital**

When opportunity knocks it sometimes takes a loan to open the door. Pathway Lending is there when businesses are ready to take the next step. If your business is in need of working capital to take advantage of new opportunities, Pathway Lending can provide flexible solutions that enable your business to achieve success and grow.
Small, emerging, and growing businesses often face new challenges and opportunities. No matter how experienced these entrepreneurs are they may need advice navigating these new horizons. That’s where Pathway Lending provides a valuable resource to the businesses and communities it serves. Since 1999, Pathway Lending has provided more than 18,000 hours of customized Technical Assistance to more than 1,400 clients. Pathway Lending offers entrepreneurs and small business owners the support they need to succeed. The organization works to craft custom solutions and connect clients with the resources they need to strengthen their business practices, and access capital.
THE IMPACT WE MAKE

Making a Difference Since 1999

CDFIs, like Pathway Lending, play an important role in providing financial products and services to underserved businesses, often offering the only accessible or affordable source of capital in low or moderate income or otherwise economically isolated communities.

Since 1999, Pathway Lending has provided more than $76.8 million in loan capital to underserved Tennessee businesses. These efforts have been guided by the following principles:

➢ Meet the needs of underserved entrepreneurs and business owners
➢ Identify gaps in capital availability markets across Tennessee
➢ Provide a wide range of loan products that are flexible and unique to the market

2012 Lending Activity & Community Impacts

<table>
<thead>
<tr>
<th>Loans (#)</th>
<th>68</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans ($)</td>
<td>$15,719,204</td>
</tr>
<tr>
<td>Loans outstanding FYE (#)</td>
<td>174</td>
</tr>
<tr>
<td>Loans outstanding FYE ($)</td>
<td>$30,105,000</td>
</tr>
<tr>
<td>Average Loan Size</td>
<td>$231,000</td>
</tr>
<tr>
<td>Average Business Size</td>
<td>20 Employees</td>
</tr>
</tbody>
</table>

| Clients served (#)            | 119 |
| Jobs Impacted (#)             | 2,505 |
| 1-on-1 Technical Assistance   | 1,442 Hours |
| Classroom Training            | 587 Hours |
| kWh Saved (Energy Efficiency) | 3,569,262 |
| kWh Generated (Renewables)    | 768,429 |

2012 Portfolio by Loan Product

(percentage based on number of loans)

- MicroEnterprise: 36.8%
- Plant & Equipment: 5.9%
- Working Capital: 14.7%
- Business Acquisition/Expansion: 11.8%
- Energy Efficiency: 19%

Energy Efficiency Loan Portfolio

(percentage based on number of loans)

- HVAC Replacement: 47%
- Lighting: 19%
- Plant & Equipment: 19%
- Renewables: 10%
In 2012, Pathway Lending provided 68 loans to 59 Tennessee businesses.

**Partnerships to Promote Energy Efficiency & Sustainability in Tennessee**

Launched in 2010, the Tennessee Energy Efficiency Loan Program is a $50,000,000 public-private initiative between the State of Tennessee, the Tennessee Valley Authority, Pinnacle Bank, and Pathway Lending. This was the first program of its kind to be launched in the United States, and it paved the way for similar CDFI-led collaborations.

In 2012, the program provided $5,130,000 in low-interest loans to Tennessee businesses to implement energy projects including energy efficient system upgrades, building retrofits, and equipment replacement, as well as renewable energy and solar installations. These projects are economically beneficial, yet prove difficult to finance, particularly for small businesses in low- and moderate-income communities. This initiative provides a new source of capital to improve Tennessee facilities and allow business owners to make their operations more efficient, increase cash flow, and create jobs.

**Partnering with Tennessee Community Banks to Create Change**

Pathway Lending is a community lender that partners with organizations to increase its ability to meet the financial needs of Tennessee’s underserved business owners. The organization’s sound financial practices and its ability to offer loan products that compliment rather than compete with those offered by traditional banks has earned it the Endorsed Product status by the Tennessee Bankers Association. Pathway Lending is the only CDFI in the country to have earned such status.

