NYBDC

New York Business Development Corporation
Empire State Certified Development Corporation
Statewide Zone Capital Corporation

Access to Capital for Small Business

www.nybdc.com

ANNUAL REPORT 2012

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NBT Bank
National Bank of Coxsackie
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National Union Bank of Kinderhook
New York Commercial Bank
Northfield Bank
Northwest Savings Bank

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PathFinder Bank
Patriot Federal Bank
Peoples Neighborhood Bank
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Pioneer Savings Bank
Provident Bank
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Walden Federal Savings & Loan Association
Walden Savings Bank
Wallkill Valley Federal Savings and Loan Association
Watertown Savings Bank
Westchester Bank

Report on Operations

Recovering...

Despite the challenges springing from an economy that continues to struggle, NYBDC and affiliates had an exceptional year. Our portfolio continued to perform reasonably well and loan demand increased significantly in all of our loan programs, but most notably in the SBA 504 Loan Program (including the Temporary Refinance Program that expired in September 2012) and in our smaller SBA 7(a) loans to start-up and early stage businesses. Loan approvals increased 32.5 percent to $329.3 million and, in the process, we provided financing opportunities to 495 businesses to support the creation and/or retention of more than 10,000 private sector jobs in FY 2012.

Patrick J. MacKrell, President and CEO, and James J. Byrnes, Chairman of the Board, NYBDC

We have been working closely with our lending and community partners to identify the needs of small business and the resources available from our member banks so that we can craft programs, initiatives and solutions to expand access to capital for small business:

- Increasingly, we are finding gaps in small dollar loans (less than $350,000) for start-up, early stage and challenged businesses or in those cases where the borrower has not been able to obtain a loan from its bank of account. We see significant opportunities to provide properly structured loans for small businesses that are not quite ready for "prime time." We are working with member banks, community-based organizations and economic development partners to identify and complement the efforts of our lending partners and support these businesses with our loan programs. Referrals are critical to the success of our efforts as an alternate lender and we are encouraging our member banks to consider including NYBDC as an important part of any "second look" program.
- We are also seeing tremendous opportunity in our SBA 504 Loan Program providing long-term fixed-rate financing for the acquisition and/or improvement of fixed assets at historically low interest rates. Our loan volume in this program continues to grow as borrowers and lenders appreciate the advantages of 90 percent financing providing very favorable payment terms to the borrowers and strong collateral coverage for our lending partners.
- A number of banks seeking to start or expand an SBA 7(a) Loan Program are taking advantage of fee-based services provided by NYBDC to process, close and service SBA loans. This allows the bank a greater range of options than a traditional participation loan with NYBDC as the bank gets recognized for the SBA loan activity, makes all key servicing decisions and can sell the guaranteed portion of the loan in the secondary market to generate fee income.

New York's small businesses continue to lead the recovery. We are impressed daily with their resourcefulness, imagination and entrepreneurial spirit and think that bodes well for a slow but continuing recovery. We have focused our efforts on serving those businesses and will continue to approach each financing request as an opportunity to craft a creative solution that will serve the small business and contribute to the prosperity of our state.

Our member banks remain deeply invested in their communities and consistently provide significant financial and leadership support, making a positive difference each and every day. These very significant contributions promote the well-being of our neighbors and the quality of life that we enjoy. NYBDC's member banks have also been consistent supporters of small business and have a clear understanding and appreciation of the value of a robust small business community. These banks understand that it is critically important that creditworthy small businesses be able to access the capital necessary to start, grow and/or sustain operations and that the strong partnership between our member banks and NYBDC continues. New York's banking industry has consistently supported access to capital by small businesses, not only through direct lending but also by supporting NYBDC.

Our goal remains unchanged – to provide responsive, creative, prudent and cost-effective financing solutions for New York State's small businesses to support jobs creation and/or retention.

NYBDC's role has never been more crucial and our performance reflects another strong year that included some very significant achievements and milestones:

- Stockholders' equity increased 8.6 percent;
- Loans to minority or women-owned businesses represent approximately 35 percent of our loan portfolio;
- Empire State CDC became a national leader in SBA's Community Advantage Loan Program;
- Loan closings increased 23.3 percent to $212.9 million on the heels of 22 percent growth in FY 2011;

(continued on page 2)

Report on Operations

(continued from page 1)

- We established an office in White Plains, New York to better serve small businesses and our partner banks in the region;
- NYBDC expanded its product offerings to include fee-based loan processing and servicing to support the efforts of member banks seeking to start or expand SBA 7(a) lending programs;
- Net charge-offs were limited to $178,000 or 9.8 basis points on our NYBDC loan portfolio of $181.8 million;
- Loans on commitment increased 16 percent to $291.3 million;
- NYBDC increased the number of full time employees 13.6 percent, creating nine full-time positions;
- NYBDC, along with two other equity partners, started PrudentLenders, LLC, which will provide fee-based portfolio services – from origination to liquidation – for SBA lenders nationwide;
- NYBDC and Empire State CDC again combined to be the leading SBA lender in New York State by dollar amount; and
- The managed portfolio increased 9.3 percent to $1.2 billion.

One of our major initiatives in FY 2012 was to take the pulse of our community and lending partners and get their input on our programs, policies and procedures. As we wound down the year, our data collection and preliminary analysis were concluded and we will be giving serious consideration to the observations, insights and suggestions offered to improve our performance and help us focus our efforts to enhance our impact as we enter into our strategic planning process in FY 2013. We are very grateful to the many participants in this project and appreciate the thoughtful responses and suggestions we have received.

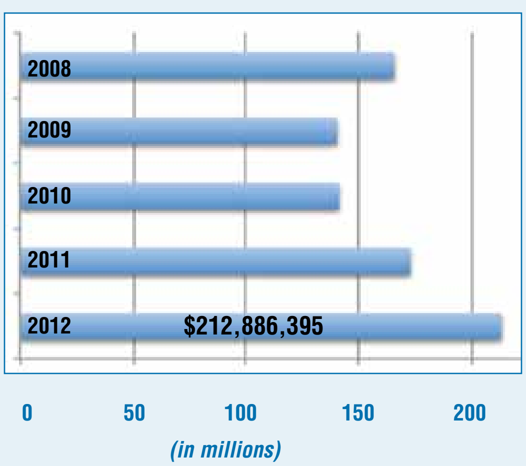
As we are writing this report, many of our fellow New Yorkers are just beginning the long process of recovery following Superstorm Sandy. Many of our borrowers experienced the wrath of this storm and will have continuing challenges as the recovery from the storm proceeds. We are doing our part by managing the administration of emergency loan funds established by the New York City Economic Development Corporation (for small businesses in New York City) and Empire State Development Corporation (for small businesses located in counties within the designated disaster area). Both of these funds have received incredible support from many of our member banks and the New York Bankers Association. We are proud that we are able to contribute our time, talents and experience to the management of these emergency funds and hope to be able to speed the deployment of these funds to small businesses in need. As importantly, we are going to have to grapple with the long-term impact of the physical and economic damages suffered by businesses and individuals in the disaster area and be available to support our member banks and small businesses. The emergency and disaster funds will help meet immediate demand, but when all is said and done NYBDC will continue to have an important role in supporting the long-term recovery of many businesses.

By any measure this has been a terrific year at NYBDC…our accomplishments would not be possible without the contributions of talented and highly motivated staff, the insight and leadership provided by our boards of directors, and the support of our member banks and community partners, all of which are necessary components to our continued success.

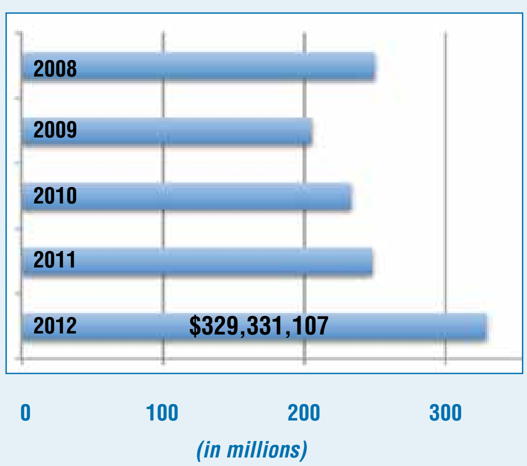
Patrick J. MacKrell
President & CEO

James J. Byrnes
Chairman of the Board

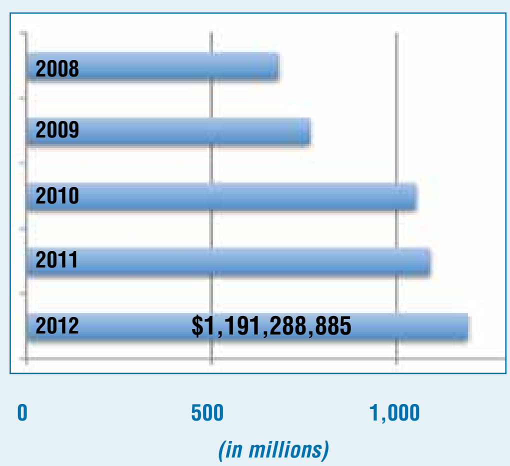
Loan Advances
Total



Loan Approvals
Total



Loan Portfolio Managed
Total



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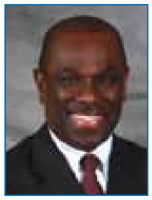

