

Management Discussion and Analysis

Independent Auditors' Report

ECD New Markets 4, LLC and ECD NM 5, LLC, two of Hope Enterprise Corporation's (HEC's) New Market Tax Credit (NMTC) entities, hold a loan receivable from Quitman Investment Fund II (Quitman), and an investment accounted for on the equity method, Hickory Holdings, LLC, which related to and, through a subsidiary, leases equipment to a subsidiary of Quitman. These entities have incurred recurring operating losses, and, further, in 2016 the Quitman subsidiary terminated its agreement with the entity which was its primary source of revenue. The loan receivable net of the related allowance for loan losses, was carried at \$0 and \$8.2 million and the equity method investment was carried at \$0 and \$5.7 million in the consolidated statements of financial position at December 31, 2017 and 2016 respectively. The Independent Auditors' Report contains a qualified opinion as it relates to the fair value of the assets of ECD New Markets 4, LLC and ECD New Markets 5, LLC, two of Hope Enterprise Corporation's (HEC's) New Market Tax Credit (NMTC) entities as of December 31, 2016. The 2017 and 2016 consolidated statements of activities include a provision for loan loss of \$8.2 million and \$2.3 million, and a charge of \$5.7 million and \$3.0 million for the HEC's share of Hickory's losses in 2017 and 2016 respectively. Had the outcome of the uncertainties regarding the carrying value of the loan and equity investment referred to above been known, up to \$13.9 million of losses included in the 2017 consolidated statement of activities may have been reflected in the 2016 consolidated statement of activities, along with a corresponding reduction in the 2016 consolidated statement of financial position. This would have no effect on cash and does not change our outlook on the performance of Hope Enterprise Corporation.

Balance Sheet Analysis

HEC's total assets stood at \$125.10 million at December 31, 2017, up \$18.8 million from December 31, 2016. This change in total assets is primarily the result of the \$31.0 million investment in 4 New Markets Tax Credit entities in 2017 and the \$13.9 million losses recognized on ECD NM 4, LLC and ECD NM 5, LLC as discussed above.

The effect of these transactions on HEC's net worth position as a percentage of total assets is detailed in the following schedule:

	2017	2016
Unrestricted	8.2%	9.7%
Non-controlling interests	51.5%	45.6%
Total unrestricted	59.7%	55.3%
Temporarily restricted	18.4%	18.4%
Permanently restricted	1.4%	2.0%
Total net assets	79.57	75.7%

As detailed in the following schedule, the vast majority of HEC's assets are tied up in some form of loan, investment, or property that resulted from a loan:

	2017	2016
Loans receivable – net of allowance for loan losses	78,179,747	55,812,341
Loan guarantees receivable	139,032	139,032
Investments in affiliated companies	1,036,558	6,757,047
Investment in secondary capital of HCU	12,475,000	11,725,000
Foreclosed property	132,520	316,120
Total	91,962,857	74,749,540
Percent of total assets	74%	70%

Notes payable decreased from \$24.8 million at December 31, 2016 to \$23.5 million at December 31, 2017, a decrease of \$1.3 million.

Earnings Analysis

Total revenue for 2017 was \$21.4 million as compared to \$20.7 million for 2016, and expenses were \$26.8 million in 2017 as compared to \$15.2 million for 2016. Equity in losses of affiliated companies increased \$5.7 million in 2017 as compared to \$3.0 million in 2016. Non-controlling interests in subsidiaries' losses increased from \$4.3 million in 2016 to \$11.1 million in 2016 with the change in net assets attributable to controlling interest decreasing from \$6.8 million in 2016 to \$3.0 million in 2017.

The year ending December 31, 2017 was very good financially for HEC, as was the prior year. However, the financial performance should be placed in context. A huge driver for HEC's revenues in 2017 was the recognition of \$8 million in grants from the Department of Education which are restricted for credit enhancements on Charter School loans and in 2016 was the recognition of \$8 million in grants from a bank in the fourth quarter. The proceeds of these 2016 grants are restricted for use as specified in the grant agreements for re-granting and developing of low income housing.

When these grants are taken into account, HEC's 2017 performance resulted in a reduction in net assets of \$5.0 million and the 2016 performance resulted in a reduction in net assets of \$1.4 million. This performance largely resulted from expense increases, with total expenses increasing by \$11.6 million, from \$15.2 million in 2016 to \$29.8 million in 2017. HEC support to Hope Credit Union decreased to \$2.4 million in 2017 from \$3.7 million in 2016. The provision for loan losses in 2016 was \$800,000 compared to \$8.9 million in 2017.

With regard to earned revenue, differences between 2017 and 2016 are summarized in the following schedule:

	2017	2016
Interest, dividends and related fees:		
Loans and other investments	1,648,571	1,344,150
Debt securities and cash equivalents	329,791	299,887
Gain (loss) on sale of assets		
Contract services revenues	1,149,864	354,629
Total earned revenue	3,128,126	1,998,666

The increase in interest, dividends and related fees from loans and other investments is related to the increase in loans receivable in 2017 as compared to 2016. The increase in contract services revenue is almost wholly the result of fees generated from New Markets Tax Credit related transactions.



Richard Campbell
Chief Financial Officer



William Bynum
Chief Executive Officer

Hope Enterprise Corporation

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

Years Ended December 31, 2017 and 2016



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Hope Enterprise Corporation
Table of Contents
December 31, 2017 and 2016

REPORT

Independent Auditors' Report	1
------------------------------	---

FINANCIAL STATEMENTS

Consolidated Statements of Financial Position	4
-----------------------------------------------	---

Consolidated Statements of Activities and Changes in Net Assets	5
-----------------------------------------------------------------	---

Consolidated Statements of Cash Flows	7
---------------------------------------	---

Notes to Consolidated Financial Statements	8
--------------------------------------------	---

SUPPLEMENTARY INFORMATION

Schedule 1 – Consolidating Statement of Financial Position	32
------------------------------------------------------------	----

Schedule 2 – Consolidating Statement of Activities and Changes in Net Assets	33
------------------------------------------------------------------------------	----

Schedule 3 – Details of New Markets Tax Credit Companies – Combining Statement of Financial Position	34
------------------------------------------------------------------------------------------------------	----

Schedule 4 – Details of New Markets Tax Credit Companies – Combining Statement of Activities and Changes in Net Assets	36
------------------------------------------------------------------------------------------------------------------------	----

Schedule 5 – ECD Investments, LLC Consolidating Balance Sheet	38
---------------------------------------------------------------	----

Schedule 6 – ECD Investments, LLC Consolidating Statement of Operations	39
-------------------------------------------------------------------------	----



Carr, Riggs & Ingram, LLC
400 West Parkway Place
Suite 300
Ridgeland, MS 39157

Mailing Address:
P.O. Box 2418
Ridgeland, MS 39158-2418

(601) 853-7050
(601) 853-9331 (fax)
CRlcpa.com
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hope Enterprise Corporation
Jackson, Mississippi

We have audited the accompanying consolidated financial statements of Hope Enterprise Corporation and entities under its control ("the Company"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Consolidated subsidiaries of the Company hold a loan receivable from Quitman Investment Fund II (Quitman), and an investment accounted for on the equity method, Hickory Holdings, LLC, which is related to and, through a subsidiary, leases equipment to a subsidiary of Quitman. These entities have incurred recurring operating losses, and, further, in 2016 the Quitman subsidiary terminated its agreement with the entity which was its primary source of revenue. As a result, the Company's loan receivable is considered collateral dependent, and the Company is unable to provide sufficient audit evidence related to the fair value of that collateral. Similarly, the Company is unable to provide sufficient audit evidence related to any potential impairment of the equity method investment it holds in Hickory Holdings, LLC. The loan receivable, net of the related allowance for loan losses, was carried at \$0 and \$8.2 million and the equity method investment was carried at \$0 and \$5.7 million in the Company's 2017 and 2016 consolidated statements of financial position, respectively. Consequently, we were unable to determine whether any adjustments to the 2016 statement of financial position was necessary. Any such adjustments would directly impact both the 2017 and 2016 statements of activities. The 2017 and 2016 consolidated statements of activities includes a provision for loan loss of \$8.2 million and \$2.3 million related to this loan and a charge of \$5.7 million and \$3.0 million for the Company's share of Hickory Holdings, LLC's losses incurred in 2017 and 2016, respectively. In the event the outcome of the uncertainties regarding the carrying value of the loan and equity investment referred to above been known, up to \$13.9 million of losses included in the 2017 consolidated statement of activities may have been reflected in the 2016 consolidated statement of activities, along with a corresponding reduction in the 2016 consolidated statement of financial position.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hope Enterprise Corporation and entities under its control as of December 31, 2017 and 2016, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our 2017 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 - 6 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi

May 14, 2018

Hope Enterprise Corporation
Consolidated Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 10,259,725	8,914,806
Restricted cash	1,390	5,000,169
Grants receivable	11,228,543	4,829,402
Contract revenue receivable	166,105	181,659
Receivable from Hope Federal Credit Union	-	1,418,172
Consumer mortgage loans held for sale	534,305	804,017
Loans receivable - net of allowance for loan losses of approximately \$12,303,000 (2017) and \$3,855,000 (2016)	78,179,747	55,812,341
Loan guarantees receivable from Small Business Administration	139,032	139,032
Investment securities	7,865,604	7,983,612
Investment in affiliated companies	1,036,558	6,757,047
Investment in secondary capital of Hope Federal Credit Union	12,475,000	11,725,000
Property and equipment, net	2,473,583	1,883,827
Foreclosed property	132,520	316,120
Other assets	620,255	557,096
Total assets	\$ 125,112,367	\$ 106,322,300
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,330,206	1,007,650
Funds held in escrow	21,521	23,097
Payable to Hope Federal Credit Union	866,648	-
Notes payable	23,474,898	24,775,559
Total liabilities	25,693,273	25,806,306
Commitments and contingencies (Note 5, 11, 12 and 13)		
Net assets:		
Unrestricted	10,334,706	10,367,152
Non-controlling interests (Note 12)	64,427,517	48,486,345
Total unrestricted	74,762,223	58,853,497
Temporarily restricted	22,958,599	19,533,185
Permanently restricted	1,698,272	2,129,312
Total net assets	99,419,094	80,515,994
Total liabilities and net assets	\$ 125,112,367	\$ 106,322,300

The accompanying notes are an integral part of these financial statements.

