When I speak to others about life at Pathway Lending, I often say that it’s the hardest job I’ll ever have. But, I quickly follow that up by saying it’s also the most rewarding. As I reflect back on 2014, I continue to believe the rewards far outweigh the hard work the entire Pathway Lending team does every day.

As I look back on 2014, I want to recognize that we achieved a major milestone when we celebrated our 15th anniversary in business on December 21, 2014. I want to take this opportunity to extend a heartfelt thank you to all of those who made these past 15 years possible. I am very fortunate to have worked alongside so many great board members, team members, stakeholders, and clients in my 13 years at Pathway Lending. I am so privileged to have the opportunity to work with a group of committed and passionate individuals who work hard every day to help our clients reach goals and provide jobs to Tennessee’s hard working citizens.

Two thousand fourteen was no different than many of the prior years. As an organization, we pushed forward with investments in technology and improved internal processes to improve efficiency. We expanded our ability to provide business mentoring and developed new programs with partners like the Tennessee Small Business Development Center and the U.S. Small Business Administration to better serve our clients.

It is this commitment to moving business forward that keeps Pathway at the leading edge of the Community Development Finance Industry. The client stories, charts, and numbers on the following pages speak for themselves, and give you an idea of why I find this job as challenging and rewarding as any I’ve ever held.

As I look forward to 2015 and beyond our challenges ahead will be similar to those of the past. It is no small fete to serve all Tennessee businesses, with their diverse financial needs, challenges, and opportunities. We must continue to think creatively, look for new ways to solve old problems, and commit to developing innovative programs, products, and partnerships.

The numbers don’t tell the whole story of our organization and the past 15 years. As we move forward and grow and have new experiences, I charge our staff to think big and create new solutions. I am very proud of our accomplishments and even more so our team and look forward to what we will do next. We are a truly collaborative organization, and we all play a part in moving business forward in Tennessee.

Thank you for your support and for being part of our community.

Sincerely,

Clint Gwin
We measure success by the successes of our clients

[Opportunity]

And every one has a story to share

Charles & Deborah Erby have been growing their family business for more than 20 years. In 2013, a new opportunity presented itself when Charles began developing custom emergency and fire response vehicles.

Building capacity to launch a new product can be a challenge. That’s when the Erbys reached out to Pathway Lending. With a loan to finance equipment and purchase materials to fulfill a contract, the Erbys began production in their Newport facility and delivered their first custom fire truck to Bean Station VFD in Bean Station, Tennessee.

As many manufacturers know, you are what you make. That’s why this prototype, an F550 Brush/Rescue truck with a 300 gallon water tank, was so important. It serves as a calling card to customers, a tangible product that makes it easier for potential buyers to see its flexibility and envision how it can easily be put to use in their community.

With this first truck under their belt, the Erbys are ready to fulfill more contracts and expand their business, adding new jobs in this rural, East Tennessee community.

They are confident in the success of this phase of their business because their vehicles are built to exceed industry standards and provide a new level of flexibility for fire and emergency response needs. They are the perfect complement to an existing fleet of traditional large-scale fire and rescue vehicles, and increase flexibility at an affordable cost — two important considerations for budget-minded municipalities.

Erby Contractors: Newport, TN

Flexible Capital to Confidently Fulfill Larger Contracts
PATHWAY HAS BEEN THERE EVERY STEP OF THE WAY, WITH RESOURCES & SUPPORT THAT FIT MY NEEDS AND MY BUSINESS GOALS

PREPARING FOR THE FUTURE YIELDS OPPORTUNITY

Hilton Horne State Farm: Antioch, TN

Like many insurance agents, Hilton Horne started his career in the office of a mentor, where he learned about the industry and grew his book of business.

“I worked very closely with my mentor. He’s been invaluable and I think a very important part of my learning process,” says Horne. “After having success in his office, I was offered an opportunity to start my own State Farm agency in Antioch, Tennessee, an area that I had called home for more than 25 years.” The opportunity to open his own franchise is what led Hilton to Pathway Lending, a new “mentor”, who treated the relationship as more than just a financial transaction. Hilton worked closely with Pathway Lending’s Advisory Services Team who helped him think critically about starting a franchise, managing change, and planning for success.