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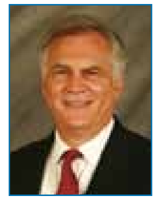

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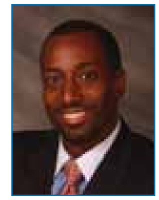

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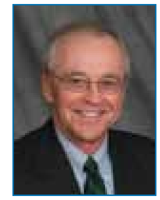

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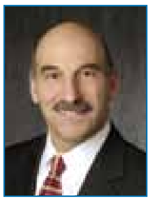

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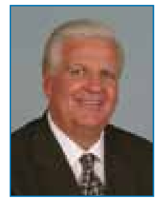

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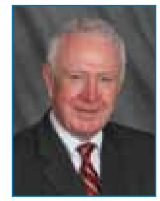

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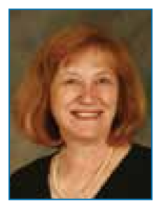

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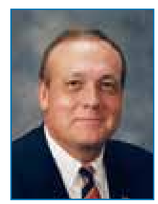

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HSBC Bank USA
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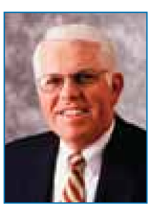

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New York Business
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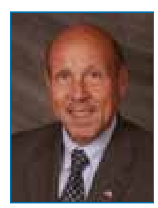
Executive Director
New York State Economic
Development Council
Albany, New York



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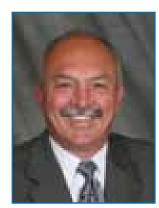
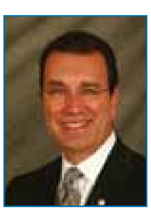
The Solar Energy Consortium
Kingston, New York



Allen J. Naples
Regional President
M&T Bank
Syracuse, New York



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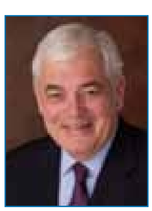
John Rhea
Chairman
New York City
Housing Authority
New York, New York



Michael P. Smith
President
New York Bankers
Association
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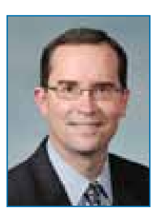

Mark E. Tryniski
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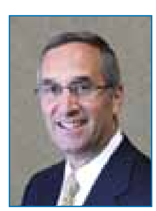
Community Bank System, Inc.
DeWitt, New York



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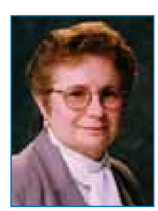

Maryann M. Winters
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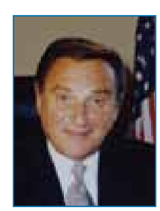
Sirchia & Cuomo, LLP
East Syracuse, New York



Lewis Yevoli
Retired New York
State Assemblyman
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New York

NYBDC Foundation • **In FY 2012, the NYBDC Foundation contributed to 102 community-based organizations to provide assistance and support to New Yorkers in need.**

DeCicco Family Markets
Brewster, New York

Family run market secures funding for leasehold improvements

Brothers John and Christopher DeCicco and cousin Joseph DeCicco have owned and operated DeCicco's Tuscan Market in Ardsley, New York since 2005, one of several grocery stores operated by members of their family throughout Westchester and Rockland counties. In 2010 the three partners entered into a 30-year lease agreement for space that formerly housed a Linens 'N Things store that would allow them to expand their food preparation and manufacturing operations and open a new, larger retail location.

Although the landlord of the 37,500-square-foot space provided some leasehold improvements, the DeCiccos needed to secure significant financing for the remaining improvements and for the purchase of machinery and equipment. Improvements to electrical, plumbing and HVAC systems were required and new walls had to be constructed. Walk-in coolers; ovens; hot bars, and meat, deli and food cases had to be purchased. The plan was for 50 percent of the space to be dedicated to retail operations and 50 percent to food preparation and manufacturing to allow the owners to supply breads, pastries, dinners, soups, salads and pasta dishes to other DeCicco market locations.

"The Putnam County IDC and EDC enticed us with a lot of job incentives," said company President John DeCicco. "Because we qualified as an Economic Development Zone project, we were able to also secure a HUD community renewal grant."

The necessary funding was provided by Provident Bank and Empire State CDC. Provident Bank Vice President John Barbalaco worked with NYBDC Senior Vice President Thomas K. McHale on the project.

"The 504 loan to the DeCiccos financed improvements to leased space, which is a rarely used but eligible loan purpose," said McHale. "The 504 program allowed the borrowers to obtain longer term financing than is typically afforded for leasehold improvements and keep their cash injection down to a minimum. These two benefits allowed the DeCiccos to preserve working capital to support jobs growth and the expansion of their business, which is critical in their industry."

"The DeCiccos approached Provident Bank with a request for low down payment financing," said John Barbalaco, commercial lender and vice president of Provident Bank. "Provident's strong relationship with NYBDC triggered our recommendation to use the SBA 504 program."

"Putnam County EDC and IDA connected us to all the right people," John DeCicco said. "It was basically a seamless project, with great communication all along the way. NYBDC and Provident Bank provided major help in getting this project done."

The new location, which opened in November 2010 and is four times larger than other DeCicco markets, employs more than 75. Baking for all the DeCicco stores now takes place there. The owners have shifted the focus away from food preparation somewhat to concentrate on baked goods. The DeCiccos are exceptionally pleased with the opportunities made possible by the new facility.

John Barbalaco of Provident Bank, John DeCicco Jr. of DeCicco's Market, Tom McHale of NYBDC, and Carl Capuano of Provident Bank

Lender Service Provider • NYBDC provides fee-based services to its member banks seeking to expand SBA lending with a knowledgeable and experienced partner.

Men on the Move
Glen Cove, New York

New self-storage facility helps revitalize a community

With an eye on developing an abandoned, dilapidated building that previously housed a light manufacturer, Men on the Move – Glen Cove Storage, LLC was formed by Men on the Move Storage Center and Racanelli Construction Company to purchase and renovate an existing building and remove a blight from the community. Situated on the main entryway into the City of Glen Cove in Nassau County, the building provided a great location for a self-storage facility.

"We saw a great opportunity to build a self-storage facility there," said Martin Racanelli of Racanelli Construction Company. "The city is undergoing redevelopment and there is a real need for storage."

Men on the Move Self Storage Center operates similar facilities in Floral Park, Huntington, and Islandia on Long Island, while Racanelli Construction has built more than 75 storage facilities, including those for major chains and for related companies.

This project involved purchasing a single-story, 52,532-square-foot building on 2.5 acres, adding a second story to a portion of the building and renovating and converting the site to include 62,400 square feet of storage space plus offices.

"We knew the only way the project would work was to get SBA involved," said Racanelli. With assistance from Glen Cove Mayor Ralph Suozzi, Anthony Esernio at TD Bank and Stanley Grochocki of Empire State CDC, the company was able to secure 80 percent financing with 30 percent of that from an SBA loan. TD Bank provided a $3.6 million first mortgage and Empire State CDC provided a $2.1 second mortgage.

"This Empire State CDC SBA 504 loan enabled Men on the Move to provide the city's residents and small businesses with much-needed convenient storage space" said Grochocki. "Since the property is located in the city's revitalization district, this project improved the appearance of the community, provided employment and returned an abandoned property to the city's tax rolls."

"We are proud to partner with Empire State CDC and provide financing to Men on the Move Self Storage Center, helping them reinvest in the community by creating jobs and revitalizing an abandoned property," said TD Bank Regional Sales Manager John Murgatroyd. "TD Bank is committed to providing small business owners the capital they need to grow and be successful by offering SBA programs."

Nearly 250 jobs were created during the construction period, which lasted about eight months and was completed in April 2012. Now that the facility is operational with nearly 900 units, 10 permanent jobs have been created.

"The reduced equity requirement and the ability to lock into a rate for 20 years, rather than the 10 years that is typical for a self-storage facility, made it economically feasible for us to do something with the building," Racanelli said.

He added that everyone they dealt with at Empire State CDC and TD Bank went out of their way to move the project along.

TD Bank
America's Most Convenient Bank®

NYBDC

MEN ON THE MOVE Self-Storage

Brian Scheidel and Anthony Esernio of TD Bank, Martin Racanelli Jr. and John Beyer of Men On The Move-Glen Cove Storage, Stanley Grochocki of NYBDC, and Benjamin Heitner of Men On The Move-Glen Cove Storage

Empire State CDC • Empire State CDC is authorized by the SBA to offer the SBA 504 Loan Program in New York State. The SBA 504 Loan Program facilitates financing up to 90 percent of project costs for acquisition and/or improvement of owner-occupied commercial real estate, machinery and equipment.

Newburgh Brewing
Newburgh, New York

Belief in Newburgh's revival spurs partners to start a brewery there

Best friends since the age of 12, Paul Halayko and Christopher Basso went to high school and college together but pursued very different paths early in their careers. Halayko took a business path, becoming an accountant and eventually a CPA working for JP Morgan Chase Bank, while Basso entered the hospitality industry, becoming a brewer at Brooklyn Brewery. But, as friends often do, when Basso decided he wanted to start his own business, he reached out to Halayko and asked if he was interested in joining him. The timing was right and Halayko agreed; together with Halayko's uncle Charlie Benedetti, they formed a partnership in 2011 to create the Newburgh Brewing Company.