Hope Enterprise Corporation
Consolidated Statements of Activities and Changes in Net Assets

Year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 6,378,091	\$ 11,633,874	\$ -	\$ 18,011,965
In-kind contributions	298,597	-	-	298,597
Interest, dividends and related fees:				
Loans and other investments	1,648,571	-	-	1,648,571
Investment securities and cash equivalents	329,791	-	-	329,791
Net realized and unrealized losses on investment securities	(44,536)	-	-	(44,536)
Loss on sale of assets	(21,408)	-	-	(21,408)
Contract services revenue	1,149,864	-	-	1,149,864
	9,738,970	11,633,874	-	21,372,844
Net assets released from restrictions:				
Satisfaction of program restrictions	8,208,460	(8,208,460)	-	-
Transfers from changes in program restrictions	431,040	-	(431,040)	-
Total revenues and gains	18,378,470	3,425,414	(431,040)	21,372,844
Expenses				
Program expenses:				
Development finance	14,783,989	-	-	14,783,989
Housing initiative	926,749	-	-	926,749
Policy and advocacy	705,298	-	-	705,298
Other programs	5,912,125	-	-	5,912,125
	22,328,161	-	-	22,328,161
General administration:				
General and administration expense	2,858,658	-	-	2,858,658
Fund-raising and communication	1,604,256	-	-	1,604,256
Total expenses	26,791,075	-	-	26,791,075
Equity in loss of affiliated company	(5,720,489)	-	-	(5,720,489)
Change in net assets before non-controlling interest	(14,133,094)	3,425,414	(431,040)	(11,138,720)
Non-controlling interests in subsidiaries' net loss	14,100,648	-	-	14,100,648
Change in net assets attributable to controlling interest	(32,446)	3,425,414	(431,040)	2,961,928
Net assets attributable to controlling interests:				
At beginning of year	10,367,152	19,533,185	2,129,312	32,029,649
At end of year	10,334,706	22,958,599	1,698,272	34,991,577
Net assets of non-controlling interests (Note 12)	64,427,517	-	-	64,427,517
Total net assets at end of year	\$ 74,762,223	\$ 22,958,599	\$ 1,698,272	\$ 99,419,094

The accompanying notes are an integral part of these financial statements.

Hope Enterprise Corporation
Consolidated Statements of Activities and Changes in Net Assets

Year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Grants and contributions	\$ 5,021,516	\$ 12,150,000	\$ 500,000	\$ 17,671,516
In-kind contributions	1,044,386	-	-	1,044,386
Interest, dividends and related fees:				
Loans and other investments	1,344,150	-	-	1,344,150
Debt securities and cash equivalents	299,887	-	-	299,887
Net realized and unrealized losses on debt securities held as investments	(45,553)	-	-	(45,553)
Contract services revenue	354,629	-	-	354,629
	8,019,015	12,150,000	500,000	20,669,015
Net assets released from restrictions:				
Satisfaction of program restrictions	1,557,871	(1,557,871)	-	-
Transfers from changes in program restrictions	359,200	-	(359,200)	-
Total revenues and gains	9,936,086	10,592,129	140,800	20,669,015
Expenses				
Program expenses:				
Development finance	7,281,205	-	-	7,281,205
Housing initiative	872,283	-	-	872,283
Policy and advocacy	825,994	-	-	825,994
Other programs	2,563,124	-	-	2,563,124
	11,542,606	-	-	11,542,606
General administration:				
General and administration expense	2,312,836	-	-	2,312,836
Fund-raising and communication	1,385,378	-	-	1,385,378
Total expenses	15,240,820	-	-	15,240,820
Equity in loss of affiliated company	(2,950,000)	-	-	(2,950,000)
Change in net assets before non-controlling interest	(8,254,734)	10,592,129	140,800	2,478,195
Non-controlling interests in subsidiaries' loss	4,311,059	-	-	4,311,059
Change in net assets attributable to controlling interest	(3,943,675)	10,592,129	140,800	6,789,254
Net assets attributable to controlling interests:				
At beginning of year	14,310,827	8,941,056	1,988,512	25,240,395
At end of year	10,367,152	19,533,185	2,129,312	32,029,649
Net assets of non-controlling interests (Note 12)	48,486,345	-	-	48,486,345
Total net assets at end of year	\$ 58,853,497	\$ 19,533,185	\$ 2,129,312	\$ 80,515,994

The accompanying notes are an integral part of these financial statements.

Hope Enterprise Corporation
Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	2017	2016
Operating activities		
Change in net assets attributable to controlling interests	\$ 2,961,928	\$ 6,789,254
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-controlling interests in subsidiaries' loss	(14,100,648)	(4,311,059)
Depreciation and amortization	386,406	282,244
Loss on sale of assets	21,408	-
Provision for loan losses	8,872,459	779,387
Forgiveness of mortgage loan debt	740,814	885,843
Equity in loss in excess of cash distribution from affiliate	5,720,489	3,163,000
Impairment losses on foreclosed property	59,336	58,031
Realized and unrealized loss on investments	44,536	45,553
Proceeds from sales of mortgage loans held for sale	138,485	42,666
Changes in operating assets and liabilities:		
Contract revenue receivable	15,554	116,507
Grants receivable	(6,399,141)	(3,305,666)
Other receivables and prepaid expenses	1,082,889	977,242
Accounts payable and other liabilities	1,187,628	307,334
Net cash provided by operating activities	732,143	5,830,336
Investing activities		
Net decrease in loans held for investment	(31,954,548)	5,153,347
Purchase of investments	(1,774,267)	(4,084,281)
Proceeds from maturities and sales of investments	1,825,672	1,865,441
Decrease (increase) in restricted cash held in escrow	4,998,779	(5,000,169)
Issuance of of secondary capital loan	(1,500,000)	-
Proceeds from repayment of secondary capital loans	750,000	1,000,000
Proceeds from sales of foreclosed property	251,831	12,097
Purchase of property and equipment	(725,850)	(424,404)
Net cash used in investing activities	(28,128,383)	(1,477,969)
Financing activities		
Capital contributions from non-controlling interests	31,000,000	-
Cash dividends paid to non-controlling interests	(958,180)	(6,150,170)
Long-term borrowings	3,101,299	3,400,000
Payments on long-term borrowings	(4,401,960)	(5,672,557)
Net cash provided by (used in) financing activities	28,741,159	(8,422,727)
Net increase (decrease) in cash and cash equivalents	1,344,919	(4,070,360)
Cash and cash equivalents, beginning of year	8,914,806	12,985,166
Cash and cash equivalents, end of year	\$ 10,259,725	\$ 8,914,806
Supplemental disclosure of noncash investing and financing activities:		
Property received upon foreclosure on loans	\$ 182,000	\$ 144,000
Loan receivable from affiliate exchanged for non-controlling interest	\$ -	\$ 1,036,558

The accompanying notes are an integral part of these financial statements.

Hope Enterprise Corporation Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Company

Hope Enterprise Corporation (the "Company") is a not-for-profit development financial corporation primarily serving Arkansas, Louisiana, Mississippi and Tennessee. The goal of the Company is to improve the regional economy through investment, jobs and growth. The services of the Company include financing, management assistance, financial counseling and market development and are designed to support business creation and expansion, homeownership and community development.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company and entities under its control which include, ECD Investments, LLC (ECDI), ECD Investments BIDCO, Inc. (BIDCO), Home Again, Inc. (Home Again), ECD Associates, LLC (ECDA), ECD New Markets, LLC (ECDNM), ECD New Markets 3, LLC (ECDNM3) ECD New Markets 4, LLC (ECDNM4), ECD New Markets 5, LLC (ECDNM5), Hope New Markets 1, LLC (HNM1), Hope New Markets 2, LLC (HNM2), Hope New Markets 3, LLC (HNM3), Hope New Markets 4, LLC (HNM4), Hope New Markets 5, LLC (HNM5), Hope New Markets 7, LLC (HNM7), Hope New Markets 8, LLC (HNM8) and Hope New Markets 9, LLC (HNM9). All significant intercompany transactions and balances have been eliminated in consolidation. The preparation of such consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The allowance for loan losses and the valuation of foreclosed property and investments are determined utilizing material estimates that are particularly susceptible to change in the near term.