“Pathway gave me the opportunity to bring my dream to life,” says Horne. “They have been there, every step of the way, with resources and support that fit my needs and my business goals.”

The future looks bright for Hilton. In September 2014, he officially opened his agency in Antioch and has since been hard at work providing awareness and education to build a stronger community. His goal is to continue to grow his business in the place he calls home – and become the go-to insurance agency for the Antioch community.

INVESTING TO MOVE THEIR MISSION FORWARD

YMCA of Memphis & the Mid-South: Memphis & Millington, TN

The YMCA of Memphis & the Mid-South is a long-time community resource with a truly modern point of view. With a large and diverse portfolio of buildings, the Y makes modernization, including energy efficiency, a business priority.

Installing projects like high-efficiency HVAC units reduces operating costs and allows them to invest in the things that matter the most - their members.

A growing number of Tennessee businesses use energy efficiency strategically – to reduce operating costs, achieve environmental goals, or to better support mission-related activities. However, many still cite capital access as the number one barrier to implementing projects.

Pathway Lending is a financial partner, who can help businesses access capital and move from talk of modernization to execution - whether for a single or ongoing project.

In 2014, the Y financed a series of energy efficient projects through the Tennessee Energy Efficiency Loan Program as a new way to support its mission of social responsibility, healthy living, and youth development.

Sustainability, more specifically energy efficiency, ties into this mission in very tangible, visible ways. Implementing energy efficient projects allows the Y to save money, which it can then invest back into its programs and member services.

At Pathway Lending, we congratulate organizations like the Y for their ongoing commitment to their mission, and we look forward to being a partner in making future energy saving projects a reality.
Thaddaeus Meddford has been cutting hair since 2006 as the owner and operator of Mr. Kutz Barbershop. Over nine years and countless clients, the vision for a new venture, Black Star Beauty Supply, began to form.

Thaddaeus needed a partner to make this vision a reality—a partner like Pathway Lending who believed in him and worked with him to achieve his goals.

As a client, Thaddaeus received mentoring from Pathway’s Advisory Services staff to develop accounting and cash flow practices to ensure a successful launch. He also received flexible financing to purchase inventory and renovate a storefront.

“My wife and I built Black Star Beauty Supply on the promise of giving customers one-on-one attention with professional advice to ensure they purchase the right hair care products for their needs,” said Thaddaeus.

“I was lucky to work with a lender like Pathway, who gave me this same one-on-one attention and professional advice. They’ve really helped me succeed in this new business.”

With Black Star Beauty Supply open for business, Thaddaeus has turned his attention to his clients. He is a true pro when it comes to providing customer service and personalized advice to ensure his clients receive exactly what they need.

Thaddaeus will grow with the needs of his clients and community—and plans to expand the lines of extensions and wigs offered in his store.

As an example, Sage Meadows in Bristol, Tennessee provides families, seniors, and persons with disabilities, earning less than 60% of the area median income, a safe and attractive place to live. A combination of low-income housing tax credits and permanent financing provided by the Consortium and its Member Banks makes this community possible.

The Tennessee Multi-Family Housing Consortium, a partnership with the Tennessee Bankers Association and its Member Banks, is a new way for Pathway to serve businesses and communities. It provides critical debt financing that makes affordable housing a reality in more Tennessee communities.

In 2014, the Consortium originated more than $5.3 million in loans to expand affordable housing in Tennessee. “We are encouraged by the early success of this collaboration,” said Colin Barret, President of the Tennessee Bankers Association. “The Consortium is a great resource our Member Banks can use to meet the diverse needs of the communities they serve.”

As an example, Sage Meadows in Bristol, Tennessee provides families, seniors, and persons with disabilities, earning less than 60% of the area median income, a safe and attractive place to live.

“Developments like Sage Meadows benefit the entire community,” says Hank Helton, SVP at Pathway Lending. “The community gets 98 units of affordable housing and banks gain a stable earning asset that also gets them CRA credit for their regulatory agency.”