The partners all grew up in Washingtonville, New York, just 15 miles from Newburgh and strongly believed in the potential for the revival of the city. "We liked the idea that we could be part of an overall renaissance of the city," said Halayko.

Basso serves as the brewmaster, with Benedetti directing sales efforts. Halayko is the company's president and oversees operations, finance and accounting, and marketing and public relations.

NYBDC's favorable reputation with banks and its stability as a lender were appealing to the partners as they looked for financial support to establish the brewery. "With a project of our size and high risk potential, NYBDC's participation is almost required by banks," Halayko said. "And we know NYBDC has a strong history of helping small businesses succeed in New York, so it seemed like an ideal partnership."

JP Morgan Chase Bank provided a $1,165,400 first mortgage and Empire State CDC provided an $836,000 second mortgage. The funds were used to purchase an existing 20,000-square-foot manufacturing building in Newburgh's East End Historic District and to finance renovations and purchase of machinery and equipment. Antonio Vinciguerra of JP Morgan Chase Bank and Cedric Carter of NYBDC handled the financing.

"Small businesses are the growth engine of our economy, and access to capital is a critical component of their success," Antonio Vinciguerra of JP Morgan Chase Bank said. "We are pleased to partner with NYBDC and help businesses like the Brewing Co. to advance the overall revitalization of Newburgh."

Part of the renovations included converting a former three-bay garage into a cold storage area for beer. The brewing operations are housed on the first and second floors; the third floor contains offices, storage and the kitchen, and the taproom and restaurant – which feature breathtaking views of the Hudson River – are on the fourth floor.

"The 504 loan provided our borrower with attractive terms generally not available through traditional financing, especially for a start-up company," said Carter. "In addition, the project meets the SBA policy goal by being located in a Newburgh revitalization district."

"Working with Cedric through this process was fantastic," said Halayko. "This was a new venture for us but his expertise, patience and knowledge were obvious. NYBDC's experience really was evident throughout the process."

The brewery, which began production in April 2012, sells to 40 distributors in the Hudson Valley and Tri-State region and currently produces nine different beers. Newburgh Brewing employs a full-time taproom manager and 20 part-time employees.

Paul Halayko, Charles Benedetti and Christopher Basso of Newburgh Brewing; Antonio Vinciguerra of JP Morgan Chase Bank; and Cedric Carter of NYBDC

SBA Leaders • NYBDC and Empire State CDC combined to be the leading provider of SBA loans in New York State by dollar amount for the fifth straight year!

Scarano Boat Building

Albany, New York

World-renowned boat builders seek NYBDC again for expansion project

When the world-renowned boat designers and builders at Scarano Boat Building and its affiliate Classic Harbor Lines realized it was time to expand their fleet by building a new schooner, they knew just where to go for financing. Having secured a previous loan from NYBDC in 2006 to build the *Manhattan*, the owners were confident that they could obtain the financing they needed through Empire State CDC.

"We were anxious to build another boat because we're passionate about sailing and getting people to sail," said Rick Scarano, who with his brothers John and Robert own Scarano Boat Building and several related businesses, including America 2.0, LLC, formed to construct the new 84-foot schooner, the *America 2.0*. "We were excited about building a schooner because we hadn't done one in a few years."

Established in 1976, Scarano Boat Building operates a vessel design and construction business, located in the Port of Albany in New York's Capital Region, and Classic Harbor Lines runs a water vessel sightseeing business that operates in New York City; Rhode Island and Key West, Florida. With daily public tours and private excursions, the high demand for the company's vessels warranted the construction of a new, larger boat so plans were made for the *America 2.0*.

Working with First Niagara Bank, Empire State CDC was able to help America 2.0 LLC secure the necessary funding to proceed. First Niagara provided a $1 million first mortgage and Empire State CDC provided an $848,000 second mortgage.

"The Empire State CDC 504 loan allowed them to add to their fleet of tour boats with their most technologically advanced ship yet, the schooner *America 2.0*. They were able to obtain 90 percent permanent financing over 20 years for this schooner, which was built not only to grow their tour boat business in New York City, but also to showcase the boat building business in the Port of Albany," said Ross Pancoe, the NYBDC vice president who steered the financing project for Empire State CDC.

Christine Mesick of First Niagara Bank proposed getting NYBDC involved as a "more logical way to help us spread out our payments and have the ability to expand our business in the future. "These are very large payments for us and being able to spread them out over a longer period was helpful," Scarano said. "Working with Ross and Christine was a very good experience. They were always very responsive and very supportive."

"Scarano Boat has been a client for 18 years and I have enjoyed watching the company's many successes over that period," Mesick said. "My family and I have personally sailed with the Scaranos on all but one of their vessels and have experienced firsthand why they are so successful."

Construction of *America 2.0* involved 25,000 man hours. Launched in September 2011, the vessel provides jobs for 12 people during the summer months and five in the winter. In total, Scarano Boat Building, known worldwide for its design and craftsmanship in wood, composite, steel and aluminum construction of sailing vessels, has built 40 boats.

John Scarano of Scarano Boat Building, Christine Mesick of First Niagara, Ross Pancoe of NYBDC, and Keith Duffy of Scarano Boat Building

Industry Leaders • **Empire State CDC is a national leader in both the SBA 504 and Community Advantage Loan Programs.**

Skyline North
Macedon, New York

Longtime employee purchases exhibit business as owner retires

Skyline North designs, builds and services large tradeshow exhibits. Mark Taylor had worked at Skyline North for about 10 years when he was promoted by the owner, Frank Leggio, into a management position. Then, about a year later, he was promoted again, this time to vice president, and he and Leggio began talking about the owner's eventual exit strategy as his retirement approached.

"We talked about it for four or five years," Taylor said, "until Frank decided it was time for him to retire." That's when Taylor's plans to purchase the Macedon, New York business came to fruition.

The seller had an interest in doing some of the financing himself, but it was not as much as Taylor needed to make the deal happen. Taylor talked to five banks before deciding to work with John Eilertsen of Canandaigua National Bank & Trust Company. And it was Eilertsen who brought Pennie Smith of NYBDC into the project. "John and Pennie put their heads together and came up with a financing structure that worked for everyone," Taylor said.

The financing consisted of two separate transactions, one for the property and the other for the business and its assets. A $700,000 loan from Canandaigua National, a $560,000 loan from Empire State CDC and a $140,000 loan from Wayne County IDA allowed the purchase of the real estate to occur. In addition, Canandaigua National provided a $290,000 loan and Wayne County IDA provided a $160,000 loan to allow Taylor to purchase the business and its assets.

"Canadaigua Bank was very instrumental in getting our relationship with NYBDC started," Taylor said. "Pennie really helped us understand the process. It was complex, but the process went very smoothly."

"Mark's knowledge, dedication and hard work have been instrumental to the growth of Skyline North. The low down payment requirement of the 504 loan enabled him to acquire the Skyline North facility as part of the business acquisition. The SBA 504 Loan Program was a perfect fit for this project," Smith said.

"This was exciting financing to arrange due to the multiple entities involved and the complexity of the transaction," said Eilertsen. "NYBDC was instrumental in guiding us through the SBA 504 process. We are thrilled to have Skyline North as a customer."

Since the purchase in August 2011, Skyline North has created five additional jobs, bringing total employment to 23. Because it is not too small to handle large jobs, and not large enough that smaller customers get lost, Skyline North is able to personalize its offerings based on each individual client's needs, Taylor said. "We create everything, from small portable exhibits to two-story exhibits that we travel with and staff for our customers."

Pennie Smith of NYBDC, Mark Taylor of Skyline North, and John Eilertsen of Canandaigua National Bank & Trust Company

Alternate Lending at NYBDC • **NYBDC encourages lenders at community banks to refer small businesses to NYBDC when they are not able to quality for conventional financing.**

Davidson Motors
Rome, New York

Siblings take advantage of new SBA maximum to complete major auto dealership project

Although their father was in the automobile sales business for many years, it wasn't expected that the Davidson siblings would go into the business as well, but as the eldest son, Donald Davidson, said, "As we graduated from college, we all ended up in it. It evolved and as we needed more people obviously we turned to family first."

The Davidson family owns and operates two General Motors, one Ford and one Nissan dealership in Rome, New York. They also operate several related businesses, including eight car washes, a collision repair business and a used car center.

When it became necessary to relocate and build three new dealership buildings and purchase and renovate a fourth location, four of the Davidson siblings – Donald, Diane, Douglas and Dwight – began seeking financing for the large and complex project. They turned to NBT Bank, which then got Thomas Reynolds of NYBDC involved and together they created a loan structure that enabled the Davidsons to secure land, purchase buildings and construct or renovate others.

NBT Bank provided $11.3 million in construction financing and Empire State CDC provided a $4.9 million loan for the purchase of real estate and equipment. The total cost of the project was $18.1 million.

"When NBT Bank brought this opportunity to us, the SBA had just increased the maximum size of the 504 loans to $5 million," said Reynolds. "We both recognized that the increase in maximum 504 loan amounts would serve this company well. Without these new size limits, the Davidsons would not have been able to do all four of the projects at once."

"Until the opportunity presented itself to us we knew nothing about SBA loans," Davidson said. "This was ideal for what we needed to do. Between Tom and NBT Bank, we had an excellent experience with no glitches."

