4 Old River Place | Jackson, Mississippi 39202
(601) 944-1100 Telephone | (601)944-0808 Fax
www.hopecu.org | www.hope-ec.org

Management Discussion and Analysis

Balance Sheet Analysis

Hope Credit Union's (HCU's) total assets stood at $278.7 million at December 31, 2017, up approximately $77.9 million from December 31, 2016. This increase is the result of approximately $24.7 in assets acquired through merger and increases in the commercial and mortgage loan portfolios

As detailed in the following schedule, the vast majority of HCU's assets are tied up in loans:

	2017	2016
Loans receivable – net	202,358,577	147,932,302
Real estate and other assets acquired by foreclosure	501,237	218,513
Total	**202,859,814**	**147,150,818**
Percent of total assets	**73%**	**73%**

The increase in liabilities from $195.9 million at December 31, 2016 to $273.7 million at December 31, 2017 was the result of mergers and increased borrowings. Deposits and members' share accounts increased by $60.8 million, from $157.1 million at December 31, 2016 to $217.9 million at December 31, 2017 ($22.9 million were deposits acquired in mergers). The increase above the acquired deposits was the natural result of HCU's continued growth and expansion. We had new and renewed secondary capital loans of $3.1 million and a net increase in Federal Home Loan Bank advances of $3.2 million. In addition, short-term notes payable of $11.0 million were outstanding at December 31, 2017.

Under 12 CFR 701.34(b) low-income designated credit unions (of which HCU is one) may accept secondary capital and can recognize the value of the funds as net worth for regulatory purposes. As such, HCU's regulatory net worth was as detailed in the following schedule:

	2016	2016
Secondary capital loans, net of maturity classifications	20,071,774	16,995,000
Regular reserve	10,000	10,000
Undivided profits	5,098,844	4,857,901
Accumulated other comprehensive income (loss)	(100,738)	(38,156)
Total net worth	**25,079,880**	**21,824,745**
Capital ratio	**9.0%**	**10.84%**

Earnings Analysis

Interest income increased in 2017 to $10.1 million from $8.2 million in 2016 primarily as a result of the increase in the portfolio. Interest expense increased from $2.1 million in 2016 to $2.8 million in 2017. Interest expense related to members' shares and certificates increased to $1.9 million in 2017 from $1.3 million in 2016. Interest expense related to borrowed funds increase from $853,000 in 2016 to $907,000 in 2017.

The provision for loan losses grew in 2017 to $1.5 million from $1.3 million in 2016. This was primarily a reflection of increased risk in the residential mortgage loan portfolio.

Non-interest income increased from $9.3 million in 2016 to $10.4 million in 2017. Grant and contracts revenue decreased to $5.9 million in 2017 from $6.2 million in 2016. Service charges and fees rose, from $3.0 million in 20165 to $3.5 million in 2017. The mergers resulted in a gain of approximately $1.0 million in 2017.

Non-interest expenses increased from $13.8 million in 2016 to $15.9 million in 2017. This increase in expenses was largely the result of an enlarged operating base as HCU opened three additional locations during 2017. The increased expenses resulting from the new branches were offset somewhat be a decrease in professional and outside services.

Richard Campbell
Chief Financial Officer

William Bynum
Chief Executive Officer

Hope Federal Credit Union

FINANCIAL STATEMENTS

December 31, 2017 and 2016

CRI CARR RIGGS & INGRAM
CPAs and Advisors
CRIcpa.com

Hope Federal Credit Union
Table of Contents
December 31, 2017 and 2016

CRI CARR RIGGS & INGRAM
CPAs and Advisors

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)
CRIcpa.com

INDEPENDENT AUDITORS' REPORT

To the Supervisory Committee of
Hope Federal Credit Union
Jackson, Mississippi

We have audited the accompanying financial statements of Hope Federal Credit Union ("Hope"), which comprise the statements of financial condition as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Related Party Transactions

The accompanying financial statements have been prepared from the separate accounts maintained by Hope and may not be indicative of the conditions that would have existed or the results of operations that would have occurred had Hope not entered into certain related party transactions with its primary sponsor as described in Note 11 of the notes to the financial statements. Our opinion is not modified with respect to this matter.