ECDI is a limited liability company subsidiary of the Company and owns the corporate stock of BIDCO. The purpose of ECDI and BIDCO is the same as that of the Company. Home Again is a non-profit organization in which the Company serves as the primary sponsor and also controls the Board of Directors. Home Again provides mortgage financing and recovery consultation services to eligible people in the coastal region of Mississippi in the aftermath of Hurricane Katrina and other distressed communities throughout the mid-south.

There are also thirteen additional limited liability companies included in the consolidated financial statements of the Company, which include ECDA, ECDNM, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3, HNM4, HNM5, HNM7, HNM8 and HNM9. The Company serves as the Managing Member of all thirteen entities. Debt and equity funding into ECDA and ECDNM is used for secondary capital loans and contributions to Hope Federal Credit Union (HFCU). The remaining eleven limited liability companies are Community Development Entities (CDEs) created for investors to benefit from

Hope Enterprise Corporation

Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the New Markets Tax Credit program administered by the U.S. Department of the Treasury. Substantially all of the qualified equity investments must be in turn used to provide available investment capital to low-income communities. The CDEs will dissolve after the loans provided by the CDEs mature, in accordance with the terms of the CDE operating agreements. Accordingly, ECD Central was dissolved in 2016.

Although not included in the consolidated financial statements, the Company is also the primary sponsor of HFCU. Under the terms of its contractual arrangements, the Company has agreed to reimburse HFCU for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions such as HFCU. Such obligations are limited so as to not provide HFCU with monthly net income of more than \$20,000. HFCU and the Company share the same members of management and certain HFCU members are also borrowers from the Company and its affiliates.

The net assets of the Company are reported as unrestricted, temporarily restricted or permanently restricted. Restricted net assets are created by donor-imposed restrictions on their use. All other net assets are legally unrestricted and are therefore reported as unrestricted net assets. Temporarily restricted net assets are grants restricted to and intended for support of future operations and/or specific programs. Permanently restricted net assets are grants donated as permanent revolving loan funds.

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through May 14, 2018, which was the date the consolidated financial statements were available to be issued.

Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Company utilizes a fair value hierarchy for measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Three levels of inputs are used to measure fair value:

- Level 1** Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2** Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.
- Level 3** Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.



Hope Enterprise Corporation Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES **(Continued)**

When quoted market prices in active markets are unavailable, the Company determines fair values using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed in the Level 2 of the fair value hierarchy. If quoted market prices and independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3.

The Company generally obtains one quoted market price or dealer quote per instrument. When dealer quotations are used, the Company uses the mid-mark as fair value. As part of the price verification process, valuations based on quotes are corroborated by comparison both to other quotes and to recent trading activity in the same or similar instruments. To the extent the Company determines a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not believe the quote is reflective of the market value for the investment, the Company would internally develop a fair value using this observable market information.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Grants Receivable

Unconditional grants are recognized as revenue in the period the commitment is received. Unconditional grants to be received over a period of time in excess of one year are recorded at fair value at the date of the grant based upon the present value of payments to be received. Conditional grants are not recognized until they become unconditional, which is when the future event on which they depend has occurred.

Contract Services Revenue and Related Receivables

Contract services revenue is recognized in the period services are rendered. For related receivables, no allowance for doubtful accounts has been deemed necessary. Management determines the allowance by reviewing all outstanding amounts on a monthly basis, identifying troubled accounts and using historical experience applied to an aging of accounts. Contract receivables are written off when deemed uncollectible. Recoveries of contract receivables previously written off are recorded when received.

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Consumer Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale are carried at the lower of aggregate cost or market value and are primarily fixed-rate single-family residential loans originated and held under contract to be sold in the secondary market to a permanent investor. Such loans are generally sold within 30 days and mortgage servicing rights are released at point of sale. Although investors have limited recourse to return a purchased loan, no such returns occurred in 2017 or 2016. All mortgage loans are collateralized by the related residence of the borrower. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to expense.

Loans Receivable

Loans receivable are stated at the amount of unpaid principal less an allowance for loan losses and consist of commercial loans, consumer mortgage loans not held for sale and forgivable mortgage loans. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables with loan-to-value ratios from 50 percent to 100 percent and are generally guaranteed by the principals of the borrowing business entity. Interest income is computed on the loan balance outstanding and is accrued as earned. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. For all loans 90 days or more past due, the Company generally discontinues the accrual of interest and recognizes income only as received. A loan may also be placed in non-accrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in non-accrual status or charged off is reversed through interest income unless management believes the accrued interest is recoverable through the liquidation of collateral. Interest received on non-accrual loans is either applied against principal or reported as interest income, based on management's assessment regarding the recovery of principal. When material, the net amount of nonrefundable loan origination fees and direct costs associated with the lending process is deferred and accreted to interest income over the life of the loans using a method that approximates the interest method.

A loan is considered impaired when it is probable, based on current information and events, that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired commercial loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

A loan is considered a troubled debt restructured loan based on individual facts and circumstances. The Company makes various types of concessions when structuring troubled debt restructurings

Hope Enterprise Corporation Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(TDRs) including rate reductions, payment extensions, and forbearance. The Company classifies troubled debt restructured loans as impaired and evaluates the need for an allowance for loan losses on a loan-by-loan basis. An allowance for loan losses is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral. Loans retain their interest accrual status at the time of modification.

At December 31, 2017, the Company had 4 commercial real estate loans and 2 other business asset loans classified as TDRs which totaled approximately \$172,000. At December 31, 2016, the Company had 2 commercial real estate loans and 6 other business asset loans classified as TDRs which totaled approximately \$219,000. For these TDRs, the Company had a related loan loss allowance of approximately \$113,000 and \$75,000 at December 31, 2017 and 2016, respectively. These loans were modified by changing certain interest terms. No accrued interest was forgiven in 2017 or 2016. There were no specific charge-offs of principal related to TDRs during 2017 or 2016. Collateral dependent loans that are TDRs are charged down to their fair value estimate less a cost to sell estimate, which approximates net realizable value. During 2017 and 2016, there were no TDRs that subsequently defaulted within twelve months of loan modification.

Loans receivable also include forgivable mortgage loans that are made to accommodate the financial needs of qualifying customers. The terms of these loans differ significantly from traditional mortgage loans since they are forgivable over a stated period of time, typically from five to fifteen years, and only become due upon on the sale or transfer of the residence. No principal or interest payments are received for loans made under the forgivable mortgage loan programs. Persons receiving loans under the forgivable mortgage loan programs must meet certain eligibility requirements and agree to occupy the residence for a stated period of time. The Company holds a secured interest in certain of the property funded until the occupancy period is met. At such time, the interest in the property is transferred to the borrower. No allowance for credit losses has been deemed necessary based on the forgivable nature of the loans and management's evaluation of the excess of the value of the collateral securing the loans over the unforgiven portion of the mortgage loans. The Company recorded approximately \$741,000 and \$886,000 in debt forgiveness during 2017 and 2016, respectively, related to these mortgage loans. As of December 31, 2017, the Company has a conditional promise to forgive the following amounts over the next five years:

2018	\$ 709,000
2019	528,000
2020	96,000
2021	50,000
2022	48,000
2023 and thereafter	398,000

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Allowance for Loan Losses

The allowance for loan losses is determined based on various components for individually impaired loans and for homogeneous pools of loans. The allowance for loan losses is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries by portfolio segment. The methodology for determining charge-offs is consistently applied to each segment. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, and changes in its risk profile, credit concentrations, historical trends and economic conditions. This evaluation also considers the balance of impaired loans. The Company evaluates the allowance for loan losses on an individual basis for impaired loans. All other loans are evaluated on a collective basis. Losses on individually identified impaired loans are measured based on the present value of expected future cash flows discounted at each loan's original effective market interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the provision added to the allowance for loan losses. Though management believes the allowance for loan losses to be adequate, ultimate losses may vary from their estimates. However, estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the change in net assets during periods in which they become known.

Investment Securities

Investment securities are carried at fair value based on quoted market prices. Unrealized gains and losses are included in the change in net assets. The primary components that determine a security's fair value are its coupon rate, maturity and credit characteristics. The Company holds these securities as part of its asset/liability strategy and they may be sold as a result of changes in interest rate risk, prepayment risk or other similar economic factors.

Premiums and discounts on investment securities are recognized as adjustments to interest income by the interest method over the period to maturity and adjusted for prepayments as applicable. The specific identification method is used to compute the realized gains or losses on the sale of these assets. Security purchases and sales are accounted for on the trade date.

Investment in Affiliated Companies

The Company had a 98.91% non-controlling equity interest in Hickory Holdings, LLC (Hickory). The investment in affiliated company is accounted for using the equity method of accounting. Hickory is not consolidated since the Company has a preferred unit interest, does not control the operations of

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Hickory, and does not control the election or termination of Hickory's managing members or its management. The principal business activity of Hickory is the acquisition, ownership, financing and, holding of lease equipment and other personal property. In 2017, Hickory filed for bankruptcy protection from creditors and the Company's investment in Hickory was subsequently written off at a loss of approximately \$5,720,000.

In 2016, the Company acquired a 47.63% non-controlling equity interest in Homestead Development, LLC (Homestead) by exchanging a loan receivable for the equity interest. The investment is accounted for using the equity method of accounting since the Company does not have a controlling interest.

Property and Equipment

Property and equipment are stated at cost, if purchased, and estimated fair value at the date received, if donated to the Company. Depreciation on property and equipment is calculated principally by the straight-line method over the estimated useful lives of the assets which generally range from three to 39 years. The carrying value of long-lived assets is reviewed if facts and circumstances indicate a potential impairment of carrying value may have occurred utilizing relevant cash flow and profitability information. Impairment losses are recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts.