Partnerships with Community Banks have had a direct and lasting impact on Tennessee’s small and underserved business community. These partnerships have helped fund the TN Rural Opportunity Fund, the TN Small Business Jobs Opportunity Fund, and the TN Energy Efficiency Loan Program - funds that fill capital gaps in Tennessee and help underserved businesses achieve success and create jobs.

More than 40 Tennessee Bankers Association Member Banks have partnered with Pathway Lending to support community development lending practices and help underserved businesses who would otherwise have fewer opportunities to grow.
As this type of Solutions Provider, Pathway Lending dedicates itself to supporting the needs of all Tennessee businesses, no matter their location or financial or advisory needs. With a broad product portfolio, statewide offices, and knowledgeable and dedicated staff, Pathway Lending is committed to this mission and capable of delivering on this promise to Tennessee.

Launched in 2009, the TN Main Street/Rural Retail Loan Program provides financing for retail businesses in communities across rural Tennessee. The program serves as a catalyst to bring change to business districts that have been hollowed out by years of consolidation in the retail and financial sectors.

To date, the program has provided over $2 million in loans and technical assistance to help small, independent business owners and entrepreneurs expand services and create jobs as part of larger revitalization efforts in these communities.

Launched in 2012, the TN Sustainable Communities Initiative reflects partnerships between Pathway Lending and Local Governments from across the state. This program encourages businesses to commit to improving the energy efficiency of their facilities, and helps connect them to the resources they need to turn these projects from proposals to reality.

The program provides financial and technical resources to businesses across Tennessee and encourages them to commit to sustainability, connect with resources, identify projects, and implement to achieve savings.
Pathway Lending is a Solutions Provider for the businesses and communities it serves. It supports business growth with flexible features and it supports entrepreneurial growth with highly customized technical assistance and advisory services.

Supporting the needs of all Tennessee businesses, no matter their location or their financial or advisory needs, Pathway Lending is committed to this mission and capable of delivering on this promise to Tennessee.

Launched in 2012, the TN Sustainable Communities Initiative reflects partnerships between Pathway Lending and Local Governments from across the state. This program encourages businesses to commit to improving the energy efficiency of their facilities, and helps connect them with the resources they need to turn these projects from proposals to reality.

The program provides financial and technical resources to businesses across Tennessee and encourages them to commit to sustainability, connect with resources, identify projects, and implement to achieve savings.

Seeded with a grant from the CDFI Fund, the Davidson County Commercial Corridor Revitalization Program is a direct response to the 2010 Nashville Flood, where more than 2,800 businesses suffered damages to buildings, inventory, and operational capacity.

The loan program is designed to help businesses emerge from this disaster stronger and more competitive. The loan program provides funding for building rehabilitation, expansion, and equipment costs and also supports sustainable or energy saving improvements.
Q&A WITH OUR CLIENTS

Our clients are passionate about their business. They’ve envisioned it, conceptualized it, created it, and are ready to grow... Sometimes they don’t have resources to take that business to the next level. And that need is where the relationship with Pathway Lending starts. We’d like to introduce you to a few of our clients, and let them tell you about their businesses and how they’ve grown with the support of Pathway Lending.

Ron Smithfield
President
Smithfield Enterprises, Inc.

Brad Hamlett
Owner
The Chocolate Factory

Dr. Tamara Griffin
Owner
Charter Oak Endodontics

Q: What motivates you as an entrepreneur?

My father and mother were entrepreneurs who started a small tool and die shop in 1952. Even though I worked in the business, my dream from the age of eight was to be a research chemist.

After I earned my Master’s degree in Medicinal Chemistry, my dad had a heart attack and I came back to help him. My calling became applying the scientific principles I had learned to manufacturing. I began converting drawings into a tangible, precision-machined part. American manufacturers are required to constantly innovate to survive in today’s international economy. That is an incredibly rewarding process.

Q: Why did you choose to work with Pathway Lending?

In addition to the guidance provided, Pathway Lending was more affordable than utilizing existing forms of credit to make energy savings improvements. The company pursued a number of energy efficiency improvements, each of which will pay for itself in five years or less. These include lighting upgrades and an efficient air compressor, which I understand was the first of its kind in Tennessee. Without the financial tools and insights of Pathway Lending, we wouldn’t have been able to realize these huge savings.