This early success is sure to pave the way for future growth, as both housing developers and banks see the value in joining the Consortium to keep affordable housing in communities across Tennessee.
In 2014, Pathway received a grant from the U.S. SBA to open a Women’s Business Center, one of just six new centers in the U.S.

The Center’s first client, Courtney Lewis, a military veteran, single mother, and Memphis native launched her company, See Media in 2014. As a creative professional, Courtney could deliver high-quality creative products. But, she needed assistance building the skills required to operate her business. Access to mentors and classes is why Courtney turned to Pathway – to receive help understanding the sometimes complex worlds of government contracting, marketing, and financial management.

"I didn’t want to start a business to close my business. Getting the education on how to run it was what I needed." - Courtney Lewis

The Women’s Business Center is about increasing access to resources and building a supportive community to help entrepreneurs achieve their goals. Lewis is just one example of how this works - one-on-one business mentoring and classroom education have prepared her to smartly grow her business today and for years to come.
Historic Lending Activity (2000-2014)

- **Total Loans:** $117,727,786
- **Leveraged Capital:** $64,146,541
- **Revolving Fund Rate:** 1.83x

About Our Board of Directors

- **James Carter**
  - James E. Carter Associates
  - 15 year Board Member
  - Board Chairman

- **David Berezov**
  - Vanderbilt University
  - 4 year Board Member

- **Robert Balzar**
  - Tennessee Valley Authority
  - 2 year Board Member

- **Joy Fisher**
  - University of Tennessee
  - 4 year Board Member

- **James Carter**
  - James E. Carter Associates
  - 15 year Board Member
  - Board Chairman

- **Mary Neil Price**
  - McKenzie Laird, PLLC
  - 6 year Board Member

- **Hugh Queener**
  - Pinnacle Financial Partners
  - 7 year Board Member

- **Tom Rogers**
  - Oak Ridge National Laboratories
  - 10 year Board Member
### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</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>Interest Income Loans</td>
<td>$2,677,867</td>
<td>$2,487,965</td>
<td>$189,902</td>
<td>7.6%</td>
</tr>
<tr>
<td>Interest Income Deposits</td>
<td>$105,711</td>
<td>$107,574</td>
<td>(1,863)</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Financing Fees and Charges</td>
<td>$222,979</td>
<td>$227,632</td>
<td>(4,653)</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Management Fees</td>
<td>$143,566</td>
<td>$113,329</td>
<td>$30,237</td>
<td>26.6%</td>
</tr>
<tr>
<td><strong>TOTAL Interest and Program Service Revenue</strong></td>
<td>$3,150,123</td>
<td>$2,836,420</td>
<td>$313,703</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>Service Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant Revenue to Support Program Services</td>
<td>$3,461,531</td>
<td>$1,918,570</td>
<td>$1,542,961</td>
<td>80.4%</td>
</tr>
<tr>
<td><strong>TOTAL Program Related Income</strong></td>
<td>$6,611,654</td>
<td>$4,754,990</td>
<td>$1,856,664</td>
<td>39.0%</td>
</tr>
<tr>
<td><strong>Interest Expense</strong></td>
<td>(908,241)</td>
<td>(781,836)</td>
<td>$126,405</td>
<td>16.2%</td>
</tr>
<tr>
<td><strong>Net Earned Income</strong></td>
<td>$5,703,413</td>
<td>$3,973,154</td>
<td>$1,730,259</td>
<td>43.5%</td>
</tr>
<tr>
<td>Provision for Loan Losses</td>
<td>(1,402,426)</td>
<td>(293,026)</td>
<td>$1,109,400</td>
<td>378.6%</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>$2,068,208</td>
<td>$2,269,778</td>
<td>(201,570)</td>
<td>-8.9%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>$487,047</td>
<td>$357,935</td>
<td>$129,112</td>
<td>36.1%</td>
</tr>
<tr>
<td>Travel</td>
<td>$95,420</td>
<td>$110,683</td>
<td>(15,263)</td>
<td>-13.8%</td>
</tr>
<tr>
<td>Marketing</td>
<td>$8,442</td>
<td>$8,000</td>
<td>$442</td>
<td>5.5%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>$58,845</td>
<td>$82,905</td>
<td>(24,060)</td>
<td>-29.0%</td>
</tr>
<tr>
<td>Other Program Expenses</td>
<td>$606,988</td>
<td>$1,017,641</td>
<td>(410,653)</td>
<td>-40.4%</td>
</tr>
<tr>
<td><strong>TOTAL PROGRAM SERVICES EXPENSES</strong></td>
<td>$3,324,950</td>
<td>$3,855,474</td>
<td>(530,524)</td>
<td>-13.8%</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>$209,862</td>
<td>$167,993</td>
<td>$41,869</td>
<td>24.9%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>$21,968</td>
<td>$21,403</td>
<td>$565</td>
<td>2.6%</td>
</tr>
<tr>
<td>Other Support Expenses</td>
<td>$62,995</td>
<td>$83,170</td>
<td>(20,175)</td>
<td>-24.3%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$13,627</td>
<td>$11,801</td>
<td>$1,826</td>
<td>15.5%</td>
</tr>
<tr>
<td><strong>TOTAL SUPPORT SERVICES EXPENSES</strong></td>
<td>$308,452</td>
<td>$284,367</td>
<td>$24,085</td>
<td>8.5%</td>
</tr>
<tr>
<td><strong>Contributed Loan Capital</strong></td>
<td>$1,423,145</td>
<td>$2,778,335</td>
<td>(1,355,190)</td>
<td>-48.8%</td>
</tr>
<tr>
<td><strong>CHANGE IN NET ASSETS</strong></td>
<td>$6,271,675</td>
<td>$6,271,675</td>
<td>0.0%</td>
<td></td>
</tr>
</tbody>
</table>

### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$4,991,828</td>
<td>$1,912,353</td>
<td>$3,079,475</td>
<td>161.0%</td>
</tr>
<tr>
<td>Restricted Cash - Lending</td>
<td>$20,227,404</td>
<td>$26,095,462</td>
<td>(5,868,058)</td>
<td>-22.5%</td>
</tr>
<tr>
<td>Restricted Cash - Loan Loss Reserves</td>
<td>$1,397,205</td>
<td>$3,905,318</td>
<td>(2,508,113)</td>
<td>-64.2%</td>
</tr>
<tr>
<td>Total Cash</td>
<td>$26,616,437</td>
<td>$31,913,133</td>
<td>(5,296,696)</td>
<td>-16.6%</td>
</tr>
<tr>
<td>Loans Outstanding</td>
<td>$48,774,019</td>
<td>$37,120,780</td>
<td>$11,653,239</td>
<td>31.4%</td>
</tr>
<tr>
<td>Allowance for Loan Losses</td>
<td>(2,222,041)</td>
<td>(1,843,960)</td>
<td>$388,081</td>
<td>20.9%</td>
</tr>
<tr>
<td>Net Loans</td>
<td>$46,550,976</td>
<td>$35,276,820</td>
<td>$11,274,156</td>
<td>32.0%</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$52,116</td>
<td>$94,117</td>
<td>(42,001)</td>
<td>-44.6%</td>
</tr>
<tr>
<td>Interest Payable</td>
<td>$397,051</td>
<td>$364,393</td>
<td>$32,658</td>
<td>9.0%</td>
</tr>
<tr>
<td>Lines of Credit Payable</td>
<td>$4,000,000</td>
<td>$700,000</td>
<td>$3,300,000</td>
<td>471.4%</td>
</tr>
<tr>
<td>Mortgage Payable</td>
<td>$1,099,277</td>
<td>$1,199,969</td>
<td>(100,692)</td>
<td>-8.4%</td>
</tr>
<tr>
<td>Notes Payable (Program Borrowings)</td>
<td>$11,985,684</td>
<td>$11,551,516</td>
<td>$434,168</td>
<td>3.8%</td>
</tr>
<tr>
<td>Notes Payable (Program EQ2)</td>
<td>$32,248,788</td>
<td>$30,384,184</td>
<td>$1,864,604</td>
<td>6.1%</td>
</tr>
<tr>
<td>Deferred Revenue Attributed to State Grants</td>
<td>$2,532,954</td>
<td>$3,965,099</td>
<td>(1,432,145)</td>
<td>-36.0%</td>
</tr>
<tr>
<td>Other Deferred Revenue</td>
<td>$527,423</td>
<td>$610,525</td>
<td>(83,102)</td>
<td>-13.6%</td>
</tr>
<tr>
<td>Funds Managed for Third Parties</td>
<td>$106,484</td>
<td>$106,484</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$307,409</td>
<td>$292,078</td>
<td>$15,331</td>
<td>5.2%</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>$53,441,186</td>
<td>$49,260,241</td>
<td>$4,180,945</td>
<td>8.5%</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$21,835,252</td>
<td>$19,743,122</td>
<td>$2,092,130</td>
<td>10.6%</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td>$477,541</td>
<td>$476,941</td>
<td>$600</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td>$22,310,793</td>
<td>$20,210,063</td>
<td>$2,090,730</td>
<td>10.3%</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES &amp; NET ASSETS</strong></td>
<td>$75,751,979</td>
<td>$69,480,304</td>
<td>$6,271,675</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