"At NBT Bank, we recognize that partnering with businesses like Davidson Motors is key to revitalizing and sustaining local economies," said NBT Bank Regional Commercial Banking Manager John Buffa. "Working closely with the Davidsons and NYBDC, we were able to develop a financing package that provided Davidson Motors with the opportunity to expand and grow. And, the community also benefited from the retention of jobs and the development of new employment opportunities. This is a great example of two very effective financial partners working together to address local economic needs."

Two hundred jobs were retained at the various dealerships and since the project was completed in May 2012, about 25 new sales, technical and management jobs have been added.

Tom Reynolds of NYBDC; Mary Anne Hallack-Serwatka of NBT Bank; and Don Davidson, Dwight Davidson, Doug Davidson and Diane Davidson of Davidson Motors

Start-up Businesses and Challenging Industries • NYBDC has extensive experience lending to early stage and start-up businesses as well as challenging industries providing innovative and appropriate financing solutions.

Pain D'Avignon III
Long Island City, New York

Wholesale bakery serving many fine restaurants and hotels expands with SBA loan

The owners of Pain D'Avignon III have developed a strong reputation among food critics and those in the food industry as one of the best bakeries in New York City. The three self-taught bakers were born in what was formerly Yugoslavia and came to America following their high school graduation. Today, using only the highest quality ingredients, such as organic sugar, wildflower honey and sea salt, they prepare their breads according to a labor intensive traditional European recipe, cutting and shaping the dough by hand.

In 2011, when the 10-year lease on their building was nearing its end, Uliks Fehmiu, Teofil Zurovac and Branislav Stamenkovic approached the building's owner to inquire about purchasing the building. Unable to work out an agreement that was right for them, the three friends and business partners began searching for a new location. Their goal was to ensure the continuity of the business and the continued employment of their 70 employees. They located a building occupied by a cookie bakery that was expected to be vacant in coming months. "We were lucky this property came on the market at the same time we were looking," said Fehmiu.

Lizbeth Heller, Michael Armstrong and Hilda Kong, the lenders at JP Morgan Chase, recommended that Fehmiu, Zurovac and Stamenkovic pursue a 504 loan. "Everyone felt more comfortable going that route," said Fehmiu. "We needed the SBA's help in order to get this loan."

Together with JP Morgan Chase, NYBDC Vice President Linda Zou helped put together a financing package that included a $1.225 million first mortgage from Chase and a $980,000 second mortgage from Empire State CDC.

"The SBA 504 Loan Program was ideal as it provided 90 percent financing for the purchase and renovation of their new building, which allowed them to preserve valuable working capital necessary for relocation and expansion of their business," said Zou. "More than 20 new jobs were created as a result of this project and 70 jobs were retained. This project is a great example of how the SBA 504 Loan Program promotes job growth and economic development in the State of New York."

Renovations included painting the entire interior, installing a new non-slip floor and constructing office space and employee break room, bathroom and locker room facilities. In addition, a new, higher-efficiency oven, two large mixers and a temperature and humidity controlled chamber for the fermentation process were purchased and installed. As a result, the owners were able to increase production levels by nearly 100 percent and hire additional employees.

"This was a big task, and not an easy project to undertake," said Fehmiu. "Linda Zou was nothing but helpful and positive through the entire process. It was an amazing experience."

Pain D'Avignon III produces croissants, baguettes, brioche and a variety of breads for some of the finest restaurants, hotels and retailers in Manhattan, Brooklyn, Queens, Long Island, New Jersey and Connecticut. It began operating out of the new facility at the end of 2011, while still creating some products in the former location. In March 2012, operations were completely moved to the new location. In May 2012, Pain D'Avignon III opened its first retail store on the lower east side of Manhattan.

CHASE

NYBDC

ARTISAN BAKERY
PAIN D'AVIGNON

Teofil Zurovac of Pain D'Avignon III, Michael Armstrong and Lizbeth Heller of JP Morgan Chase Bank, Branislav Stamenkovic and Uliks Fehmiu of Pain D'Avignon III, and Linda Zou of NYBDC

Jobs Creation • Jobs creation is the "heart" of the SBA 504 Loan Program administered by Empire State CDC. The loan structure allows the business to retain the working capital necessary to expand the business and create jobs. NYBDC and Empire State CDC financing created or retained more than 10,000 private sector jobs in 2012.

Salvatore's Grand Hotel
Lancaster, New York

Longtime hospitality industry leader begins a new project after retirement

Russell Salvatore has been involved in the hospitality business since 1953 when he and his brother took over a family restaurant. In 1967, he purchased a small pizza and hot dog stand on Transit Road in Lancaster, New York and grew it into the 100,000-square-foot Salvatore's Italian Gardens restaurant that stands there today. In 1995, Russell Salvatore built a 49-room hotel, the Garden Place Hotel, which was expanded to 170 rooms 10 years later. To say he has the hospitality industry in his veins would be an understatement.

After turning the restaurant and hotel over to his son Joseph in 2005, Salvatore thought he would retire and devote his time to establishing a hospitality management program at Trocaire College. Although he was successful in creating the Russell J. Salvatore School of Hospitality & Business at Trocaire in Williamsville, Salvatore said soon he was "going stir crazy." So, he decided to undertake a new project.

In 2008, Salvatore purchased property with the intent of creating an 80-room boutique hotel with a 140-seat fine dining restaurant in Lancaster.

"As successful as I've been, I went to all the local banks and was turned down," he said. He then approached Frank Sciortinio, Buffalo district director of the U.S. Small Business Administration, for help. "Frank helped me get my original loan in 1967 and I've worked with the SBA since then," he added.

The SBA got the Bank of Castile involved and, according to Salvatore, Castile's Mark Merrill liked Salvatore's reputation and was able to put together a financing package with help from Michael Taylor of NYBDC. The financing included a $5.2 million loan from the Bank of Castile and a $1.5 million loan from Empire State CDC.

"Our relationship with Russell has been a great one, as we expected from the very beginning," said Bank of Castile Vice President Mark Merill. "There are few people, if any, that know the restaurant and hotel business better, and probably no one that strives harder to please his guests in each of his venues. We were pleased to partner with NYBDC, furthering Russell's legacy in Western New York."

"The Empire State CDC SBA 504 loan enabled Mr. Salvatore to establish his new hotel/restaurant and realize his dream," said Taylor. "The limited down payment allowed him to preserve the working capital necessary to get off to a good start."

The business has been a great success, creating 150 new jobs in the region, some of which are filled by students of the Russell J. Salvatore School of Hospitality & Business at Trocaire College. In addition, Mr. Salvatore is currently adding 20 rooms to the hotel and more space to the restaurant to accommodate another 50 seats.

Salvatore is not only an accomplished restaurateur and hotelier, but is also an enthusiastic and generous supporter of our veterans and veteran service projects.

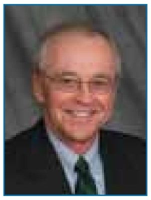
THE BANK OF CASTILE
A Tompkins Community Bank

504

Salvatore's Grand HOTEL

Mike Taylor of NYBDC, Russell Salvatore of Salvatore's Grand Hotel, and Mark Merrill of Bank of Castile

NYBDC Foundation Board of Directors



James J. Byrnes
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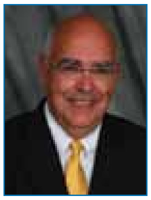
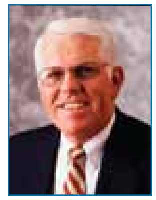
Tompkins Financial Corporation
Ithaca, New York

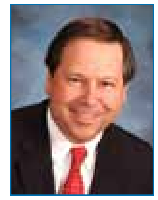


Herbert G. Chorbajian
Retired Director
Charter One Financial Corporation
Albany, New York

Thomas F. Goldrick, Jr.
Retired Chairman
State Bank of Long Island
Jericho, New York



Robert W. Lazar
Retired President
New York Business Development Corporation
Albany, New York



Jeffrey M. Levy
Capital Region President
NBT Bank
Albany, New York

Patrick J. MacKrell
President & CEO
New York Business Development Corporation
Albany, New York

A Salute to Chet Sadowski

Twenty-five years ago, Chet Sadowski joined NYBDC as *the* loan officer in our new New York City office.

In 1987:

- Directors outnumbered employees by three to one;
- The newly established New York City office consisted of one employee (Chet);
- There was no Empire State CDC, SZCC or NYBDC Foundation;
- NYBDC expanded its number of offices from one to three (Albany, New York City and Rochester);
- Net profit after taxes was $233,000;
- The prime interest rate was 9.25 percent;
- The managed loan portfolio stood at $26.3 million; and
- It was a good year...more than $5 million in loans closed!

The Report on Operations contained in the 1987 annual report stated rather mysteriously that "...events have occurred that have set the stage for measured, orderly expansion in the years to come."

We are not sure exactly what the author had in mind, but surely there must have been some sense of the potential impact Chet Sadowski (aka "The Big Dog" or "Mr. SBA") would have on the growth and character of NYBDC. Now, in an average quarter Chet closes more than NYBDC did the entire year in 1987, and as the New York City Regional Manager he supervises a staff of 14. Chet always produced the "numbers," but his real contribution to NYBDC is his goodness, character, knowledge and leadership.

Congratulations to Chet Sadowski on 25 years of incredible service to NYBDC. Keep them coming!

Lender of the Year

This banker has worked extensively and creatively with NYBDC to promote access to capital for New York's small businesses.