Q: What sets Pathway Lending apart from other lenders?

Pathway Lending’s easy loan application process and helpful staff made working with them incredibly easy. And the loans they offer are a boon to the business and existing creditors. Our local bank welcomed the energy efficiency improvement financing because it further secured their position—it is a win-win for everyone involved and the surrounding communities.
Q: Why did you choose to work with Pathway Lending?

We chose Pathway Lending because of its team’s willingness to go beyond just supplying capital for a business. Instead, they’re dedicated to helping us succeed. Our friends at Pathway—and at this point, we do consider them friends—have given us access to experienced businesspeople to walk alongside us on our journey. I wouldn’t hesitate to pick up the phone to ask for advice, which is invaluable for ensuring the health of my business for the good of all those it touches.

Q: What motivates you as an entrepreneur?

There is a freedom and responsibility in being an entrepreneur that you don’t find in almost any other job. I have the freedom to build something based on my hard work and vision. I have total responsibility for a business and people, which does come with some pressure but also allows me to experience success in a way that isn’t possible when you work for someone else.

Equally important is how the business can affect others in a positive way. Not only can it give people good jobs in the local community, but it can support people who are trying to change the world. Whether it’s supporting a group in Guatemala supplying life essentials and training or a local school in need of track uniforms, as a company we are proving that a business can be defined by more than making a profit.

Q: Why did you choose to work with Pathway Lending?

I found Pathway Lending, which at the time was Southeast Community Capital, after researching lenders that participated in the Tennessee Rural Opportunity Fund with the state of Tennessee. I sent an email and they emailed me right back! Because of that, I felt from the start that Pathway Lending was a great resource for the small business owner. They were excited about what I could do for my community and eager to help any way possible to make it a reality.

Q: What sets Pathway Lending apart from other lenders?

When I describe my experience with Pathway Lending, it usually comes down to one sentence: They believe in the dream.

Yes, the numbers have to be right, but traditional lenders never look beyond the figures. I believe Pathway Lending took into consideration my years of experience and saw that the vision I had for The Chocolate Factory could be a reality. Entrepreneurs are set apart from others by the fact they believe in the dream of being able to build something that will benefit themselves and the community around them. Based on my personal experience, Pathway Lending is proud to support the entrepreneurial dreams of people who need someone to look beyond the numbers.

Q: What motivates you as an entrepreneur?

Every day is an opportunity for another personal “best.” I enjoy providing excellent service in an atmosphere that I have created. I want my patients and referring doctors to know that we will exceed their expectations. In addition to my family, my team members depend on our success as a business, so we work together to identify areas in need of improvement and adapt accordingly.

That autonomy makes all the difference for the business and for me as an entrepreneur. I am not satisfied with the status quo. As a result, I’m constantly examining our practices to find out what can be done more effectively and efficiently. This is how Charter Oak Endodontics has operated since 2007.

Q: What sets Pathway Lending apart from other lenders?

Pathway Lending not only lends money but provides so much help to small business owners. I learned how to use QuickBooks from Pathway Lending. I have been introduced to individuals who can help grow my practice through Pathway Lending. I draw on their deep understanding of small business. These are just a few of the examples of how working with Pathway Lending has helped me. We have a mutually beneficial relationship based on one-on-one attention—something many lenders do not provide.
Pathway Lending

Board of Directors

COMMITTED TO GIVING BACK

Since 1999, Pathway Lending has significantly expanded its advisory board, adding leaders from communities across Tennessee. Each board member brings a fresh perspective to the table, and we are extremely grateful for their energy and commitment. Their continued support, advice, and experience helps Pathway Lending better meet the needs of a diverse set of entrepreneurs and small business owners across Tennessee.

We recently sat down with a few members of our Board of Directors and asked them to reflect on their service and how Pathway Lending makes a difference.

What motivates you as a volunteer?