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

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
May 14, 2018

December 31,	**2017**	2016
Assets		
Cash and cash equivalents	**$ 37,429,574**	$ 18,717,372
Short-term investments	**2,248,308**	1,032,488
Investment securities available-for-sale	**15,928,031**	20,289,395
Loans receivable, net	**202,358,577**	146,932,305
Restricted investment securities	**1,110,300**	1,093,000
Premises and equipment, net	**9,980,235**	8,544,204
Accrued interest receivable	**857,639**	604,430
Grants and other receivables	**3,041,911**	1,076,934
Receivable from Hope Enterprise Corporation	**1,027,247**	-
National Credit Union Share Insurance Fund deposits	**1,864,690**	1,297,191
Goodwill	**195,578**	220,025
Real estate and other assets acquired by foreclosure	**501,237**	218,513
Prepaid expenses and other assets	**2,132,334**	724,995
Total assets	**$ 278,675,661**	$ 200,750,852
Commitments and contingencies (Notes 10, 11 and 14)		
Liabilities and members' equity		
Liabilities:		
Deposits and members' share accounts	**$ 217,923,475**	$ 157,084,797
Accounts payable and accrued expenses	**3,283,969**	1,481,394
Payable to Hope Enterprise Corporation	**-**	1,338,051
Notes payable to financial institutions	**11,039,212**	-
Federal Home Loan Bank advances	**21,349,125**	18,195,141
Maturity reclassification of secondary capital loans	**-**	826,724
Secondary capital loans, net of maturity reclassifications	**20,071,774**	16,995,000
Total liabilities	**273,667,555**	195,921,107
Members' equity:		
Regular reserve	**10,000**	10,000
Undivided profits	**5,098,844**	4,857,901
Accumulated other comprehensive loss	**(100,738)**	(38,156)
Total members' equity	**5,008,106**	4,829,745
Total liabilities and members' equity	**$ 278,675,661**	$ 200,750,852

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

Hope Federal Credit Union
Statements of Income

Years ended December 31,	**2017**	2016
Interest income		
Interest and fees on loans	**$ 9,555,900**	$ 7,669,976
Interest on securities and interest-bearing accounts	**543,876**	481,461
Total interest income	**10,099,776**	8,151,437
Interest expense		
Members' shares and certificates	**1,933,550**	1,282,041
Borrowed funds	**907,000**	853,732
Total interest expense	**2,840,550**	2,135,773
Net interest income	**7,259,226**	6,015,664
Provision for loan losses	**1,514,972**	1,266,124
Net interest income after provision for loan losses	**5,744,254**	4,749,540
Non-interest income		
Grants and contracts revenue	**5,913,321**	6,295,962
Service charges and fees	**3,486,049**	2,986,973
Other income	**10,456**	32,374
Gain on acquisition of businesses	**988,886**	-
Realized investment losses	**(7,672)**	(38,250)
Total non-interest income	**10,391,040**	9,277,059
Non-interest expense		
Employee compensation and benefits	**6,374,704**	5,761,358
Professional and outside services	**1,329,681**	1,561,436
Marketing and promotional	**220,147**	229,603
Office occupancy and operations	**5,893,300**	4,763,007
Loss from sale and impairments of foreclosed real estate	**279,607**	234,149
Other	**1,796,912**	1,233,533
Total non-interest expense	**15,894,351**	13,783,086
Net income	**$ 240,943**	$ 243,513

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

Hope Federal Credit Union
Statements of Comprehensive Income

Years ended December 31,		**2017**		2016
Net Income	$	**240,943**	$	243,513
Other comprehensive income (loss)				
Unrealized gains (losses) on investment securtities available for sale:				
Unrealized holding losses arising during the year		**(70,254)**		(102,561)
Reclassification adjustment for losses included in operations		**7,672**		38,250
Total unrealized losses on securities		**(62,582)**		(64,311)
Comprehensive income	$	**178,361**	$	179,202

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

Years ended December 31, 2017 and 2016	Regular Reserve	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, January 1, 2016	$ 10,000	$ 4,614,388	$ 26,155	$ 4,650,543
Net income		243,513		243,513
Change in unrealized loss on investment securities available for sale			(64,311)	(64,311)
Balance, December 31, 2016	10,000	4,857,901	(38,156)	4,829,745
Net income		**240,943**		**240,943**
Change in unrealized loss on investment securities available for sale			**(62,582)**	**(62,582)**
Balance, December 31, 2017	**$ 10,000**	**$ 5,098,844**	**$ (100,738)**	**$ 5,008,106**