Foreclosed Property

Property acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the fair value of the property acquired at the date of foreclosure net of estimated selling costs, which establishes a new cost basis. Loan balances in excess of the fair value of the property acquired at the date of foreclosure are charged to the allowance for loan losses. A valuation allowance and a corresponding charge to operations is established to reflect declines in value subsequent to acquisition, if any, below the new basis. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in program expenses.

Income Taxes

The Company and Home Again have received rulings from the Internal Revenue Service for exemption from income taxes as public charities under Internal Revenue Code Sections 501(c)(3) and 509 (a)(2). Since ECDI, ECDA, ECDNM, ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3, HNM4, HNM5, HNM7, HNM8 and HNM9 are limited liability companies, no income taxes are provided. The results of operations are reportable by the LLC members on their individual income tax returns. BIDCO is subject to income taxes at the corporate level. As such, deferred income taxes relate to temporary differences between assets and liabilities of BIDCO that are recognized differently for

Hope Enterprise Corporation Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial reporting purposes and income tax purposes. Deferred tax assets and liabilities pertain to net operating loss carryforwards and the allowance for loan losses. A valuation allowance of approximately \$1,768,000 and \$2,537,000, respectively, was recorded at December 31, 2017 and 2016, to offset the net deferred tax assets of BIDCO. The valuation allowance is established to provide for amounts that management considers may not be realized as a result of income limitations. At December 31, 2017, BIDCO had net operating loss carryforwards of approximately \$7,060,000 that will begin to expire in 2024.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, the Company is no longer subject to income tax examinations prior to 2014.

Effects of Recent Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Company on January 1, 2019. The Company is still evaluating the potential impact on its financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*", which requires that all equity investments (except those accounted for under the equity method of accounting) be measured at fair value with changes in fair value recognized in net income. This guidance eliminates the available-for-sale classification for equity securities with readily determinable fair values. It also amends certain disclosure requirements associated with the fair value of financial instruments. However, companies may elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. ASU 2016-01 is effective for annual periods, beginning after December 15, 2017.

Hope Enterprise Corporation Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2016, the FASB issued ASU 2016-02, "Leases", which establishes a comprehensive lease standard under GAAP for virtually all industries. The new standard requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases, other than leases that meet the definition of short term leases and will apply for annual periods beginning after December 15, 2018, including interim periods therein. Early adoption is permitted.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)", which introduces the current expected credit losses methodology. Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets, including available-for-sale debt securities, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new model will require institutions to calculate all probable and estimable losses that are expected to be incurred through the loan's entire life. ASU 2016-13 also requires the allowance for credit losses for purchased financial assets with credit deterioration since origination to be determined in a manner similar to that of other financial assets measured at amortized cost; however, the initial allowance will be added to the purchase price rather than recorded as credit loss expense. The disclosure of credit quality indicators related to the amortized cost of financing receivables will be further disaggregated by year of origination (or vintage). Institutions are to apply the changes through a cumulative-effect adjustment to their net assets as of the beginning of the first reporting period in which the standard is effective. The amendments are effective for fiscal years beginning after December 15, 2020. Early application will be permitted for fiscal years beginning after December 15, 2018.

On August 26, 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)" which amends guidance in FASB ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows, in order to reduce inconsistent application. The amendments address eight cash flow issues including debt repayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments following a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows. ASU 2016-15 is effective for the Company for annual reporting periods beginning after December 15, 2017. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment". ASU 2017-04 simplifies the measurement of goodwill impairment by eliminating the requirement of performing a hypothetical purchase price allocation to measure goodwill impairment. ASU 2017-04 is effective for annual and any interim impairment tests

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

for periods beginning after December 15, 2021. Early adoption is allowed as of January 1, 2017, for annual and any interim impairment tests occurring after January 1, 2017. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities". This guidance was issued to shorten the amortization period for certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. It will become effective on January 1, 2019, with early adoption permitted, including during interim periods. The adoption is to be applied on a modified retrospective basis through an adjustment to retained earnings. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

Reclassifications

Certain reclassifications have been made in the 2016 consolidated financial statements to conform to the method of presentation used in 2017.

NOTE 2: FAIR VALUE MEASUREMENTS

At December 31, 2017 and 2016, the only items carried at fair value in the accompanying consolidated statements of financial position were investment securities, certain collateral-dependent impaired loans and certain foreclosed property. Investment securities are measured at fair value on a recurring basis with changes in fair value recognized as a change in net assets, whereas impaired loans and foreclosed property are carried at the lower of cost or fair value on a non-recurring basis and are written down to fair value upon initial recognition or subsequent impairment. Fair value amounts for collateral-dependent loans are generally based on internally developed collateral valuations. These valuations incorporate measures such as recent sales prices for comparable properties or customized discounting criteria.

The fair value measurements by input level follow:

<i>December 31, 2017</i>	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 525,698	\$ -	\$ -	\$ 525,698
Foreclosed property	54,251	-	-	54,251
Investment securities	7,865,604	-	7,865,604	-
<hr/>				
<i>December 31, 2016</i>	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 8,825,589	\$ -	\$ -	\$ 8,825,589
Foreclosed property	85,969	-	-	85,969
Investment securities	7,983,613	-	7,983,613	-

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 3: GRANTS RECEIVABLE

The Company's management anticipates grants receivable will be received and available for support of the Company's programs as follows:

<i>December 31,</i>	2017	2016
Receivable in less than one year	\$ 10,283,016	\$ 3,802,627
Receivable in one to five years	1,150,000	1,063,016
Receivable in six years	20,000	40,000
	11,453,016	4,905,643
Less adjustment to reflect grants receivable at fair value at the date of grant, based on 2.11% discount rate in 2017 and 1.88% in 2016	(224,473)	(76,241)
	\$ 11,228,543	\$ 4,829,402

NOTE 4: INVESTMENT SECURITIES

Investment securities, presented in the financial statements at fair value, are categorized as follows:

<i>December 31, 2017</i>	Amortized Cost	Fair Value
Government agencies	\$ 3,631,487	\$ 3,600,078
Residential mortgage-backed securities	2,469,104	2,428,287
Municipal bonds	1,844,186	1,836,286
Equity securities	953	953
Total	\$ 7,945,730	\$ 7,865,604

<i>December 31, 2016</i>	Amortized Cost	Fair Value
Government agencies	\$ 3,159,863	\$ 3,151,855
Residential mortgage-backed securities	3,317,705	3,294,455
Municipal bonds	1,542,156	1,537,302
Total	\$ 8,019,724	\$ 7,983,612

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 4: INVESTMENT SECURITIES (Continued)

The amortized cost and approximate fair value of debt securities, by expected maturity, are shown below.

<i>December 31, 2017</i>	Amortized Cost	Fair Value
Due within one year	\$ 1,071,268	\$ 1,065,039
Due after one year through five years	4,013,727	3,980,645
Due after five years through ten years	2,036,679	2,007,085
Due after ten years through twenty years	789,875	779,688
Due after twenty years	33,228	32,194
	\$ 7,944,777	\$ 7,864,651

NOTE 5: LOANS AND COMMITMENTS

The Company makes loans to small businesses located in rural, economically disadvantaged areas of Arkansas, Louisiana, Mississippi and Tennessee. Such loans, the proceeds of which normally provide working capital and equipment financing to undercapitalized businesses that may be unable to obtain credit from conventional financing sources, have a higher than typical degree of risk.

Loans other than consumer mortgage loans held for sale consisted of the following:

<i>December 31,</i>	2017	2016
Commercial loans	\$ 88,649,944	\$ 57,720,630
Forgivable mortgage loans	1,828,877	1,941,938
Other consumer mortgage loans not held for sale	3,661	4,798
Allowance for loan losses	(12,302,735)	(3,855,025)
	\$ 78,179,747	\$ 55,812,341

Included in commercial loans are New Market Tax Credit program loans originated by community development entities which aggregated approximately \$74,095,000 and \$44,025,000 at December 31, 2017 and 2016, respectively. These interest-only loans have seven year repayment terms which will begin to mature in 2018.