As with most people, I believe that volunteerism is an important element of a productive society. I grew up in a family that volunteered for numerous activities, including service in WWII and other military commitments, church activities, political campaigns and charitable causes. The example set by my family was clear. While we were not expressly taught to volunteer, there never was any thought of not doing volunteer work.

Being part of the Pathway Lending story since its inception gives me great pride and satisfaction as the organization has successfully navigated through years of challenges to become a valuable and highly regarded institution for the state of Tennessee.

What sets Pathway Lending apart from other organizations?

Pathway Lending is distinguished by a very knowledgeable, creative and dedicated staff of professionals. They understand the needs of the business community and are proactive in developing programs to support those needs. The team effectively addresses the commercial elements of Pathway Lending through prudent attention to sound business practices as well as meticulous adherence to internal and external governance. Furthermore, the staff is very effective in working with investors and community leaders—a trait that serves Pathway Lending and all of its clients very well.

Why did you become involved with Pathway Lending?

I became involved with Pathway Lending because it focuses on a number of important issues that align with my viewpoint and interests as well as the interests of the community, state and country. These include helping to create jobs, stimulating the economy and improving the living standards of all members of the community. Most important for me is the fact that Pathway Lending supports deserving entrepreneurs. The people who benefit from Pathway Lending’s programs are committed to hard work and prudent risk taking—they are the backbone of our economy and have earned the support that Pathway Lending provides.

James Carter - Board Chairman
President, James E. Carter Associates
14 year Board Member

Sam Howard
Chairman, Phoenix Holdings
5 year Board Member

Mary Neil Price
Attorney, Dickinson Wright PLLC
5 year Board Member
What motivates you as a volunteer?

Causes that have far-reaching, long-term and profound impacts on individuals and entire communities motivate me to volunteer. I’m inspired to invest my time into prudent organizations such as Pathway Lending because I know its work is creating a solid foundation for the flourishing of neighborhoods.

Community Development Financial Institutions (CDFI) like Pathway Lending are generally under recognized by the business community and the public at large for the vital functions they provide. Pathway Lending is a truly unique financial institution. At its core, its mission is to develop financial products that assist small businesses that are viewed as “non-bankable” so they can become more established and “bankable.” In other words, it creates financially viable businesses, which are necessary for sustainable communities.

One of the most important factors to me is working with staff members who are respectful of my time and don’t waste it or take it for granted. A reliable corporate governance structure is also very important. If I come away from a board or committee meeting shaking my head, it usually means my involvement with that organization is going to be limited. I work with organizations like Pathway Lending that make good use of everyone’s time and resources in getting the job done.

Why did you become involved with Pathway Lending?

I became involved with Pathway Lending after I learned of its work with a minority-owned business—Mama Turney’s Homemade Pies. Pathway Lending worked closely with the owner, Mike Turney, to create a loan for the business that allowed it to continue its work and improve its operations. Ultimately, Pathway Lending helped it become a sustainable business and an asset to its community.

To be able to contribute to work like this, which is attentive to the needs of a community and not just the business investors, is why I chose to engage with Pathway Lending. Furthermore, it’s an opportunity be involved with a not-for-profit financial organization that recognizes the role of and works within the capitalistic system in order to create wealth in those communities.

The idea of a Community Development Financial Institution (CDFI) is intriguing. Pathway Lending underwrites credit just like a for-profit bank, but its reason for existence is to create jobs and bolster businesses that tend to be underserved by the traditional financial services industry.

CDFI is a long descriptor but an apt one. Pathway Lending works every day to build up businesses of all types that collectively form vibrant communities through employment, civic activity and providing goods and services throughout the state.

In short, innovation and the willingness to try new ideas. Pathway Lending is in a continual search for ways it can better serve clients and fill new needs in the marketplace. While many perceive new ideas as inherently risky, Pathway Lending balances efforts to innovate with responsible and prudent business practices. It’s an incredibly thoughtful organization.

What sets Pathway Lending apart from other organizations?