Lender of the Year

Elena A. Mullahey
Vice President, SBA Lending
TD Bank
Melville, New York

TD Bank
America's Most Convenient Bank®

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Gary L. Babbitt
Executive Vice President
The Canandaigua National Bank and Trust Company
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Executive Vice President
United Group
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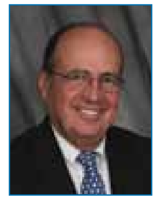
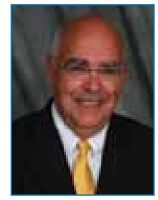
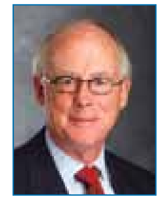
Senior Project Development Specialist
Development Authority of the North Country
Watertown, New York



John A. Chiaramonte
Partner
Teal, Becker & Chiaramonte, CPAs
Albany, New York

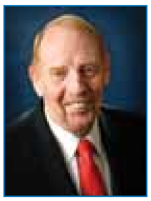


Herbert G. Chorbajian
Retired Director
Charter One Financial Corporation
Albany, New York



Alfred D. Culliton
Chief Financial Officer
Erie County Industrial Development Agency
Buffalo, New York

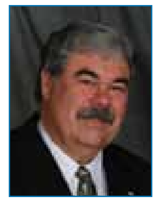
John A. De Franza
Senior Vice President
Bank of America
Melville, New York



Bruce E. Ferguson
President
Ferguson Development Associates, Inc.
Jamesport, New York

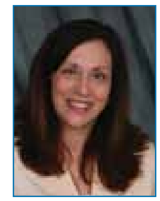
Michael J. Gill
Partner
GillWright Group
Riverdale, New York

Jeffrey P. Kenefick
Regional President
Five Star Bank
Bath, New York

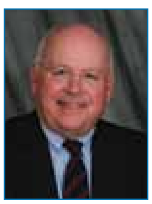


James L. King
State Director
New York State Small Business Development Center
Albany, New York

Jeffrey M. Levy
Capital Region President
NBT Bank
Albany, New York



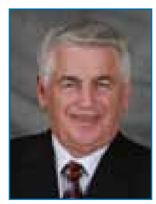
Edie M. Longo
Agency Administrator
Town of Hempstead IDA
Hempstead, New York



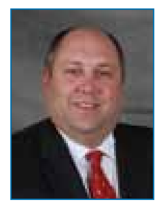
Alfred F. Luhr, III
Senior Vice President
M&T Bank
Amherst, New York

Mark D. Morrison
Senior Vice President
KeyBank
Albany, New York

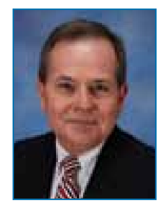
John Murgatroyd
Vice President
TD Bank
Flemington, New Jersey



Noel Murphy
President
Celtic Tours
Albany, New York



Charles F. Ryan
Senior Vice President
HSBC Bank USA
New York, New York



Robert K. Streb
Vice President
JPMorgan Chase Bank
Shelton, Connecticut

Chairman's Leadership Award

Robert Walsh
Commissioner, New York City Small Business Services

The Chairman's Leadership Award was presented to Robert W. Walsh, Commissioner, New York City Department of Small Business Services. The Department of Small Business Services (SBS) is a vibrant, client-centered agency whose focus is the opportunities and challenges facing New York City's small businesses, job seekers, and commercial districts.

During his tenure, Walsh has reshaped the agency to directly focus on and respond to the needs of the City's 200,000 small businesses – the first time that a city agency has been completely dedicated to this goal.

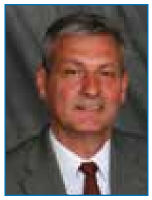
New York City Small Business Services and NYBDC have been frequent and effective partners in providing significantly enhanced financing for New York City small businesses.

NYC Small Business Services

Robert W. Walsh

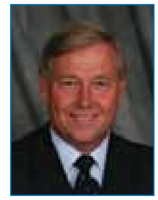
SZCC Board of Directors

Douglas A. Asofsky
Retired Vice President
Citigroup
Uniondale, New York



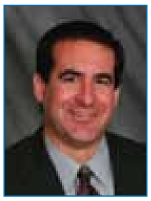
Douglas W. Barton
Director
Tioga County Department of Economic Development and Planning
Owego, New York

Mary C. Bintz
Senior Vice President
Bank of America
Merrill Lynch
Albany, New York



Jeffrey Bray
Executive Vice President
United Group
Troy, New York

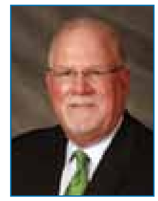
Daniel Burke
President
Glens Falls Region
NBT Bank
Glens Falls, New York



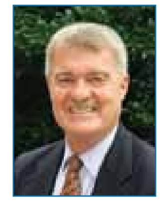
Robert J. Camoin
Principal
Camoin Associates
Saratoga Springs, New York

Kathy L. Davis
Retired - Senior Vice President
Alliance Bank
Syracuse, New York

Adoré Flynn Kurtz
Retired – President
The Development Corporation
Plattsburgh, New York



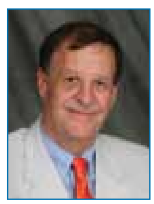
Patrick J. MacKrell
President & CEO
New York Business Development Corporation
Albany, New York



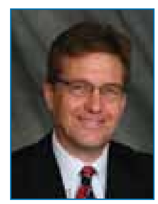
William Mannix
Executive Director
Town of Islip
Economic Development
Islip, New York

Richard W. Merzbacher
Retired Director
State Bank of Long Island
Jericho, New York

Charles E. Robinson
Vice President
M&T Bank
Albany, New York



Robert W. Schwartz
President
Schwartz, Heslin Group
Latham, New York

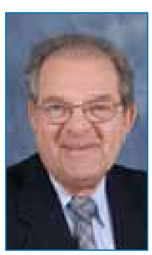


Stephan von Schenk
Executive Vice President
The Adirondack Trust Company
Saratoga Springs, New York

Donald J. Western
Vice President
Community Engagement and Economic Development
Syracuse University
Syracuse, New York

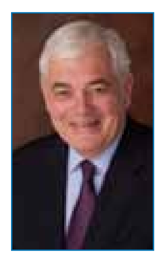
"NYBDC continues to be an innovator in small business lending, which is extremely important during these rapidly changing economic conditions. As challenges arise for business, NYBDC consistently anticipates and responds to the financial needs of New York's business sector on an individual business basis, with the right instrument rapidly and agilely. I congratulate NYBDC on another great year and look forward to helping to meet the needs of New York businesses, whatever they are."

James L. King
State Director
New York State Small Business Development Centers



"One of the most significant developments at SBA was the temporary 504 refinancing program, which was responsible for 26 percent of the 504 loans made nationally in FY 2012 and 34 percent of the dollar volume. These loans demonstrate NYBDC's continued partnership with local lenders and collaboration with our vast business development network. Reaching such strong numbers is a clear sign that both the business and lending communities are regaining their confidence in the economic climate of the country. SBA is proud to be able to provide assistance to small business in the district and help provide economic stability and growth to our community through the many entrepreneurs we help."

Franklin J. Sciortino
U.S. Small Business Administration
Buffalo District Director



"The New York Business Development Corporation has been a lifeline for small business owners, as we continue to struggle to recover jobs and opportunities for all New Yorkers. The New York Bankers Association and its 130-plus members are extremely proud of our partnership with the NYBDC and its critical work."

Michael P. Smith
President & CEO
New York Bankers Association

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New York State Electric & Gas Corp.
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Northeastern New York Community Trust
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Teachers Insurance & Annuity Association of America
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Assistant Secretary

COMBINED STATEMENTS OF FINANCIAL CONDITION – September 30, 2012 and 2011

	2012	2011
Assets		
Loans receivable	**$181,761,058**	$171,473,947
Less allowance for loan losses	**(6,171,311)**	(6,295,018)
Net loans receivable	**175,589,747**	165,178,929
Cash	**203,783**	211,146
Restricted cash	**1,461,142**	5,562,311
Accrued interest receivable	**890,380**	892,460
Investments	**1,896,529**	1,522,232
Deferred tax benefit	**3,081,183**	3,005,352
Other assets	**1,867,351**	2,241,153
Total Assets	**$184,990,115**	$178,613,583
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable:		
Members	**$ 24,994,737**	$ 35,004,737
New York State Common Retirement Fund	**79,728,513**	80,489,073
Bank and other lines of credit	**28,992,182**	8,250,000
Bank term loans	**17,519,910**	21,975,107
Other obligations	**4,381,429**	5,018,775
Total notes payable	**155,616,771**	150,737,692
Accrued interest payable	**425,468**	482,265
Accrued expenses and other liabilities	**4,165,084**	4,573,546
Total liabilities	**160,207,323**	155,793,503
Stockholders' Equity		
Capital stock, no par value, authorized 500,000 shares; issued and outstanding of 217,444 shares (216,875 shares in 2011), $5 stated value per share	**1,087,220**	1,084,375
Paid-in capital	**3,572,955**	3,525,074
Retained earnings	**16,044,515**	14,713,833
Accumulated other comprehensive items	**66,255**	11,375
Total stockholders' equity	**20,770,945**	19,334,657
Net assets of Empire State Certified Development Corporation	**4,011,847**	3,485,423
Total equity	**24,782,792**	22,820,080
Total Liabilities and Equity	**$184,990,115**	$178,613,583