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 5: LOANS AND COMMITMENTS (Continued)

Transactions in the allowance for loan losses are summarized as follows:

<i>December 31,</i>	2017	2016
Balance at beginning of year	\$ 3,855,025	\$ 4,417,598
Provisions charged to program expense	8,872,459	779,387
Loans charged off and foreclosed	(424,749)	(1,341,960)
Balance at end of year	\$ 12,302,735	\$ 3,855,025

A summary of the commercial loans and related allowance for loan losses evaluated for impairment both individually and collectively is as follows:

<i>December 31, 2017</i>	Loans		Allowance		Net
	Individually	Collectively	Individually	Collectively	
Commercial loans secured by:					
Commercial real estate	\$ 702,443	\$ 33,580,159	\$ 150,129	\$ 614,021	\$ 33,518,452
Single family real estate	39,484	5,600,365	-	183,186	5,456,663
Multi-family real estate	180,891	3,296,284	22,501	42,783	3,411,891
Other business assets	11,730,496	10,483,183	11,093,806	132,265	10,987,608
Construction	-	22,624,347	-	37,582	22,586,765
Unsecured commercial loans	-	412,292	-	26,462	385,830
Totals	\$ 12,653,314	\$ 75,996,630	\$ 11,266,436	\$ 1,036,299	\$ 76,347,209

December 31, 2016

Commercial loans secured by:					
Commercial real estate	\$ 313,554	\$ 18,892,223	\$ 76,024	\$ 406,700	\$ 18,723,053
Single family real estate	62,622	5,655,679	-	185,753	5,532,548
Multi-family real estate	640,718	4,307,453	152,384	56,038	4,739,749
Other business assets	11,082,704	10,087,361	2,765,781	104,483	18,299,801
Construction	52,197	6,152,579	42,801	35,752	6,126,223
Unsecured commercial loans	-	473,540	-	29,309	444,231
Totals	\$ 12,151,795	\$ 45,568,835	\$ 3,036,990	\$ 818,035	\$ 53,865,605

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 5: LOANS AND COMMITMENTS (Continued)

Changes in the allowance for loans losses by portfolio class were as follows:

<i>Year ended</i> <i>December 31, 2017</i>	Balance at Beginning of Year	Charge-offs	Recoveries	Provision for Loan Losses	Balance at End of Year
Commercial loans secured by:					
Commercial real estate	\$ 482,724	\$ (424,749)	\$ -	\$ 706,175	\$ 764,150
Single family real estate	185,753	-	-	(2,567)	183,186
Multi-family real estate	208,422	-	-	(143,138)	65,284
Other business assets	2,870,264	-	-	8,355,807	11,226,071
Construction	78,553	-	-	(40,971)	37,582
Unsecured commercial loans	29,309	-	-	(2,847)	26,462
	\$ 3,855,025	\$ (424,749)	\$ -	\$ 8,872,459	\$ 12,302,735

<i>Year ended</i> <i>December 31, 2016</i>	Balance at Beginning of Year	Charge-offs	Recoveries	Provision for Loan Losses	Balance at End of Year
Commercial loans secured by:					
Commercial real estate	\$ 3,146,479	\$ (1,341,960)	\$ -	\$ (1,321,795)	\$ 482,724
Single family real estate	307,754	-	-	(122,001)	185,753
Multi-family real estate	138,767	-	-	69,655	208,422
Other business assets	740,254	-	-	2,130,010	2,870,264
Construction	38,395	-	-	40,158	78,553
Unsecured commercial loans	45,949	-	-	(16,640)	29,309
	\$ 4,417,598	\$ (1,341,960)	\$ -	\$ 779,387	\$ 3,855,025

Loan commitments are made to accommodate the financial needs of the Company's customers. These arrangements have credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to the Company's normal credit practices. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments. The Company's maximum exposure to credit loss in the event of nonperformance by the other party for loan commitments (including unused lines of credit) was approximately \$2,497,000 and \$1,840,000 at December 31, 2017 and 2016, respectively.

Approximately \$260,000 and \$3,052,000 of the allowance for loan losses relates to non-accrual loans at December 31, 2017 and 2016, respectively. The Company had non-accrual loans with 17 customers totaling approximately \$1,653,000 at December 31, 2017. The Company had non-accrual loans with 14 customers totaling approximately \$12,361,000 at December 31, 2016. There were no loans past due 90 days or more and still accruing interest at December 31, 2017 and 2016.

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 5: LOANS AND COMMITMENTS (Continued)

The Company had impaired loans of approximately \$12,653,000 and \$12,152,000 as of December 31, 2017 and 2016, respectively. There was approximately \$11,266,000 and \$3,037,000 in the allowance for loan losses specifically allocated to these impaired loans at December 31, 2017 and 2016, respectively.

Impaired loans with no allowance for loan losses specifically allocated to these loans approximated \$861,000 and \$289,000 at December 31, 2017 and 2016, respectively. The average balance of impaired loans was approximately \$12,403,000 in 2017 and \$9,423,000 in 2016. Income recognized on impaired loans was approximately \$57,000 in 2017 and \$120,000 in 2016.

Information relative to impaired loans is as follows:

	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
<i>December 31, 2017</i>				
Commercial loans secured by:				
Commercial real estate	\$ 702,443	\$ 236,398	\$ 466,045	\$ 150,129
Single family real estate	39,484	39,484	-	-
Multi-family real estate	180,891	88,520	92,371	22,501
Other business assets	11,730,496	496,778	11,233,718	11,093,806
Total impaired loans	\$ 12,653,314	\$ 861,180	\$ 11,792,134	\$ 11,266,436

December 31, 2016

Commercial loans secured by:				
Commercial real estate	\$ 313,554	\$ 189,220	\$ 124,334	\$ 76,024
Single family real estate	62,622	62,622	-	-
Multi-family real estate	640,718	-	640,718	152,384
Other business assets	11,082,704	37,374	11,045,330	2,765,781
Construction	52,197	-	52,197	42,801
Total impaired loans	\$ 12,151,795	\$ 289,216	\$ 11,862,579	\$ 3,036,990

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 5: LOANS AND COMMITMENTS (Continued)

The Company determines delinquency status based on recent payment history. An aging analysis of past due and nonaccrual commercial loans by class is as follows:

<i>December 31, 2017</i>	Current	Past Due 30- 89 Days	Past Due Greater Than 90 Days	Nonaccrual	Total
Commercial loans secured by:					
Commercial real estate	\$ 33,584,352	\$ -	\$ -	\$ 698,249	\$ 34,282,601
Single family real estate	5,282,110	318,255	-	39,484	5,639,849
Multi-family real estate	3,384,803	92,372	-	-	3,477,175
Other business assets	21,218,019	80,442	-	915,219	22,213,680
Construction	22,624,347	-	-	-	22,624,347
Unsecured commercial loans	412,292	-	-	-	412,292
Commercial loans	\$ 86,505,923	\$ 491,069	\$ -	\$ 1,652,952	\$ 88,649,944

<i>December 31, 2016</i>	Current	Past Due 30- 89 Days	Past Due Greater Than 90 Days	Nonaccrual	Total
Commercial loans secured by:					
Commercial real estate	\$ 18,689,325	\$ 204,385	\$ -	\$ 312,067	\$ 19,205,777
Single family real estate	5,655,679	-	-	62,622	5,718,301
Multi-family real estate	4,116,306	191,146	-	640,718	4,948,170
Other business assets	9,876,428	-	-	11,293,637	21,170,065
Construction	6,152,579	-	-	52,198	6,204,777
Unsecured commercial loans	473,540	-	-	-	473,540
Commercial loans	\$ 44,963,857	\$ 395,531	\$ -	\$ 12,361,242	\$ 57,720,630

Credit Quality Indicators

The credit quality indicator utilized by the Company to internally analyze the loan portfolio is the internal risk rating. At the time of loan origination, a risk rating based on an eight point grading system is assigned to each commercial-related loan based on loan officer and management assessments of the risk associated with each particular loan. The first four loan ratings are "pass" rated credits. Loans classified as pass credits have no material weaknesses and are performing as agreed. Loans classified as special mention have 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 loan or of the Company's credit position at some future date. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 5: LOANS AND COMMITMENTS (Continued)

classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Loans classified as loss are considered uncollectible and their continuance as a loan is not warranted.

A summary of the carrying amount of commercial loans by credit quality indicator is as follows:

<i>December 31, 2017</i>	Pass Categories	Special Mention Category	Substandard Category	Doubtful Category	Total
Commercial loans secured by:					
Commercial real estate	\$ 17,073,376	\$ 16,308,695	\$ 658,002	\$ 242,528	\$ 34,282,601
Single family real estate	432,109	5,168,257	39,483	-	5,639,849
Multi-family real estate	3,232,941	63,343	180,891	-	3,477,175
Other business assets	13,538,462	7,944,622	730,596	-	22,213,680
Construction	16,804,347	5,820,000	-	-	22,624,347
Unsecured commercial loans	108,489	303,803	-	-	412,292
Totals	\$ 51,189,724	\$ 35,608,720	\$ 1,608,972	\$ 242,528	\$ 88,649,944
<i>December 31, 2016</i>					
Commercial loans secured by:					
Commercial real estate	\$ 16,142,829	\$ 2,749,394	\$ 71,026	\$ 242,528	\$ 19,205,777
Single family real estate	5,293,452	362,226	40,856	21,766	5,718,300
Multi-family real estate	4,242,590	64,864	-	640,718	4,948,172
Other business assets	9,876,428	210,933	11,082,704	-	21,170,065
Construction	6,152,579	-	52,197	-	6,204,776
Unsecured commercial loans	153,557	319,983	-	-	473,540
Totals	\$ 41,861,435	\$ 3,707,400	\$ 11,246,783	\$ 905,012	\$ 57,720,630

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 6: INVESTMENT IN AFFILIATED COMPANIES

Summarized, unaudited financial information of Hickory Holdings, LLC (Hickory) as of and for the year ended December 31, 2016 is as follows. Hickory filed for bankruptcy protection from its creditors in 2017 and the investment carrying value (\$5.7 million) at December 31, 2016 was charged to expense in 2017.

<i>December 31,</i>	2016
Assets	
Current assets	\$ 930,326
Machinery and equipment	44,921,020
Deferred loan costs	653,934
	<u>\$ 46,505,280</u>
Liabilities and Members' Equity	
Current liabilities	\$ 475,433
Long-term debt	40,369,000
Equity of preferred unitholders	5,570,835
Equity of common unitholders	90,012
	<u>\$ 46,505,280</u>

During 2016, ECDNM5 received cash dividends of approximately \$213,000 from Hickory.