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

Hope Federal Credit Union
Statements of Cash Flows

Years ended December 31,	2017	2016
Operating activities:		
Net income	$ 240,943	$ 243,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,201,519	890,646
Investment discount accretions and premium amortizations	47,742	56,060
Realized investment losses	7,672	38,250
Gain on sale of loans held-for-sale	-	(33,826)
Loss on sale of fixed assets	6,535	-
Gain on acquisition of businesses	(988,886)	-
Provision for loan losses	1,514,972	1,266,124
Net loan origination costs deferred	(49,800)	(58,127)
Losses on sale and impairments of foreclosed real estate	279,607	234,149
Proceeds from sales of mortgage loans held-for-sale	-	1,836,047
Changes in operating assets and liabilities:		
Prepaid expense and other assets	(265,037)	246,444
Accrued interest receivable	(165,698)	(56,100)
Grants and other receivables	(1,964,977)	3,295,214
Receivable from and payable to primary sponsor	(2,365,298)	(1,070,025)
Accounts payable and accrued expenses	2,170,365	140,716
Net cash (used in) provided by operating activities	(330,341)	7,029,085
Investing activities:		
Net change in short-term investments	3,259,050	1,000,711
Cash received in business acquisitions	3,789,335	-
Purchase of investment securities available-for-sale	(1,760,391)	(6,118,436)
Proceeds from maturities and pay-downs of investment securities available-for-sale	2,959,307	3,189,280
Proceeds from sale of investment securities available-for-sale	3,044,392	-
Net increase in loans	(45,645,988)	(23,004,931)
Proceeds from sales of foreclosed real estate	488,988	719,098
Purchase of property and equipment	(1,608,713)	(2,417,953)
Purchase of restricted security investment	(17,300)	(12,100)
Net change in National Credit Union Insurance Fund deposit	(337,665)	(108,365)
Net cash used in investing activities	(35,828,985)	(26,752,696)
Financing activities:		
Net change in deposits and members' share accounts	38,467,494	24,573,798
Proceeds from secondary capital loans	3,000,000	1,500,000
Repayment of secondary capital loans	(749,950)	(1,000,000)
Proceeds from note payable with financial institution	17,000,000	2,500,000
Repayment of note payable with financial institution	(6,000,000)	(6,000,000)
Proceeds from Federal Home Loan Bank advances	6,338,355	1,000,000
Repayment of Federal Home Loan Bank advances	(3,184,371)	(2,339,783)
Net cash provided by financing activities	54,871,528	20,234,015
Increase in cash and cash equivalents	18,712,202	510,404
Cash and cash equivalents, beginning of year	18,717,372	18,206,968
Cash and cash equivalents, end of year	$ 37,429,574	$ 18,717,372
Supplemental Cash Flow Disclosure:		
Non-cash activity - property received upon foreclosure of loans	$ 1,039,015	$ 959,012
Interest paid	$ 2,753,472	$ 2,057,698
Assets acquired through assumption of liabilities, excluding cash and cash equivalents received (Note 2)	$ 20,967,847	$ -

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

NOTE 1: SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Hope Federal Credit Union ("Hope") is a chartered cooperative association located in Jackson, Mississippi. Hope operates as a federal chartered organization under the provisions of the Federal Credit Union Act and is organized for the purpose of promoting thrift among and creating a source of credit for its members as defined in its charter and bylaws. Hope has branches in Mississippi, Louisiana, Tennessee and Arkansas and its primary source of revenue results from providing financial services to members and from grants and contractual services from its primary sponsor to support its mission.

Hope's primary sponsor, Hope Enterprise Corporation ("HEC") operates as a community development financial institution (see Note 11). Under the New Markets Tax Credit Program, which is part of the Community Renewal Tax Relief Act of 2000, HEC invested approximately $14.5 million in Hope in the form of grants and secondary capital through an affiliate. Proceeds from this investment are being used to provide an affordable lending program to low-income communities.

Basis of Financial Statement Presentation and Accounting Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP 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 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 investments and foreclosed property are determined utilizing material estimates that are particularly susceptible to change in the near term.

Hope's financial statements filed with the National Credit Union Administration ("NCUA") are prepared on the basis of regulatory accounting principles ("RAP"). The following represents the principal differences between the accompanying financial statements prepared in conformity with GAAP and Hope's financial statements prepared under RAP:

- GAAP requires members' shares to be classified as liabilities rather than equity as allowed by RAP.