### Ratios (as of 12/31)

- Net Assets vs. Total Assets: 29.45% vs. 29.10%
- Allowance for Loan Losses/Total Loans: 4.56% vs. 4.37%
- Delinquencies (>90 Days): 0% vs. 0%
- Net Loan Loss Ratio vs. O/S Loans: 1.65% vs. 1.23%
- Earned Income/Program Expense: 121% vs. 96%
- Deployment Ratio: 71% vs. 59%
- Staffing Level: 21 vs. 21

### Outstanding Portfolio Composition

- Total Portfolio O/S (12/31/14): $48,774,018
- Commercial Loans: $24,677,867 (25%)
- Commercial Real Estate Loans: $10,957,741 (55%)
- Energy Efficiency Loans: $2,778,335 (18%)
- Micro Loans: $1,423,145 (2%)

- Net Loans O/S: $48,774,018
- Total Program Debt: $20,227,404
- Net Total Assets: $22,310,793
- Total Assets: $75,751,979

- Total Loans O/S: $48,774,018
- Total Program Debt: $20,227,404
- Net Total Assets: $22,310,793
- Total Assets: $75,751,979
Thank you to all of the organizations that have shown their commitment to Tennessee’s communities by partnering with Pathway Lending in 2014. Your support is greatly appreciated.

Foundations & Public Stakeholders:

- Calvert Social Investment Fund
- Community Development Financial Institutions Fund (U.S. Department of Treasury)
- Foundation of the Carolinas (Bank of America)
- Goldman Sachs 10,000 Small Businesses
- Joe C. Davis Foundation
- Knox County
- Metropolitan Development & Housing Agency (Nashville, TN)
- Metropolitan Government of Nashville & Davidson County
- Regions Foundation
- Starbucks Create Jobs for USA
- Tennessee Bankers Association
- Tennessee Department of Economic & Community Development
- Tennessee Department of Environment & Conservation
- Tennessee Department of Revenue
- Tennessee Housing Development Agency
- Tennessee Small and Minority Owned Business Program
- Tennessee Valley Authority
- The Energy Foundation
- U.S. Department of Agriculture - Rural Development
- U.S. Department of Energy - Oak Ridge National Laboratory
- U.S. Economic Development Agency
- U.S. Small Business Administration

Private Stakeholders:

- Avenue Bank
- Bank of Bartlett
- Branch Banking and Trust Company
- Capital Bank
- CapStar
- CB&S Bank
- 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
- FirstBank
- HomeTrust Bank
- INSBANK of Tennessee
- Legends Bank
- Macon Bank and Trust Company
- McKenzie Banking Company
- Paragon Bank
- Peoples Bank
- Pinnacle Bank
- Regions Bank, NA
- Reliant Bank
- Renasant Bank
- SunTrust Bank, NA
- Tennessee State Bank
- The Bank of Nashville
- TNBank
- Tri-State Bank of Memphis
- Trust Company Bank
- US Bank
- Wayne County Bank
- Wilson Bank and Trust Company