Summarized, unaudited financial information of Homestead Development, LLC, is as follows:

<i>December 31,</i>	2017	2016
Assets		
Cash	\$ 103,937	\$ 25,601
Property and equipment	3,038,686	3,153,897
Other assets	34,874	42,761
	<u>\$ 3,177,497</u>	<u>\$ 3,222,259</u>
Liabilities and Members' Equity		
Accounts payable	\$ 8,859	\$ 8,859
Deposits	13,437	13,403
Notes payable to related entities	3,375,007	3,551,575
Capital and retained deficit	(219,806)	(351,578)
	<u>\$ 3,177,497</u>	<u>\$ 3,222,259</u>

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 6: INVESTMENT IN AFFILIATED COMPANIES (Continued)

<i>Year ended December 31,</i>	2017	2016
Results of Operations		
Revenue	\$ 496,157	\$ 488,433
Interest expense	13,640	100,808
Depreciation	66,404	85,273
Other expenses	284,341	388,992
Net earnings (loss)	\$ 131,772	\$ (86,640)

NOTE 7: SECONDARY CAPITAL OF HOPE FEDERAL CREDIT UNION

Secondary capital of HFCU are loans that require principal repayments, unless HFCU (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred. The advances include a fixed rate loan at 5.45% for \$2,800,000 (\$1,050,000 outstanding at December 31, 2017) maturing in 2027, two fixed rate loans at 1.00% for \$5,000,000 and \$2,000,000 maturing on December 31, 2023, a fixed rate loan at 2.60% for \$1,500,000 maturing on December 22, 2023, a fixed rate loan at 1.00% for \$1,000,000 maturing on April 29, 2025, and three variable rate loans aggregating \$1,925,000 with interest floors and caps from 5.00% - 10.90% (with effective rates of 5.00% - 5.45% at December 31, 2017), maturing in 2024 – 2025, with principal payments required each year until maturity. Interest income received from HFCU relative to the secondary capital loans approximated \$265,000 and \$312,000 for the years ended December 31, 2017 and 2016, respectively. No repayments are due on the above secondary capital loans until 2023 and thereafter.

The Company incurred expenses approximating \$2,432,000 and \$3,705,000 relative to its obligation to reimburse certain operating expenses of HFCU in 2017 and 2016, respectively. The Company incurred approximately \$300,000 and \$1,651,000 in 2017 and 2016, respectively, for grants to HFCU which are included in development finance expense in the accompanying consolidated statements of activities.

Accounts payable to HFCU for grants and contractual services aggregated approximately \$867,000 at December 31, 2017. Accounts receivable from HFCU for grants and contractual services aggregated approximated \$1,418,000 at December 31, 2016. The Company had deposit accounts with HFCU as of December 31, 2017 and 2016, totaling approximately \$4,331,000 and \$10,736,000, respectively.

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 8: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>December 31,</i>	2017	2016
Computer equipment	\$ 3,818,415	\$ 3,390,518
Office equipment and other	819,004	687,114
Building and improvements	2,226,047	1,833,703
	6,863,466	5,911,335
Accumulated depreciation	(4,389,883)	(4,027,508)
	<u>\$ 2,473,583</u>	<u>\$ 1,883,827</u>

NOTE 9: FORECLOSED PROPERTY

An analysis of foreclosed property follows:

<i>December 31,</i>	2017	2016
Balance at beginning of year	\$ 316,120	\$ 244,556
Transfer from loans	240,903	144,000
Carrying value of foreclosed property sold	(365,167)	(14,405)
Impairments recognized	(59,336)	(58,031)
Balance at end of year	<u>\$ 132,520</u>	<u>\$ 316,120</u>

NOTE 10: EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan (the "Plan") for all employees. The Company contributes 100% of the first 4% contributed by each employee. Expenses of the Plan were approximately \$82,000 in 2017 and \$71,000 in 2016.

NOTE 11: NOTES PAYABLE

The Company has entered into one loan facility with a bank and one loan facility with a non-bank lender to provide funding in amounts up to \$20,000,000 and \$3,000,000, respectively. The bank facility may be increased and extended at the discretion of the lender and subject to certain terms of that agreement. The outstanding balances under these loan facilities at December 31, 2017, were approximately \$2,892,000 and \$1,500,000, respectively. The outstanding balances under these loan facilities at December 31, 2016, were approximately \$4,751,000 and \$1,500,000, respectively. The proceeds of both facilities are to be used for small business lending activities of the Company. The agreements contain certain financial covenants, including but not limited to, net assets ratios, delinquent loan ratios, a current ratio, a liquidity reserve and restrictions on the amount of support

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 11: NOTES PAYABLE (Continued)

which may be provided to its affiliates. All remaining notes payable of the Company are unsecured except for collateral consisting of a first real estate mortgage on the corporate office facilities relative to the note payable to HFCU.

Total interest paid on all notes payable approximated \$703,000 and \$684,000 in 2017 and 2016, respectively. The Company recognized interest expense of approximately \$47,000 and \$49,000 during 2017 and 2016, respectively, related to its mortgage and note payable to HFCU.

Notes payable consisted of the following:

<i>December 31,</i>	2017	2016
1% notes payable:		
interest due quarterly and maturing from 2020 through 2025	\$ 6,999,417	\$ 6,500,000
interest due annually and maturing 2018 through 2020	1,675,000	3,499,417
interest due at maturity, January 2025	2,000,000	2,000,000
Notes payable to banks with interest due quarterly:		
interest payable at 3.25%, maturing from 2022 through 2025	1,000,000	1,000,000
interest payable at 4.5%, maturing in December 2018	1,500,300	1,000,000
1.35% note payable to bank with interest due at maturity in 2024	999,944	999,944
4.30% note payable with interest due monthly, maturing in 2018	1,500,000	1,500,000
Note payable bearing interest at 4% monthly, maturing from 2018 through 2022	2,892,469	4,751,191
5% mortgage payable to HFCU with monthly installments of \$7,773, including interest at prime plus 1.5%, payable until final balloon in December 2020	911,768	955,007
6% note payable to bank with interest due at maturity in 2018	1,101,000	-
3% notes payable with interest due quarterly and maturing in 2022	1,000,000	1,000,000
Notes payable to non-profit foundations bearing interest at 2.5% with interest due quarterly, maturing 2018 through 2021	750,000	750,000
Note payable to non-profit foundation bearing interest at 2% with interest due at maturity in December 2028	1,000,000	500,000
Other notes payable, with interest at 1% to 3%	145,000	320,000
Total notes payable	\$ 23,474,898	\$ 24,775,559

Notes payable maturities at December 31, 2017, are as follows:

2018	\$ 5,101,028
2019	883,088
2020	4,090,351
2021	1,009,335
2022	3,391,152
Thereafter	8,999,944
	\$ 23,474,898

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 12: NON-CONTROLLING INTEREST AND NET ASSETS

ECDI has issued 220 Class A units at \$25,000 per unit. The owners of the Class A units may elect three of the seven members of the management committee of ECDI. The Company, the sole Class B unit holder, appoints the other four members. The Company is the sole managing member of ECDA and elects three of the five board of directors of ECDNM. ECDA is the primary investing member of ECDNM. The Company is the sole managing member of ECDNM3, ECDNM4, ECDNM5, HNM1, HNM2, HNM3, HNM4, HNM5, HNM7, HNM8 and HNM9 and elects two of the three board of directors of each company. Although the Company controls the board of directors of these entities, the Company has only a minor investment in these entities and thus receives minimal allocations of earnings or losses. Further, the Company received minimal distributions from these entities during 2017 and 2016.

Dividends in arrears relative to the ECDI Class A units totaled \$114,775 at December 31, 2017, and 2016, respectively. Temporarily restricted net assets include approximately \$2,456,000 and \$3,087,000 of net assets of Home Again at December 31, 2017 and 2016, respectively, and approximately \$20,503,000 (2017) and \$16,446,000 (2016) for financial assistance programs offered by the Company. Permanently restricted net assets include approximately \$1,698,000 and \$2,129,000 at December 31, 2017 and 2016, respectively, of revolving loan funds available to customers of the Company.