- RAP allows secondary capital accounts in low-income designated credit unions with maturities exceeding five years to be classified as equity (capital) while GAAP requires secondary capital accounts to be classified as liabilities.

- RAP requires placing loans in non-accrual status when they become 90 days or more delinquent which may or may not result in acceptable measurement under GAAP.

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

Cash Equivalents

Hope considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Short-term Investments

Short-term investments include certificates of deposit and other interest bearing accounts with maturities generally less than one year.

Investment Securities

Investment securities available-for-sale are carried at fair value. Unrealized gains and losses are reported as part of other comprehensive income or loss. Securities within the available-for-sale portfolio may be used as part of Hope's asset/liability strategy and may be sold in response to 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 gains or losses on the sale of these assets. Interest earned on these assets is included in interest income.

When the fair value of a security falls below carrying value, an evaluation must be made to determine if the unrealized loss is a temporary or other than temporary impairment. Impaired securities that are determined to be other than temporarily impaired are written down by a charge to earnings to the extent the impairment is related to credit losses or if the fair value of the security is less than the security's amortized cost basis and Hope intends, or more-likely-than-not will be required, to sell the security before recovery of the security's amortized cost basis. Hope uses a systematic methodology to evaluate potential impairment of its investments and considers, among other things, the magnitude and duration of the decline in fair value, the financial health of and business outlook of the issuer and its ability and intent to retain investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. For a debt security, the difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. When an other than temporary impairment exists for a debt security and Hope does not intend to sell the security or it is more-likely-than-not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost is recognized in other comprehensive income or loss.

Fair Value Measurements

Hope carries its investment securities available-for-sale at fair value on a recurring basis and measures certain other assets and liabilities at fair value on a nonrecurring basis using a hierarchy of measurements which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

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.

When quoted market prices in active markets are unavailable, Hope determines fair value 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 Level 2 of the fair value hierarchy. Generally, Hope obtains a single price or quote per instrument from independent third parties to assist in establishing the fair value of these investments.

If quoted market prices and independent third party valuation information are unavailable, Hope 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 3. On occasions when pricing service data is unavailable, Hope may rely on bid/ask spreads from dealers in determining fair value.

Historically, Hope has not experienced a circumstance where it has determined that an adjustment to a quote or price received from an independent third party valuation source is required. To the extent Hope determines that a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if management does not believe the quote is reflective of the market value for the investment, Hope would internally develop a fair value using this observable market information and disclose the occurrence of this circumstance.

Loans Receivable

Loans are stated at the amount of unpaid principal, adjusted for the net amount of direct costs and nonrefundable fees associated with the lending process, and reduced by the allowance for possible loan losses. Interest on all loans is calculated by the simple interest method on daily balances of the principal amount outstanding. 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 lives of the loans using a method that approximates the interest method. As of December 31, 2017 and 2016, net deferred origination costs approximated $852,000 and $803,000, respectively.

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

Discounts and premiums on purchased loans are amortized to income using a method that approximates the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due, unless the loan is adequately secured. Upon such discontinuance, all unpaid accrued interest is reversed against current income unless the collateral for the loan is sufficient to cover the accrued interest. Interest received on non-accrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. The policy for interest recognition on impaired loans is consistent with the nonaccrual interest recognition policy. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

A loan is considered a troubled debt restructuring and classified as an impaired loan if the borrower is experiencing financial difficulties and Hope has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, reductions in collateral and other actions intended to minimize potential losses.

Acquired Loans

Loans acquired are recorded at fair value with no carryover of the related allowance for credit losses. Fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. These loans were aggregated into one pool based upon common risk characteristics. The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. The nonaccretable difference includes estimated future credit losses expected to be incurred over the life of the loan.

Subsequent decreases to the expected cash flows will require Hope to evaluate the need for an additional allowance for credit losses. Subsequent improvement in expected cash flows will result in the reversal of a corresponding amount of the nonaccretable difference which will then be reclassified as accretable discount and recognized into interest income over the remaining life of the loan.

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

Allowance for Loan Losses

The allowance for possible loan losses is established through a provision for loan losses charged to expenses and is determined based on various components for both individually impaired loans and homogenous pools of loans. Hope evaluates the allowance for possible loan losses on impaired business member loans and certain impaired member mortgage loans on an individual loan basis. All other loans are evaluated on a collective basis. Loans are charged against the allowance for possible loan losses by portfolio segment, net of recoveries, when management believes that the collectability of the principal is unlikely. The methodology for determining charge-offs is consistently applied to each segment. The allowance is an amount management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, historical trends, and current economic conditions that may affect the borrower's ability to pay. Losses on individually identified impaired member business 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 earnings during periods in which they become known.