Community Development Financial Institutions (CDFI) like Pathway Lending are generally under recognized by the business community and the public at large for the vital functions they provide. Pathway Lending is a truly unique financial institution. At its core, its mission is to develop financial products that assist small businesses that are viewed as “non-bankable” so they can become more established and “bankable.” In other words, it creates financially viable businesses, which are necessary for sustainable communities.
This fund targets 92 of Tennessee’s 95 counties, particularly those rural communities where small businesses are unable to access traditional bank financing. The fund is capitalized with $10 million of private bank capital and up to $2 million of forgivable loans from the State of Tennessee’s Small and Minority Owned Business Program.
Tennessee Small Business Jobs Opportunity Fund (2010-Present):
This fund was created with an appropriation from the Tennessee General Assembly of $10 million. The purpose of the fund is to provide loans to businesses in all Tennessee counties who are unable to access capital to expand operations and create or retain jobs. The fund has originated $20.1 million in loans to 40 Tennessee businesses.

Historic Business Lending Activity (2000-2012)

Total Loans: $68,073,878
Leveraged Capital: $50,746,259
Revolving Fund Rate: 1.34x
## Income Statement

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROGRAM REVENUE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Income Loans</td>
<td>$1,891,009</td>
<td>$1,432,676</td>
<td>$458,333</td>
<td>32.0%</td>
</tr>
<tr>
<td>Interest Income Deposits</td>
<td>224,526</td>
<td>397,927</td>
<td>(173,401)</td>
<td>-43.6%</td>
</tr>
<tr>
<td>Financing Fees and Charges</td>
<td>152,874</td>
<td>87,732</td>
<td>65,142</td>
<td>74.3%</td>
</tr>
<tr>
<td>Management Fees</td>
<td>74,963</td>
<td>69,169</td>
<td>5,794</td>
<td>8.4%</td>
</tr>
<tr>
<td><strong>TOTAL Interest and Program Service Revenue</strong></td>
<td>2,343,372</td>
<td>1,987,504</td>
<td>355,868</td>
<td>17.9%</td>
</tr>
<tr>
<td>Grant Revenue to Support Program Services</td>
<td>2,081,086</td>
<td>926,788</td>
<td>1,154,298</td>
<td>124.5%</td>
</tr>
<tr>
<td><strong>TOTAL Program Related Income</strong></td>
<td>4,424,458</td>
<td>2,914,292</td>
<td>1,510,166</td>
<td>51.8%</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>(737,431)</td>
<td>(738,911)</td>
<td>5,186</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Net Earned Income</td>
<td>3,687,027</td>
<td>2,175,381</td>
<td>1,511,646</td>
<td>69.8%</td>
</tr>
<tr>
<td>Provision for Loan Losses</td>
<td>(439,752)</td>
<td>(1,123,433)</td>
<td>683,681</td>
<td>-60.9%</td>
</tr>
<tr>
<td>Net Income Earned After Provision</td>
<td>3,247,275</td>
<td>1,051,948</td>
<td>2,195,327</td>
<td>209.8%</td>
</tr>
<tr>
<td><strong>PROGRAM SERVICES EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>2,137,620</td>
<td>1,587,032</td>
<td>550,588</td>
<td>34.7%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>463,132</td>
<td>172,980</td>
<td>290,152</td>
<td>167.7%</td>
</tr>
<tr>
<td>Travel</td>
<td>120,419</td>
<td>88,568</td>
<td>31,851</td>
<td>36.0%</td>
</tr>
<tr>
<td>Marketing</td>
<td>47,880</td>
<td>87,315</td>
<td>(39,435)</td>
<td>-45.2%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>81,312</td>
<td>78,944</td>
<td>2,368</td>
<td>3.0%</td>
</tr>
<tr>
<td>Other Program Expenses</td>
<td>354,037</td>
<td>355,584</td>
<td>(1,547)</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>TOTAL PROGRAM SERVICES EXPENSES</strong></td>
<td>3,204,400</td>
<td>2,370,423</td>
<td>833,977</td>
<td>35.2%</td>
</tr>
<tr>
<td><strong>SUPPORT SERVICES EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>122,187</td>
<td>95,367</td>
<td>26,820</td>
<td>28.1%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>34,595</td>
<td>22,455</td>
<td>12,140</td>
<td>54.1%</td>
</tr>
<tr>
<td>Other Support Expenses</td>
<td>57,493</td>
<td>58,887</td>
<td>(1,394)</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>9,979</td>
<td>10,907</td>
<td>(928)</td>
<td>-8.0%</td>
</tr>
<tr>
<td><strong>TOTAL SUPPORT SERVICES EXPENSES</strong></td>
<td>224,254</td>
<td>187,616</td>
<td>36,638</td>
<td>19.5%</td>
</tr>
<tr>
<td>Contributed Loan Capital</td>
<td>5,675,812</td>
<td>5,244,619</td>
<td>431,193</td>
<td>8.2%</td>
</tr>
<tr>