See Notes to Combined Financial Statements

COMBINED STATEMENTS OF OPERATIONS – Years Ended September 30, 2012 and 2011

	2012	2011
Interest income	**$11,057,906**	$10,923,185
Interest expense	**5,457,441**	6,023,584
Net interest income	**5,600,465**	4,899,601
Provision for loan losses	**54,377**	–
Net interest income after provision for loan losses	**5,546,088**	4,899,601
Fees and other income	**10,251,763**	9,594,511
Income before operating expenses	**15,797,851**	14,494,112
Operating expenses:		
Salaries and employee benefits	**7,988,436**	7,233,229
Other expenses	**4,661,934**	4,029,728
Total operating expenses	**12,650,370**	11,262,957
Income before provision for income taxes	**3,147,481**	3,231,155
Provision for income taxes	**1,062,058**	1,293,688
Net income	**$ 2,085,423**	$ 1,937,467

See Notes to Combined Financial Statements

COMBINED STATEMENTS OF CHANGES IN EQUITY – Years Ended September 30, 2012 and 2011

	Capital Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Items	Total Stockholders' Equity	ESCDC Net Assets	Total Equity
Balance at October 1, 2010	$1,088,500	$3,590,400	$13,617,996	$29,654	$18,326,550	$2,860,668	**$21,187,218**
Comprehensive income:							
Net income:							
New York Business							
Development Corporation	–	–	1,312,712	–	1,312,712	–	**1,312,712**
Empire State Certified							
Development Corporation	–	–	–	–	–	624,755	**624,755**
Total net income					1,312,712	624,755	**1,937,467**
Other comprehensive income, net of tax:							
Change in unrealized gains on investments							
(net of related income tax benefit)	–	–	–	(18,279)	(18,279)	–	**(18,279)**
Total comprehensive income					1,294,433	624,755	**1,919,188**
Dividend declared	–	–	(216,875)	–	(216,875)	–	**(216,875)**
Redemption of capital stock (825 shares)	(4,125)	(65,326)	–	–	(69,451)	–	**(69,451)**
Balance at September 30, 2011	1,084,375	3,525,074	14,713,833	11,375	19,334,657	3,485,423	**22,820,080**
Comprehensive income:							
Net income:							
New York Business							
Development Corporation	–	–	1,558,999	–	1,558,999	-	**1,558,999**
Empire State Certified							
Development Corporation	–	–	–	–	–	526,424	**526,424**
Total net income					1,558,999	526,424	**2,085,423**
Other comprehensive income, net of tax:							
Change in unrealized gains on investments							
(net of related income tax benefit)	–	–	–	54,880	54,880	–	**54,880**
Total comprehensive income					1,613,879	526,424	**2,140,303**
Dividend declared	–	–	(228,317)	–	(228,317)	–	**(228,317)**
Redemption of capital stock (431 shares)	(2,155)	(36,269)	–	–	(38,424)	–	**(38,424)**
Issuance of capital stock (1,000 shares)	5,000	84,150	–	–	89,150	–	**89,150**
Balance at September 30, 2012	$1,087,220	$3,572,955	$16,044,515	$66,255	$20,770,945	$4,011,847	**$24,782,792**

See Notes to Combined Financial Statements

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: In 1955, by a special act, the New York State Legislature created New York Business Development Corporation (NYBDC). In 1981, Empire State Certified Development Corporation (ESCDC), an affiliate of NYBDC through common management, was organized, pursuant to Section 402 of the Not-for-Profit Laws of the State of New York, to assist business concerns through financings under the U.S. Small Business Administration's Certified Development Company (Sections 503 and 504) Program.

NYBDC is also associated with Statewide Zone Capital Corporation of New York (Statewide), a privately-owned loan and investment fund, organized in 1999, whose capital is available to promote the expansion and growth of businesses in New York. The operations of Statewide are managed by NYBDC, which also owns approximately 1.5% of Statewide's outstanding common stock. NYBDC's investment in Statewide is accounted for under the cost method of accounting.

Together, NYBDC, ESCDC and Statewide act as a complement to banks in providing long-term working capital, equipment, and real estate loans to a variety of businesses located in New York State, either in participation with, or as an adjunct to, the banking industry. NYBDC's loans are generally disbursed in amounts up to $2.0 million and are secured by borrowers' assets and, in some instances, U.S. Small Business Administration (SBA) guarantees. A borrower's creditworthiness is evaluated on a case-by-case basis, with the amount of collateral obtained based upon management's credit evaluation of the borrower. Interest rates are either fixed or variable, and maturities range up to 20 years, depending upon the purpose of the loan.

Reporting Policy: The combined financial statements include the accounts of NYBDC, ESCDC and New Turnpike Realty Corporation, a wholly owned subsidiary of NYBDC which, from time to time, is utilized as a real estate holding company. (These entities are collectively referred to as the "Company"). All material intercompany accounts and transactions have been eliminated.

Loans and Allowance for Loan Losses: Loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is calculated utilizing the simple interest method. Accrual of interest is discontinued on a loan at such time as management believes, after considering economic/business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. Impaired loans, or loans for which it is probable the Company will be unable to collect all contractual principal and interest payments, are generally recorded at the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral. Interest payments received on such loans are applied as a reduction of the loan principal balance. A portion of the loan portfolio is designated as a Portfolio Collateral Account and is pledged against certain borrowings (see Note 4).

The allowance for loan losses is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and amount of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrowers' ability to pay, collateral, and the extent of SBA guarantees.

The allowance for loan losses consists of specific valuation allowances based on probable losses on specifically identified impaired loans generally determined based on collateral values or the present value of estimated cash flows; and general valuation allowances based on net historical loan loss experience for similar loans with similar characteristics and trends adjusted as appropriate for risk factors specific to the respective loan types. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Restricted Cash: Restricted cash, which principally includes money market cash equivalents, is comprised of net draw downs and borrower loan payments pending disbursement under the New York State Common Retirement Fund Loan (see Note 4). Such cash is designated as the Uninvested Collateral Account and pledged against these borrowings.

Investments: The Company's investments consist of equity securities of publicly traded and privately held companies (see Note 3). The Company's investments in publicly traded equity securities are classified as available-for-sale. These investments are recorded at fair value with the unrealized gains and losses included as a separate component of stockholders' equity – accumulated other comprehensive income, net of tax. The investments in equity securities of privately held companies, all of which the Company holds less than 20% voting interest and on which the Company does not have the ability to exercise significant influence, are accounted for using the cost method. Under the cost method, these investments are carried at the lower of cost or fair value. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary.

COMBINED STATEMENTS OF CASH FLOWS – Years Ended September 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Net income	**$2,085,423**	$ 1,937,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**101,307**	140,317
Provision for loan losses	**54,377**	–
Deferred tax benefit	**(75,831)**	133,218
Changes in:		
Other assets	**357,791**	(947,997)
Other liabilities	**(476,700)**	2,190,750
Net cash provided by operating activities	**2,046,367**	3,453,755
Cash Flows From Investing Activities		
Loans disbursed, net of participations	**(38,023,970)**	(31,203,145)
Loan payments received	**27,558,775**	26,992,608
Change in restricted cash	**4,101,169**	(4,495,147)
Changes in other assets	**(402,634)**	(394,427)
Net cash used in investing activities	**(6,766,660)**	(9,100,111)
Cash Flows From Financing Activities		
Net borrowings on bank and other lines of credit	**20,742,182**	1,700,000
Borrowings under notes, loans and other obligations	**24,121,730**	23,517,259
Repayments under notes, loans and other obligations	**(39,984,833)**	(19,473,782)
Issuance of capital stock	**89,150**	–
Redemption of capital stock	**(38,424)**	(69,451)
Dividends paid	**(216,875)**	–
Net cash provided by financing activities	**4,712,930**	5,674,026
Net change in cash	**(7,363)**	27,670
Cash, beginning of year	**211,146**	183,476
Cash, end of year	**$ 203,783**	$ 211,146
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	**$5,514,239**	$6,018,603
Income taxes	**$1,195,246**	$ 867,421

See Notes to Combined Financial Statements

Other Assets: Other assets include furniture and equipment, prepaids, and certain other assets.

Fees and Other Income: Fees and other income are principally derived from net servicing and processing fees earned by ESCDC (approximating $8,499,000 and $8,241,000 in the fiscal years ended September 30, 2012 and 2011, respectively), fees paid by Statewide (approximating $263,000 and $265,000 in the fiscal years ended September 30, 2012 and 2011, respectively), and certain closing fees (approximating $580,000 and $265,000 in the fiscal years ended September 30, 2012 and 2011, respectively). Fees are recognized as revenue at the time the related services are performed by the Company.

Income Taxes: Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes using the asset and liability method of accounting for income taxes (see Note 5). Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax reporting purposes. These differences, which primarily relate to the future tax benefits associated with recording loan losses, also include amounts attributable to certain employee benefits and deferred compensation. Deferred tax benefit (an asset account) represents the net future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets are adjusted through the provision for income taxes.

Other Comprehensive Income: Other comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income. For the Company, such items are comprised principally of unrealized gains and losses on certain securities available for sale, net of applicable income taxes, approximating a gain of $54,900 and a loss of $18,300 at September 30, 2012 and 2011, respectively.