The changes in non-controlling interest are as follows:

	Balance January 1, 2017	Equity Investment	Dividends Paid	Net Earnings (Loss)	Balance December 31, 2017
ECDI	\$ 621,796	\$ -	\$ -	\$ (119,913)	\$ 501,883
ECDA	1,133,422	-	(102,532)	168,946	1,199,836
ECD Central	-	-	-	-	-
ECDNM3	8,706,622	-	(353,427)	353,394	8,706,589
ECDNM4	8,258,236	-	-	(8,249,075)	9,161
ECDNM5	5,758,693	-	-	(5,720,116)	38,577
HNM1	5,790,923	-	(43,646)	47,851	5,795,128
HNM2	7,721,221	-	(77,747)	85,842	7,729,316
HNM3	4,704,521	-	(35,012)	35,011	4,704,520
HNM4	5,790,911	-	(85,462)	85,462	5,790,911
HNM5	-	6,000,000	-	(237,233)	5,762,767
HNM7	-	8,000,000	(35,994)	(204,370)	7,759,636
HNM8	-	8,000,000	(74,409)	(225,986)	7,699,605
HNM9	-	9,000,000	(149,951)	(120,461)	8,729,588
	\$ 48,486,345	\$ 31,000,000	\$ (958,180)	\$ (14,100,648)	\$ 64,427,517

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 12: NON-CONTROLLING INTEREST AND NET ASSETS (Continued)

	Balance January 1, 2016	Dividends Paid	Net Earnings (Loss)	Balance December 31, 2016
ECDI	\$ 747,225	\$ -	\$ (125,429)	\$ 621,796
ECDA	1,094,001	(159,649)	199,070	1,133,422
ECD Central	4,850,000	(5,025,239)	175,239	-
ECDNM3	8,705,614	(354,466)	355,474	8,706,622
ECDNM4	10,529,884	(64,424)	(2,207,224)	8,258,236
ECDNM5	9,013,251	(304,500)	(2,950,058)	5,758,693
HNM1	5,790,924	(43,650)	43,649	5,790,923
HNM2	7,721,229	(77,755)	77,747	7,721,221
HNM3	4,704,526	(35,016)	35,011	4,704,521
HNM4	5,790,920	(85,471)	85,462	5,790,911
	<u>\$ 58,947,574</u>	<u>\$ (6,150,170)</u>	<u>\$ (4,311,059)</u>	<u>\$ 48,486,345</u>

NOTE 13: COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

The Company maintains cash balances at a financial institution in excess of insured limits by approximately \$7,531,000 at December 31, 2017. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Litigation

The Company is a defendant in litigation arising from normal business activities. Management, with the advice of legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial statements.

Hope Enterprise Corporation
Notes to Consolidated Financial Statements

NOTE 14: NATURAL CLASSIFICATION OF EXPENSES

A summary of expenses presented by natural classification follows:

<i>Years ended December 31,</i>	2017	2016
Salaries, employee taxes and benefits	\$ 3,856,357	3,288,361
Bank and payroll fees	293,061	225,913
Conferences and employee training	38,491	46,980
Contractual services	7,409,224	3,418,853
Dues, fees and memberships	59,482	57,163
Equipment, furniture and fixtures maintenance	355,249	179,564
Forgiveness of mortgage loan debt	740,814	885,843
HFCU operational support	2,432,316	3,705,278
Insurance	162,545	165,170
Miscellaneous	6,390	9,372
Office supplies	160,792	169,726
Rent and employee parking	20,371	21,851
Repairs and maintenance	156,185	127,880
Service fees	7,328	28,129
Staff recruitment and relocation	5,777	7,151
Telephone and utilities	903,370	898,079
Travel	236,372	239,935
Interest	652,782	645,910
Provision for loan losses	8,872,459	779,387
Impairment loss on foreclosed assets	59,336	58,031
Depreciation and amortization	362,374	282,244
Totals	\$ 26,791,075	\$ 15,240,820

Hope Enterprise Corporation
Schedule 1 – Consolidating Statement of Financial Position

As of December 31, 2017

	ECD Investments, LLC Consolidated	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Assets						
Cash and cash equivalents	\$ 698,435	\$ 2,361,512	\$ 6,338,420	\$ 861,358	\$ -	\$ 10,259,725
Restricted cash	-	-	1,390	-	-	1,390
Grants receivable	-	-	11,228,543	-	-	11,228,543
Contract revenue receivable	3,107	-	59,855	103,143	-	166,105
Loan receivable from affiliate	706,196	-	1,953,428	-	(2,659,624)	-
Consumer mortgage loans held for sale	-	-	534,305	-	-	534,305
Other loans	799,838	603,916	14,147,867	62,628,126	-	78,179,747
Loan guarantees receivable	139,032	-	-	-	-	139,032
Investment securities	-	-	7,865,604	-	-	7,865,604
Investment in affiliated company	-	1,036,558	-	-	-	1,036,558
Investment in subsidiary	-	-	2,560,765	-	(2,560,765)	-
Investment in secondary capital of HFCU	-	-	9,500,000	2,975,000	-	12,475,000
Property and equipment, net	-	226,281	2,247,302	-	-	2,473,583
Foreclosed property	78,268	-	54,252	-	-	132,520
Other assets	7,181	55,000	538,074	20,000	-	620,255
Total assets	\$ 2,432,057	\$ 4,283,267	\$ 57,029,805	\$ 66,587,627	\$ (5,220,389)	\$ 125,112,367
Liabilities and net assets						
Liabilities:						
Accounts payable and accrued expenses	\$ 354,087	\$ -	\$ 1,246,494	\$ 192,742	\$ (463,117)	\$ 1,330,206
Funds held in escrow	-	21,521	-	-	-	21,521
Payable to Hope Federal Credit Union	(87)	-	866,735	-	-	866,648
Due to affiliates	-	1,038,336	508,173	450,000	(1,996,509)	-
Notes payable	1,500,000	-	21,974,898	-	-	23,474,898
Total liabilities	1,854,000	1,059,857	24,596,300	642,742	(2,459,626)	25,693,273
Total non-controlling interests	501,883	-	-	63,925,634	-	64,427,517
Other unrestricted net assets	76,174	767,821	10,232,223	2,019,251	(2,760,763)	10,334,706
Temporarily restricted	-	2,455,589	20,503,010	-	-	22,958,599
Permanently restricted	-	-	1,698,272	-	-	1,698,272
Total net assets	578,057	3,223,410	32,433,505	65,944,885	(2,760,763)	99,419,094
Total liabilities and net assets	\$ 2,432,057	\$ 4,283,267	\$ 57,029,805	\$ 66,587,627	\$ (5,220,389)	\$ 125,112,367

Hope Enterprise Corporation
Schedule 2 – Consolidating Statement of Activities and Changes in Net Assets

Year ending December 31, 2017

	ECD Investments, LLC Consolidated	Home Again, Inc.	Hope Enterprise Corporation	New Markets Tax Credit Companies	Eliminations	Consolidated
Revenues and gains						
Grants and contributions	\$ -	\$ 23,736	\$ 17,988,229	\$ -	\$ -	\$ 18,011,965
In-kind contributions	-	50,000	248,597	-	-	298,597
Interest, dividends and related fees:						
Loans and other investments	35,286	-	466,976	1,156,135	(9,826)	1,648,571
Investment securities and cash equivalents	-	-	329,791	-	-	329,791
Net realized and unrealized losses on investment securities	-	-	(44,536)	-	-	(44,536)
Loss on sale of assets	-	(20,000)	(1,408)	-	-	(21,408)
Contract services revenue	2,190	108,698	2,067,252	94,903	(1,123,179)	1,149,864
Total revenues and gains	37,476	162,434	21,054,901	1,251,038	(1,133,005)	21,372,844
Expenses						
Program expenses:						
Development finance	157,383	-	6,077,676	9,515,085	(966,155)	14,783,989
Housing initiative	-	80,064	846,685	-	-	926,749
Policy and advocacy	-	-	705,298	-	-	705,298
Other programs	-	-	5,912,125	-	-	5,912,125
General and administration expense	157,383	80,064	13,541,784	9,515,085	(966,155)	22,328,161
Fund-raising and communication	-	19,920	2,838,738	-	-	2,858,658
Total expenses	157,383	99,984	17,984,778	9,515,085	(966,155)	26,791,075
Equity in loss of affiliated company	-	-	-	(5,720,489)	-	(5,720,489)
Change in net assets before non-controlling interests	(119,907)	62,450	3,070,123	(13,984,536)	(166,850)	(11,138,720)
Non-controlling interests in subsidiaries' losses	119,913	-	-	13,980,735	-	14,100,648
Change in net assets attributable to controlling interest	6	62,450	3,070,123	(3,801)	(166,850)	2,961,928
Net assets attributable to controlling interest:						
At beginning of year	76,168	3,160,960	29,363,382	2,780,008	(3,350,869)	32,029,649
Capital contribution	-	-	-	3,100	(3,100)	-
Dividends paid to controlling interests	-	-	-	(760,056)	760,056	-
At end of year	76,174	3,223,410	32,433,505	2,019,251	(2,760,763)	34,991,577
Net assets of non-controlling interests (Note 12)	501,883	-	-	63,925,634	-	64,427,517
Total net assets at end of year	\$ 578,057	\$ 3,223,410	\$ 32,433,505	\$ 65,944,885	\$ (2,760,763)	\$ 99,419,094

Hope Enterprise Corporation
Schedule 3 – Details of New Markets Tax Credit Companies –
Combining Statement of Financial Position

As of December 31, 2017

(Continued)

Assets	ECDA and Subsidiary	ECDNM3	ECDNM4	ECDNM5	HNM1	HNM2
Cash and cash equivalents	\$ 703,060	\$ 1,125	\$ 90,488	\$ 61,076	\$ 609	\$ 800
Contract revenue receivable	-	27,726	45,000	-	4,203	8,096
Other loans	-	8,687,250	-	-	5,790,900	7,721,200
Secondary capital of HFCU	2,975,000	-	-	-	-	-
Other assets	-	-	-	-	10,000	-
Total assets	\$ 3,678,060	\$ 8,716,101	\$ 135,488	\$ 61,076	\$ 5,805,712	\$ 7,730,096
Liabilities and net assets						
Liabilities:						
Accounts payable and accrued expenses	\$ 15,554	\$ 8,436	\$ 126,257	\$ 22,495	\$ 10,000	\$ -
Due to affiliates	450,000	-	-	-	-	-
Total liabilities	465,554	8,436	126,257	22,495	10,000	-
Total non-controlling interests	1,199,836	8,706,589	9,161	38,577	5,795,128	7,729,316
Other unrestricted net assets	2,012,670	1,076	70	4	584	780
Total net assets	3,212,506	8,707,665	9,231	38,581	5,795,712	7,730,096
Total liabilities and net assets	\$ 3,678,060	\$ 8,716,101	\$ 135,488	\$ 61,076	\$ 5,805,712	\$ 7,730,096