<td><strong>CHANGE IN NET ASSETS</strong></td>
<td>$5,494,433</td>
<td>$3,734,822</td>
<td>$1,759,611</td>
<td>47.1%</td>
</tr>
<tr>
<td></td>
<td>2012</td>
<td>2011</td>
<td>$ Change</td>
<td>% Change</td>
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<td>----------------</td>
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</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>$2,536,577</td>
<td>$1,819,975</td>
<td>$716,602</td>
<td>39.4%</td>
</tr>
<tr>
<td>Restricted Cash - Lending</td>
<td>24,539,788</td>
<td>30,166,547</td>
<td>(5,626,759)</td>
<td>-18.7%</td>
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<tr>
<td>Restricted Cash - Loan Loss Reserves</td>
<td>4,044,883</td>
<td>3,947,290</td>
<td>97,593</td>
<td>2.5%</td>
</tr>
<tr>
<td>TOTAL CASH</td>
<td>31,121,248</td>
<td>35,933,812</td>
<td>(4,812,564)</td>
<td>-13.4%</td>
</tr>
<tr>
<td>Loans</td>
<td>30,105,000</td>
<td>24,891,831</td>
<td>5,213,169</td>
<td>20.9%</td>
</tr>
<tr>
<td>Allowance for Loan Losses</td>
<td>(1,674,074)</td>
<td>(1,690,943)</td>
<td>16,869</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Net Loans</td>
<td>28,430,926</td>
<td>23,200,888</td>
<td>5,230,038</td>
<td>22.5%</td>
</tr>
<tr>
<td>Grants Receivables</td>
<td>10,267</td>
<td>748,469</td>
<td>(738,202)</td>
<td>-98.6%</td>
</tr>
<tr>
<td>Accrued Interest Receivables</td>
<td>135,479</td>
<td>136,072</td>
<td>(593)</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Other Assets</td>
<td>267,576</td>
<td>333,827</td>
<td>(66,251)</td>
<td>-19.8%</td>
</tr>
<tr>
<td>Property and Equipment, net</td>
<td>1,528,902</td>
<td>1,547,326</td>
<td>(18,424)</td>
<td>-1.2%</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>61,494,398</td>
<td>61,900,394</td>
<td>(405,996)</td>
<td>-0.7%</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>180,046</td>
<td>79,929</td>
<td>100,117</td>
<td>125.3%</td>
</tr>
<tr>
<td>Interest Payable</td>
<td>354,073</td>
<td>415,836</td>
<td>(61,763)</td>
<td>-14.9%</td>
</tr>
<tr>
<td>Lines of Credit Payable</td>
<td>336,276</td>
<td>336,287</td>
<td>(11)</td>
<td>0.0%</td>
</tr>
<tr>
<td>Mortgage Payable</td>
<td>1,300,661</td>
<td>1,401,353</td>
<td>(100,692)</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Notes Payable (Program Borrowings)</td>
<td>11,910,406</td>
<td>11,954,257</td>
<td>(43,851)</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Notes Payable (Program EQ2)</td>
<td>21,734,184</td>
<td>25,237,641</td>
<td>(3,503,457)</td>
<td>13.9%</td>
</tr>
<tr>
<td>Deferred Rev. Attributable to State Grants</td>
<td>6,734,434</td>
<td>9,363,583</td>
<td>(2,629,149)</td>
<td>-28.1%</td>
</tr>
<tr>
<td>Other Deferred Revenue</td>
<td>669,954</td>
<td>379,092</td>
<td>290,862</td>
<td>76.7%</td>
</tr>
<tr>
<td>Funds Managed for Third Parties</td>
<td>106,484</td>
<td>106,484</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>266,439</td>
<td>218,924</td>
<td>47,515</td>
<td>21.7%</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>43,592,957</td>
<td>49,493,386</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>17,221,841</td>
<td>11,696,968</td>
<td>5,524,873</td>
<td>47.2%</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td>679,600</td>
<td>710,040</td>
<td>(30440)</td>
<td>-4.3%</td>
</tr>
<tr>
<td>TOTAL NET ASSETS</td>
<td>17,901,441</td>
<td>12,407,008</td>
<td>5,494,433</td>
<td>44.3%</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS AND LIABILITIES</strong></td>
<td>$61,494,398</td>
<td>$61,900,394</td>
<td>(405,996)</td>
<td>-0.7%</td>
</tr>
<tr>
<td><strong>RATIOS (as of 12/31)</strong></td>
<td>2012</td>
<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Assets vs. Total Assets:</td>
<td>29.11%</td>
<td>20.04%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for Loan Losses/Total Loans:</td>
<td>5.56%</td>
<td>6.79%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquencies (&gt;90 Days):</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Loss Ratio vs. Outstanding Loans:</td>
<td>1.52%</td>
<td>1.94%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Income/Program Expense:</td>
<td>101%</td>
<td>63%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deployment Ratio:</td>
<td>53%</td>
<td>43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staffing Level:</td>
<td>21</td>
<td>18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**OUTSTANDING PORTFOLIO COMPOSITION (as of 12/31/2012):**