Use of Estimates and Assumptions: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain items in the 2011 financial statements have been reclassified to conform with the current year presentation.

Subsequent Events: Subsequent events have been evaluated through October 26, 2012, the date the financial statements were available to be issued.

NOTE 2 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable, as presented on the combined statements of financial condition, consist of the following:

	September 30	
	2012	2011
Loans receivable	$278,835,895	$263,301,305
Less participations sold	(97,074,837)	(91,827,358)
	181,761,058	171,473,947
Less allowance for loan losses	(6,171,311)	(6,295,018)
Loans receivable, net	$175,589,747	$165,178,929

When applicable, the allowance for loan losses account is increased by a provision for loan losses, which is charged to expense, and reduced by losses, net of recoveries. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance is subject to change, and the amount of such change is not reasonably possible to estimate.

A schedule of the changes in the allowance for loan losses account follows:

	September 30	
	2012	2011
Balance, beginning of year	$6,295,018	$6,898,064
Provision for loan losses (ESCDC)	54,377	–
Recoveries credited to the allowance	108,117	33,885
Losses charged to the allowance	(286,201)	(636,931)
Balance, end of year	$6,171,311	$6,295,018

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on impairment method as of September 30, 2012.

Allowance for loan losses	
Individually evaluated for impairment	$ 1,051,100
Collectively evaluated for impairment	5,120,211
Balance, end of year	$ 6,171,311
Loans	
Individually evaluated for impairment	$ 21,155,510
Collectively evaluated for impairment	160,605,548
Balance, end of year	$181,761,058

Information about impaired loans at September 30, 2012 was as follows:

Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
$2,388,660	$2,388,660	$412,000	$2,855,284	$58,694

As of September 30, 2011 the Company's recorded investment in impaired loans approximated $3,322,000, and the related valuation allowance calculated equated to approximately $429,000. This allowance is included in the allowance for loan losses on the combined statement of financial condition. The average recorded investment in impaired loans for the year ended September 30, 2011 was $2,505,927. The Company recognized interest of $3,623 on impaired loans for the year ended September 30, 2011.

The aging analysis of the recorded investment in loans as of September 30, 2012 follows:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Commercial	$1,180,630	$3,229,608	$11,465,093	$15,875,331	$165,885,727	$181,761,058

Loans on which the accrual of interest has been discontinued approximated $11,465,000 (or $6,582,000, net of SBA guarantees) and $8,770,000 (or $4,324,000, net of SBA guarantees) at September 30, 2012 and 2011, respectively.

The Company has an internal grading system to help evaluate and quantify the Company's loan portfolio with respect to credit quality and risk.

Management reviews loans on a regular basis and categorizes them into risk categories based on relevant information about the ability of the borrowers to service their debt. In evaluating the ability of borrowers to service their debt consideration is given to items such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

Management provides for the classification of loans which are considered to be of lesser quality as substandard, doubtful, or loss (classified loans). Management considers a loan substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well defined weakness that jeopardizes liquidation of the loan. Substandard loans include those loans where there is the distinct possibility that the Company will sustain some loss of principal if the deficiencies are not corrected. Loans that are classified as doubtful have all of the weaknesses inherent in those loans that are classified as substandard but also have the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans that management classifies as loss are those considered uncollectible and of such little value that their continuance as an asset is not appropriate and the uncollectible amounts are charged off. Loans that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weakness, are designated as special mention. A special mention loan has a potential weakness that deserves management's close attention.

If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risks to warrant classification. Commercial loans not meeting the above criteria are considered to be pass rated loans.

Information pertaining to the credit risk profile of loans at September 30, 2012, aggregated by risk category of loans follows:

Grade	
Pass	$112,059,560
Special Mention	45,593,888
Substandard	20,958,335
Doubtful	3,149,275
Total	$181,761,058

ESCDC loans serviced for the SBA are not included in the accompanying statements of financial position. The unpaid principal balance on these loans approximated $863.4 million and $778.7 million at September 30, 2012 and 2011, respectively.

NOTE 3 — INVESTMENTS

Investments include both marketable equity securities and non-marketable investments approximating $1,896,000 and $1,522,000 at September 30, 2012 and 2011, respectively. Non-marketable equity investments include the Company's investment in Statewide (approximating $288,000 and $320,000 at September 30, 2012 and 2011, respectively) and other private equity investments which are accounted for under the cost method.

Marketable securities, which are principally held as a funding offset for the Company directors' deferred compensation plan, include approximately $1,278,000 in marketable debt and equity securities valued at quoted market prices. At both September 30, 2012 and 2011, the fair value of the Company's marketable securities approximated the corresponding liability under these plans. Accordingly, the Company bears no risk of loss on its marketable securities.

Generally Accepted Accounting Principles for fair value measurements defines fair value, establishes a framework for measuring fair value, and provides disclosures about fair value measurements. Fair value measurements emphasize that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability.

Fair value measurement accounting establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is classified into three general levels: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs include data points that are observable, such as quoted prices for similar assets in active markets and quoted prices for identical assets or similar assets in markets that are not active; and Level 3 inputs are unobservable data points for the asset, and include situations where there is little, if any, market activity for the asset.

Investments, as presented on the Combined Statements of Financial Position, consist of the following:

	September 30	
	2012	2011
Marketable securities classified as Level 1	$1,277,042	$1,013,368
Non-marketable equity securities, at cost	619,487	508,864
	$1,896,529	$1,522,232

As more fully disclosed under Note 7, certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

NOTE 4 — NOTES PAYABLE

Member Borrowings

Members consist principally of banks which have applied for membership and have been accepted by NYBDC's Board of Directors. Many members are also stockholders of NYBDC. Funds are obtained from members who, at the time they become members, agree to lend money to NYBDC upon call, subject to limits provided in the basic legislation which established the Company. The loan limit available from members was approximately $53 million at September 30, 2012.

Calls on members are made for maturities of one year with the September 30, 2012 outstanding loan balances maturing August 1, 2013. Interest is payable twice a year, on February 1 and August 1. Member borrowings generally provide for interest at the lowest prime commercial rate or 50 to 275 basis points above the 30 day LIBOR (London Interbank Offered Rate). All member loans are unsecured.

New York State Common Retirement Fund Borrowings

NYBDC has entered into three loan agreements (the most recent of which was effective in April 2011) with the New York State Common Retirement Fund (the "Fund") under which the Fund has made available to NYBDC an aggregate principal amount not to exceed $300,000,000. The proceeds of these loans may be used by NYBDC to extend credit to small businesses operating in the State of New York.

Under the agreements, borrowings under the loans bear interest at the following annual rate: (i) the aggregate of the 30-day net yield on the "Vision Treasury Money Market Fund" on uninvested funds and (ii) between 0.50% and 1.50% (principally dependent upon the nature of the SBA involvement) over the applicable treasury note rate for comparable original maturities, on the principal amount of each outstanding loan (the Portfolio Collateral Account).

At September 30, 2012 and 2011, the outstanding balances on these loans were $79,728,513 and $80,489,073, respectively. The principal payments on the loans generally parallels the underlying loan between NYBDC and its borrower, over a maximum of 15 years.

The loans are collateralized by NYBDC's right, title and interest in both the Uninvested Collateral Account and the Portfolio Collateral Account. In addition, the loan agreements provide for various restrictive covenants, such as restrictions on incurring new secured indebtedness or liens (except for certain office equipment and furniture), restrictions on the payment of dividends, and restrictions on providing any guarantees.

Bank and Other Line of Credit Borrowings

NYBDC has available lines of credit with various banks (all of which are members and stockholders) and other economic development agencies totaling $49 million at September 30, 2012. The amounts outstanding on these lines at September 30, 2012 and 2011 were $28,992,182 and $8,250,000, respectively. The line of credit agreements, all of which are unsecured, are renewed annually and generally provide for interest at a LIBOR based index rate.

Bank Term Borrowings

NYBDC has entered into agreements with three financial institutions, all of which are members and stockholders, which provide for various short and long-term borrowings. The overall cost of funds for these borrowings, the substantial portion of which provide for fixed rates, approximated 3.8% at September 30, 2012. The term agreements provide for total available credit of $30.9 million, of which amounts outstanding were $17,519,910 and $21,975,107 at September 30, 2012 and 2011, respectively. The agreements, with original terms ranging from 4 to 20 years, provide for annual principal reduction payments, dependent upon the amount of borrowings, which approximated $4.9 million in the year ended September 30, 2012. Future annual principal reduction payments, which will generally parallel the underlying loans between NYBDC and its borrowers, are scheduled to approximate $1.6 million in the year ended September 30, 2013.

Other Obligations

Other obligations include advances from Statewide which relate to the initial funding requirements of Statewide's loans. These advances bear interest and provide for repayment terms which generally parallel Statewide's underlying loan terms.

NOTE 5 — INCOME TAXES

The components of the provision for income taxes are as follows:

	September 30	
	2012	2011
Current taxes		
Federal	$ 922,434	$ 930,460
State and city	252,042	217,824
Deferred tax (benefit)	(112,418)	145,404
Net provision	$1,062,058	$1,293,688

As of September 30, 2012 and 2011, deferred tax assets, which are recognized for deductible temporary differences, principally related to the allowance for loan losses and deferred compensation and approximated $3,095,000 and $3,005,000, respectively. There were no deferred tax liabilities recognized for taxable temporary differences. Deferred tax assets are included as an asset in the combined statements of financial condition.