A loan is considered impaired when, based on current information and events, it is probable that Hope will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Loans evaluated individually for impairment consist of nonperforming business loans and include certain internally classified accruing loans. Additionally, Hope evaluates all mortgage loans past due 240 days or greater on an individual loan basis. Large groups of smaller balance member loans, including mortgage loans less than 240 days past due, are collectively evaluated for impairment. Hope does not separately identify individual consumer loans for impairment.

Restricted Investment Securities

Restricted investment securities consist of investments in Federal Home Loan Bank stock and are carried at cost. Hope periodically evaluates these restricted securities for impairment based on ultimate recovery of par value.

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

Premises and Equipment

Property and equipment are stated at cost, if purchased, and estimated fair value at the date received, if donated to Hope less accumulated depreciation. Depreciation is provided by the straight-line method over the estimated useful lives of the assets which range from three to thirty-nine years. Hope reviews long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. If the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition are less than the carrying amounts, an impairment loss is recognized.

National Credit Union Share Insurance Fund Deposit

The deposit in the National Credit Union Share Insurance Fund ("NCUSIF") is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit will be refunded to Hope if its insurance coverage is terminated or if it converts to insurance coverage from another source.

Goodwill

Goodwill represents the excess of the consideration transferred in a business acquisition over the fair value of the identifiable net assets acquired. During 2016, Hope begin using the alternative permitted for private entities and begin amortizing goodwill over ten years by the straight-line method. Goodwill is subject to impairment testing annually or more frequently if events or circumstances indicate possible impairment. No impairment was identified for Hope's goodwill during 2017 and 2016. Amortization expense approximated $24,000 in 2017 and 2016. Accumulated amortization approximated $49,000 and $24,000 for 2017 and 2016, respectively. Amortization expense is expected to approximate $24,000 annually in future years.

Real Estate and Other Assets Acquired by Foreclosure

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at the fair value of the real estate acquired at the date of foreclosure net of estimated selling costs, establishing a new cost basis. Loan balances in excess of the fair value of the real estate 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 other non-interest expenses.

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

NCUSIF Insurance Premium

Hope is required to pay an annual insurance premium, unless the payment is waived by the NCUA Board. During 2017 and 2016, the NCUA waived the annual NCUSIF insurance premium assessment.

Deposit and Members' Share Accounts

Members' shares are subordinated to all other liabilities of Hope, excluding secondary capital loans, upon liquidation. Interest on members' share accounts is based on available earnings at the end of an interest period and is not guaranteed by Hope. Interest rates on members' share accounts and certificates are set by the Board of Directors, based on an evaluation of current and future market conditions. Members' shares are insured up to $250,000 per account through the NCUSIF.

Income Taxes

Hope is exempt, by statute, from federal and state income taxes.

Grant Revenue

Unconditional grants are recognized as revenue in the period the commitment is received. Conditional grants are recorded as revenue when the conditions of the grant are met unless the likelihood of the condition not being met is remote. Grants to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as grant revenue and recognized in accordance with the donor-imposed restrictions, if any, for the grant that was awarded. An allowance is recorded for any uncollectible grant receivables based upon management's judgement and analysis of the creditworthiness of the donors, pass collection experience and other relevant factors. As of December 31, 2017 and 2016, grants and other receivables included federally awarded grants of approximately $2,507,000 and $25,000, respectively. As of December 31, 2017 and 2016, there were no grant receivables that were to be collected beyond one year.

Comprehensive Income and Loss

Other comprehensive income or loss is comprised of unrealized gains or losses on investment securities available for sale.

Advertising Cost

During 2017 and 2016, Hope had marketing and promotional expenses of approximately $223,000 and $230,000, respectively.

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

Fair Value Disclosures of Financial Instruments

The following methods and assumptions were used by Hope to disclose the estimated fair value of each class of financial instruments:

Cash, Cash Equivalents and Interest-bearing Accounts with Corporate Credit Unions

The carrying amounts reported in the balance sheets for these financial instruments approximate their fair values.

Investment Securities

The fair value of investment securities are generally obtained from independent pricing services based upon valuations for similar assets in active markets or other inputs derived from objectively verifiable information.