Hope Enterprise Corporation
Schedule 3 – Details of New Markets Tax Credit Companies –
Combining Statement of Financial Position

As of December 31, 2017

(Concluded)

Assets	HNM3	HNM4	HNM5	HNM7	HNM8	HNM9	Combined
Cash and cash equivalents	\$ 500	\$ 600	\$ 600	\$ 800	\$ 800	\$ 900	\$ 861,358
Contract revenue receivable	-	-	943	-	17,175	-	103,143
Other loans	4,704,500	5,790,900	5,761,800	7,759,612	7,682,400	8,729,564	62,628,126
Secondary capital of HFCU	-	-	-	-	-	-	2,975,000
Other assets	10,000	-	-	-	-	-	20,000
Total assets	\$ 4,715,000	\$ 5,791,500	\$ 5,763,343	\$ 7,760,412	\$ 7,700,375	\$ 8,730,464	\$ 66,587,627
Liabilities and net assets							
Liabilities:							
Accounts payable and accrued expenses	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 192,742
Due to affiliates	-	-	-	-	-	-	450,000
Total liabilities	10,000	-	-	-	-	-	642,742
Total non-controlling interests	4,704,520	5,790,911	5,762,767	7,759,636	7,699,605	8,729,588	63,925,634
Other unrestricted net assets	480	589	576	776	770	876	2,019,251
Total net assets	4,705,000	5,791,500	5,763,343	7,760,412	7,700,375	8,730,464	65,944,885
Total liabilities and net assets	\$ 4,715,000	\$ 5,791,500	\$ 5,763,343	\$ 7,760,412	\$ 7,700,375	\$ 8,730,464	\$ 66,587,627

Hope Enterprise Corporation
Hope Enterprise Corporation
Schedule 4 – Details of New Markets Tax Credit Companies –
Combining Statement of Activities and Changes in Net Assets

Year ending December 31, 2017

(Continued)

	ECDA and Subsidiary	ECDNM3	ECDNM4	ECDNM5	HNM1	HNM2
Revenues and gains						
Interest, dividends and related fees:						
Loans and other investments	\$ 176,257	\$ 375,367	\$ -	\$ 155	\$ 62,410	\$ 105,251
Contract services revenue	-	10,000	-	-	10,000	10,000
Total revenues and gains	176,257	385,367	-	155	72,410	115,251
Expenses						
Program expenses:						
Development finance	9,713	31,938	8,249,900	349	24,550	29,400
Total expenses	9,713	31,938	8,249,900	349	24,550	29,400
Equity in loss of affiliated company	-	-	-	(5,720,489)	-	-
Change in net assets before non-controlling interests	166,544	353,429	(8,249,900)	(5,720,683)	47,860	85,851
Non-controlling interests in subsidiaries' income	(168,946)	(353,394)	8,249,075	5,720,116	(47,851)	(85,842)
Change in net assets attributable to controlling interest	(2,402)	35	(825)	(567)	9	9
Net assets attributable to controlling interest:						
At beginning of year	2,775,072	1,041	903	571	579	779
Capital contribution	-	-	-	-	-	-
Dividends paid to controlling interests	(760,000)	-	(8)	-	(4)	(8)
At end of year	2,012,670	1,076	70	4	584	780
Net assets of non-controlling interests (Note 12)	1,199,836	8,706,589	9,161	38,577	5,795,128	7,729,316
Total net assets at end of year	\$ 3,212,506	\$ 8,707,665	\$ 9,231	\$ 38,581	\$ 5,795,712	\$ 7,730,096

Hope Enterprise Corporation
Hope Enterprise Corporation
Schedule 4 – Details of New Markets Tax Credit Companies –
Combining Statement of Activities and Changes in Net Assets

Year ending December 31, 2017

(Concluded)

	HNM3	HNM4	HNM5	HNM7	HNM8	HNM9	Combined
Revenues and gains							
Interest, dividends and related service fees:							
Loans and other investments	\$ 47,521	\$ 100,470	\$ 943	\$ 35,998	\$ 98,425	\$ 153,338	\$ 1,156,135
Contract services revenue	10,000	10,000	-	19,278	10,000	15,625	94,903
Total revenues and gains	57,521	110,470	943	55,276	108,425	168,963	1,251,038
Expenses							
Program expenses:							
Development finance	22,500	25,000	238,200	259,666	334,433	289,436	9,515,085
Total expenses	22,500	25,000	238,200	259,666	334,433	289,436	9,515,085
Equity in loss of affiliated company	-	-	-	-	-	-	(5,720,489)
Change in net assets before non-controlling interests	35,021	85,470	(237,257)	(204,390)	(226,008)	(120,473)	(13,984,536)
Non-controlling interests in subsidiaries' income	(35,011)	(85,462)	237,233	204,370	225,986	120,461	13,980,735
Change in net assets attributable to controlling interest	10	8	(24)	(20)	(22)	(12)	(3,801)
Net assets attributable to controlling interest:							
At beginning of year	474	589	-	-	-	-	2,780,008
Capital contribution	-	-	600	800	800	900	3,100
Dividends paid to controlling interests	(4)	(8)	-	(4)	(8)	(12)	(760,056)
At end of year	480	589	576	776	770	876	2,019,251
Net assets of non-controlling interests (Note 12)	4,704,520	5,790,911	5,762,767	7,759,636	7,699,605	8,729,588	63,925,634
Total net assets at end of year	\$ 4,705,000	\$ 5,791,500	\$ 5,763,343	\$ 7,760,412	\$ 7,700,375	\$ 8,730,464	\$ 65,944,885

Hope Enterprise Corporation
Schedule 5 – ECD Investments, LLC Consolidating
Balance Sheet

December 31, 2017

	ECD Investments, BIDCO, Inc.	ECD Investments, LLC	Eliminations	ECD Investments, LLC Consolidated
Assets				
Cash and cash equivalents	\$ 17,355	\$ 681,080	\$ -	\$ 698,435
Loans, net of allowance for loan losses of \$52,769	363,075	436,763	-	799,838
Due from Parent	703,726	3,711,968	(3,709,498)	706,196
Other receivables	2,935	660,203	(660,031)	3,107
Investment in subsidiary	-	1,000,000	(1,000,000)	-
Foreclosed property	78,268	-	-	78,268
Loan guarantees receivable from Small Business Administration	139,032	-	-	139,032
Other assets	7,181	-	-	7,181
Total assets	\$ 1,311,572	\$ 6,490,014	\$ (5,369,529)	\$ 2,432,057
Liabilities and capital				
Liabilities:				
Accounts payable and accrued expenses	\$ 1,064,392	\$ -	\$ (710,305)	\$ 354,087
Receivable from Hope Federal Credit Union	(87)	-	-	(87)
Intercompany debt	3,835,600	-	(3,835,600)	-
Other long-term debt	1,500,000	-	-	1,500,000
Total liabilities	6,399,905	-	(4,545,905)	1,854,000
Capital:				
Class A Members' capital	1,000,000	5,406,042	(1,000,000)	5,406,042
Class B Member's capital	-	501,000	-	501,000
Class C Members' capital	1,000,000	5,125,000	(1,000,000)	5,125,000
Accumulated losses - Class A Members' capital	-	(4,542,028)	(341,234)	(4,883,262)
Accumulated losses - Class B Member's capital	-	-	(445,723)	(445,723)
Accumulated losses - Class C Members' capital	-	-	(5,125,000)	(5,125,000)
Retained earnings (deficit)	(7,088,333)	-	7,088,333	-
Total capital	(5,088,333)	6,490,014	(823,624)	578,057
Total liabilities and capital	\$ 1,311,572	\$ 6,490,014	\$ (5,369,529)	\$ 2,432,057

Hope Enterprise Corporation
Schedule 6 – ECD Investments, LLC Consolidating
Statement of Operations

Year ended December 31, 2017

	ECD Investments, BIDCO, Inc.	ECD Investments, LLC	Eliminations	ECD Investments, LLC Consolidated
Revenues				
Interest, dividends and related fees:				
Loans and other investments	\$ 28,852	\$ 237,508	\$ (231,074)	\$ 35,286
Contract services revenue	2,190	-	-	2,190
Total revenues and gains	31,042	237,508	(231,074)	37,476
Expenses				
Salaries, employee taxes and benefits	34,031	37,606	-	71,637
Contractual services	10,000	7,908	-	17,908
Dues, fees and memberships	498	12	-	510
Foreclosed asset expenses	25	-	-	25
Insurance	14,164	18,413	-	32,577
Miscellaneous	933	1,076	-	2,009
Office supplies	248	281	-	529
Repairs and maintenance	313	357	-	670
Service fees	5,781	4,109	-	9,890
Telephone and utilities	3,177	2,861	-	6,038
Interest	251,400	-	(231,074)	20,326
Provision (reduction in reserve) for loan losses	(4,054)	(680)	-	(4,734)
Total expenses	316,516	71,943	(231,074)	157,385
Change in net assets before non-controlling interests	\$ (285,474)	\$ 165,565	\$ -	\$ (119,909)