The differences between income taxes computed under federal statutory rates and effective rates is primarily attributable to state and city taxes, and certain tax adjustments.

NYBDC accounts for uncertain tax positions according to guidance issued by the Financial Accounting Standards Board. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all tax positions. Each income tax position is assessed using a two step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

NYBDC believes that there are no tax positions taken or to be taken that would significantly increase or decrease unrecognized tax benefits within twelve months of the reporting date. None of NYBDC's or ESCDC's income tax returns are currently under examination by the Internal Revenue Service (IRS) or state authorities. However, fiscal years 2009 and later remain subject to examination by the IRS and New York State.

NOTE 6 — EMPLOYEE BENEFIT PLANS

The Company maintains a salary reduction 401(k) plan and a Supplemental Executive Retirement Plan (SERP).

The salary reduction 401(k) plan allows employees to defer and contribute a portion of their salary into the plan with the employer matching the employees' contributions up to 6% and providing for certain profit sharing contributions, subject to limitations imposed by the Internal Revenue Service. The plan is funded on a current basis. The expense for the plan was approximately $598,000 and $498,000 for the years ended September 30, 2012 and 2011, respectively.

The SERP, a non-qualified plan, is intended to provide supplemental retirement benefits due to limitations imposed under the Internal Revenue Code. The computed benefit under the SERP, a component of accrued expenses on the Company's statements of financial condition, approximated $378,000 and $328,000 at September 30, 2012 and 2011, respectively. The expense for the SERP, a component of operating expenses on the Company's statements of operations, was approximately $50,000 for each of the years ended September 30, 2012 and 2011, respectively.

The total expense for all Company employee benefit plans was approximately $648,000 and $548,000 for the years ended September 30, 2012 and 2011, respectively.

NOTE 7 — FAIR VALUE OF FINANCIAL INSTRUMENTS

Under Generally Accepted Accounting Principles disclosures are required for the estimated fair value of financial instruments. The estimated fair values shown in the following table represent management's estimate of values at which the various types of the Company's financial instruments could be exchanged in transactions between willing, unrelated parties. They do not necessarily represent amounts that would be received or paid in actual trades of specific financial instruments. Management's estimates and assumptions are inherently subjective and involve uncertainties and matters of significant judgment. Changes in assumptions could dramatically affect the estimated fair values:

	September 30 (Dollars in Thousands)			
	2012		2011	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Financial assets:				
Loans receivable, net	$175,560	$172,008	$165,179	$163,663
Cash	204	204	211	211
Restricted cash	1,461	1,461	5,562	5,562
Accrued interest receivable	890	890	892	892
Financial liabilities:				
Notes payable	155,617	151,778	150,738	148,347
Accrued interest payable	425	425	482	482

The specific estimation methods and assumptions used can have a substantial impact on the resulting fair values of financial instruments. Following is a brief summary of the significant methods and assumptions used in the previous table:

Cash and Restricted Cash: The fair value of cash and restricted cash approximates the recorded amounts.

Loans Receivable: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Notes Payable: The fair values of the Company's long-term fixed-rate borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of variable-rate, fixed-term borrowings approximate their recorded amounts.

Accrued Interest: The fair value of accrued interest approximates the recorded amounts.

NOTE 8 — COMMITMENTS AND CONTINGENCIES

Commitments with Off-Balance-Sheet Risk

In the normal course of business, NYBDC provides commitments to extend credit in order to meet the financing needs of its customers. These commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of financial condition.

Loan commitments are as follows at September 30, 2012:

	Number of Loans	Amount
Loans authorized, but not fully disbursed to borrowers	92	$59,330,000
Less estimated bank participations on loan commitments	–	(23,387,000)
Net outstanding loan commitments	92	$35,943,000

Commitments to extend credit represent obligations to lend to a customer as long as there is no violation of any condition established under the loan approval. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Operating Lease Commitments

The Company occupies office facilities and leases certain office equipment under various operating lease agreements. Terms of the leases range from a month-to-month tenancy to a ten year commitment. At September 30, 2012, approximate future rent commitments due under leases with terms in excess of one year are as follows:

Years Ending September 30	Amount
2013	$ 478,000
2014	466,000
2015	463,000
2016	453,000
2017	413,000
Thereafter	984,000
	$3,257,000

Total lease costs were approximately $460,000 and $473,000 for the years ended September 30, 2012 and 2011, respectively.

Concentration of Credit Risk

The Company's loan portfolio consists primarily of real estate and similarly secured loans to small business borrowers throughout New York State. The borrower's ability to honor their loan agreements is, in part, dependent upon the State's economy.

UHY LLP Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying combined statements of financial condition of New York Business Development Corporation and affiliate as of September 30, 2012 and 2011, and the related combined statements of operations, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of New York Business Development Corporation and affiliate as of September 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Albany, New York
October 26, 2012

Community Partners provide loan referrals to NYBDC

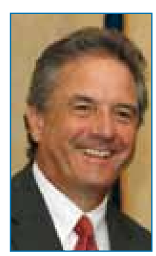
Adirondack Economic Development Corporation
Albany-Colonie Regional Chamber of Commerce
Albany Local Development Corporation
Amherst Industrial Development Agency
Bronx Overall Economic Development Corp.
Brooklyn Economic Development Corporation
Brooklyn (Kings County) Hispanic Chamber of Commerce
Broome County Industrial Development Agency
Business Council of Westchester
Catskill Watershed Corporation
Cattaraugus Empire Zone Corporation
Center for Economic Growth
CenterState CEO
Central New York Regional Planning & Development Board
Chamber of Schenectady County
City of Middletown Industrial Development Agency
City of Mount Vernon Urban Renewal Agency
Clinton County Area Development Corp.
Community Development Corporation of Long Island, Inc.
Cornell Agriculture & Food Technology Park
Cortland County BDC-IDA
County of Chautauqua Industrial Development Agency
County of Orleans Industrial Development Agency
County of Otsego Industrial Development Agency
Development Authority of the North Country
Dutchess County Economic Development Corporation
East Williamsburg Valley Industrial Development Corporation
Economic Development Corporation (Warren County)
Economic Development Corporation for Erie County
Essex County Industrial Development Agency
Fulton County Chamber of Commerce
Genesee County Economic Development Center
Herkimer County Industrial Development Agency
Hudson Development Corporation
Jefferson County Industrial Development Corp.
Livingston County Industrial Development Agency
Local Development Corp of East New York
Local Development Corporation of Laurelton, Rosedale and Springfield Gardens
Lockport Industrial Development Agency
Mohawk Valley Chamber of Commerce
Mohawk Valley Economic Development Growth Enterprises Corp.
Montgomery County Chamber of Commerce
Montgomery County Economic Opportunity and Development
Morris Park Local Development Corporation
NFC Development Corp.
New York State Small Business Development Centers
Ogdensburg Growth Fund Development Corporation
Ontario County Industrial Development Agency
Orange County Business Development Corporation
Orange County Partnership
Putnam County Economic Development Corporation
Queens Economic Development Corporation
REDEC Relending Corporation Renaissance Economic Development Corporation
Rensselaer County Industrial Development Agency
Rensselaer County Regional Chamber of Commerce
Rensselaer Gateway Develoment Corporation
Rockaway Development & Revitalization Corp.
Rockland Business Association
Rockland Economic Development Corp.
Rome Industrial Development Corp.
Saratoga Economic Development Corp.
Schenectady Economic Development Corporation
Schoharie County Planning & Development Agency
Schuyler County Partnership for Economic Development
Seneca County Industrial Development Agency
Southern Tier Economic Growth, Inc.
Southwest Brooklyn Industrial Development Corp.
Steuben County IDA
Sullivan County Chamber of Commerce
Sullivan County Partnership for Economic Development
Tier Information & Enterprise Resources, Inc.
Tioga County Economic Development & Planning
Tompkins County Area Development, Inc.
Ulster County Development Corp.
Washington County Local Development Corporation
Wayne County Industrial Development Agency
West Brighton Community Local Development Corporation
Westchester County Association Inc.
Women's Enterprise Development Center, Inc.
Women's Venture Fund, Inc.
Wyoming County Industrial Development Agency
Yates County Industrial Development Agency
Yonkers Local Assistance Corp.
Yonkers Local Development Corp.

"Guided by strong leadership and a highly professional staff, NYBDC is the 'go to' organization for small businesses that need capital to grow. NYBDC is very responsive, nimble, and successful in meeting the capital needs of small business owners in every corner of the state. NYBDC is a solution provider, and that is why its value to small businesses increases every day."

Brian McMahon
Executive Director
New York State Economic Development Council

"NYBDC has been a fantastic partner to our agency. They understand small contractors and the capital needed to successfully deliver on government projects. In the first year of our innovative working capital loan pilot, we've been able to help mobilize $1.6 million in contracts for small, minority and women-owned businesses as a result of their efforts."

Colleen Galvin
Assistant Commissioner
Capital Access & Business Services
New York City Department of Small Business Services



"Solid partnerships are the key to the delivery of SBA programs and services throughout our 34-county district. NYBDC and Empire State CDC extensively utilize our wide range of financing options. Together, we persistently strive to provide better products and services so that start-up and existing small businesses can grow, create jobs and expand our economy."

Bernard J. Paprocki
District Director
U.S. Small Business Administration
Syracuse District Director

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