- Commercial Real Estate Loans: 48%
- Commercial Loans (>=$50,000): 36%
- Energy Efficiency Loans: 13%
- Micro Loans (<$50,000): 3%
- Total Portfolio Outstanding: $30,105,000
Thank you to all of the organizations that have shown their commitment to Tennessee’s communities by partnering with Pathway Lending. Your support is greatly appreciated.

STAKEHOLDERS:

Foundations:
- Calvert Social Investment Fund
- Community Reuse Organization of East Tennessee (CROET)
- Goldman Sachs 10,000 Small Businesses
- Joe C. Davis Foundation
- Seedco Financial Services
- The Energy Foundation
- Starbucks Create Jobs for USA

Federal Stakeholders:
- Community Development Financial Institutions Fund (U.S. Department of Treasury)
- Tennessee Valley Authority
- U.S. Department of Agriculture
- U.S. Department of Energy - Oak Ridge National Laboratory
- U.S. Economic Development Agency
- U.S. Small Business Administration

State Stakeholders:
- Tennessee Department of Economic & Community Development
- Tennessee Small and Minority Owned Business Program
- Tennessee Department of Revenue
- Tennessee Department of Environment & Conservation

Local Stakeholders:
- City of Chattanooga
- City of Memphis
- Knox County
- Metropolitan Development & Housing Agency (Nashville, TN)
- Metropolitan Government of Nashville & Davidson County
- Shelby County

Private Stakeholders:
- Avenue Bank
- Bank of Bartlett
- Branch Banking and Trust Company
- Capital Bank
- CapStar
- Citizens Bank (Carthage)
- Citizens Bank (Elizabethton)
- Citizens National Bank (Athens)
- Commercial Bank and Trust
- Community Bank & Trust
- Decatur County Bank
- F&M Bank (Clarksville)
- Farmers and Merchants Bank (Trezevant)
- Farmers Bank and Trust
- First Community Bank of East TN
- First National Bank of Oneida
- First State Bank
- First Tennessee
- FirstBank
- GreenBank
- INSBANK of Tennessee
- Jefferson Federal Bank
- Legends Bank
- Macon Bank and Trust Company
- McKenzie Banking Company
- Peoples Bank
- Pinnacle Bank
- Regions Bank, NA
- Reliant Bank
- Renasant Bank
- SunTrust Bank, NA
- Tennessee State Bank
- The Bank of Nashville
- TNBank
- Trust Company Bank
- Wayne County Bank
- Wilson Bank and Trust Company