Loans Receivable, Including Loans Held-for-Sale

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans and other consumer loans are estimated using a discounted cash flow calculation that applies interest rates currently being offered similar loans to a schedule of aggregated expected monthly maturities of borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Restricted Investment Securities and NCUSIF Deposits

The carrying amount reported in the balance sheets for these financial instruments approximates their fair values and considers the limited marketability of such securities.

Deposits and Members' Shares

The fair value disclosed for regular share, share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of regular share, share draft and money market accounts approximate their fair values at the reporting date. Fair values for share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on share certificates to a schedule of aggregated expected monthly maturities on Hope's current share certificates.

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

Notes Payable to Financial Institution

The carrying amount reported in the balance sheets for this financial instrument approximates its fair value due to the short-term nature of the borrowing.

Long-term Debt (including Secondary Capital Loans)

The fair value of this debt is estimated by discounting the future cash flows using Hope's incremental borrowing rate for similar types of borrowing arrangements as of year end.

Off-Balance Sheet Instruments

The fair values of loan commitments and letters of credit approximate the fees currently charged for similar agreements. The fees associated with these financial instruments are immaterial.

Subsequent Events

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

Effects of Recent Accounting Guidance

In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (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. In August 2015, the FASB issued ASU 2015-14, *"Revenue form Contracts with Customers: Deferral of the Effective Date"*, as a revision to ASU 2014-09, which revised the effective date to fiscal years and interim periods within those years, beginning after December 15, 2018. In March 2016, the FASB issued ASU 2016-08, *"Revenue from Contracts with Customers: Principal versus Agent Considerations"*, which clarifies certain aspects of the principal-versus-agent guidance, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than as an agent that are immaterial in the context of a contract.

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

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, and interim periods within those annual periods, beginning after December 15, 2017.

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 retained earnings 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

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

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 Hope for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. 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 Other (Topic 350): Simplifying the Test for Goodwill Impairment."* ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective prospectively for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2021.

In March 2017, the FASB issued ASU 2017-08, *"Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities."* This accounting guidance amends the amortization period for certain purchased callable debt securities held at a premium. In particular, the amendments in ASU 2017-08 require the premium to be amortized to the earliest call date. The amendments do not, however, require an accounting change for securities held at a discount; instead, the discount continues to be amortized to maturity. Securities within the scope of ASU 2017-08 are purchased debt securities that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. The amendments of ASU 2017-08 become effective for fiscal years beginning after December 15, 2019.

Hope is currently in the process of evaluating the potential impact that each of these recent accounting standards may have on its financial statements.

Reclassifications

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

NOTE 2: BUSINESS ACQUISITIONS

Effective April 1, 2017, Hope acquired the assets and assumed the liabilities, including the member share accounts of Michoud Credit Union ("MCU") and B&W Mississippi Employees Federal Credit Union ("BWMEFCU") in a business combination accounted for by the purchase method of

NOTE 2: BUSINESS ACQUISITIONS (Continued)

accounting in which MCU and BWMEFCU were merged into Hope. The acquisition resulted in no net outlay of cash. Results of operations include activities of the acquired entity since date of acquisition.

Effective October 31, 2017, Hope acquired the assets and assumed the liabilities, including the member share accounts of Tri-Rivers Federal Credit Union ("TRFCU") in a business combination accounted for by the purchase method of accounting in which TRFCU was merged into Hope. The acquisition resulted in no net outlay of cash. Results of operations include activities of the acquired entity since date of acquisition.

The net gain on acquisition recognized in 2017 represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed and includes $375,000 of NCUA-assisted transaction payments. Under the NCUA-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the NCUA may make a cash payment to the acquirer.

A summary of assets acquired and liabilities assumed in the BWMEFCU, MCU and TRFCU business combinations as of the dates of acquisition were as follows:

	BWMEFCU	MCU	TRFCU	Total
Assets Acquired				
Cash and cash equivalents	$ 1,230,261	$ 781,606	$ 1,781,929	$ 3,793,796
Investments	3,976,870	498,000	1,250,000	5,724,870
Deposit reserves	60,436	31,719	137,679	229,834
Loans receivable	1,589,872	2,202,003	8,990,247	12,782,122
Fixed assets	140,192	63,863	812,429	1,016,484
Other miscellaneous assets	70,618	96,978	1,046,941	1,214,537
Total assets acquired	$ 7,068,249	$ 3,674,169	$ 14,019,225	$ 24,761,643
Liabilities Assumed				
Accounts payable and accrued expenses	$ 237,528	$ 168,117	$ 883,086	$ 1,288,731
Deposits and members' share accounts	5,928,353	3,507,033	13,423,640	22,859,026
Total liabilities assumed	6,165,881	3,675,150	14,306,726	24,147,757
Net assets acquired	902,368	(981)	(287,501)	613,886
Cash payments from the NCUA	-	-	375,000	375,000
Net gain (loss) on acquisition	$ 902,368	$ (981)	$ 87,499	$ 988,886

NOTE 2: BUSINESS ACQUISITIONS (Continued)

As part of the business acquisitions, Hope acquired life insurance policies on a key employee of one of the acquired credit unions. Life insurance owned by Hope is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The policies were originally purchased as part of the funding for a deferred compensation arrangement for this key employee which Hope also assumed as part of the business acquisition. The cash surrender value of the policies approximated $453,000 as of December 31, 2017 and are included in other assets. The deferred compensation obligation assumed approximated $142,000 as of December 31, 2017 and is included in accounts payable and accrued expenses.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and related approximate fair value of investment securities available-for-sale follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Negotiable certificates of deposits	**$ 1,470,000**	**$ -**	**$ -**	**$ 1,470,000**
U.S. Government and federal agencies	**751,228**	**-**	**10,559**	**740,669**
Municipal obligations	**4,088,341**	**29,300**	**29,363**	**4,088,278**
Collateralized mortgage obligations	**409,190**	**8**	**6,270**	**402,928**
Residential mortgage-backed securities	**9,310,010**	**32,230**	**116,084**	**9,226,156**
	$ 16,028,769	**$ 61,538**	**$ 162,276**	**$ 15,928,031**
December 31, 2016				
Debt securities:				
Negotiable certificates of deposits	$ 1,470,000	$ -	-	$ 1,470,000
U.S. Government and federal agencies	3,804,337	12,370	14,450	3,802,257
Municipal obligations	5,111,829	41,621	26,347	5,127,103
Collateralized mortgage obligations	576,120	48	5,803	570,365
Residential mortgage-backed securities	9,365,265	62,751	108,346	9,319,670
	$ 20,327,551	$ 116,790	$ 154,946	$ 20,289,395

As of December 31, 2017, investment securities with a fair value of approximately $13,700,000 were pledged as collateral for a note payable to a financial institution (see Note 7).

NOTE 3: INVESTMENT SECURITIES (Continued)

The amortized cost and related approximate fair value of investment securities available-for-sale at December 31, 2017 by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 761,927	$ 761,607
Due after one year through five years	4,305,320	4,270,267
Due after five years through ten years	4,194,996	4,207,804
Mortgage-backed securities	6,766,526	6,688,353
	$ 16,028,769	$ 15,928,031

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. Actual maturities may differ from contractual maturities because of the borrowers' right to call or prepay obligations.

During 2017 Hope recognized gross realized gains and gross realized losses of approximately $2,000 and $10,000, respectively, resulting from the sale of mortgage-backed securities. During 2016 Hope recognized gross realized gains and gross realized losses of approximately $0 and $38,000, respectively, resulting from prepayments of mortgage-backed securities. Proceeds the from sale of investment securities approximated $3,044,000 and $0 during 2017 and 2016, respectively.

Temporarily Impaired Securities

The primary components that determine a debt security's fair value are its coupon rate, maturity, and credit characteristics. When the fair value of a security falls below amortized cost an evaluation must be made to determine if the unrealized loss is a temporary or other than temporary impairment. Management evaluates securities for other-than-temporary impairment periodically, and more frequently when economic market concerns warrant such evaluation. Consideration is given to the severity of the loss, the default rate of the issuer and other performance indicators. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports.

Hope has determined that the unrealized losses are deemed to be temporary impairments as of December 31, 2017 and 2016. Hope believes that the unrealized losses generally are caused by liquidity discounts and increases in the risk premiums required by market participants rather than an adverse change in the cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets. Further, management has determined that Hope has the ability to hold debt securities until maturity, or for the foreseeable future.

NOTE 3: INVESTMENT SECURITIES (Continued)

The length of time temporarily impaired available-for-sale securities have been held in a loss position as of December 31, 2017 and 2016 is summarized below:

	Held Less than 12 Months		Held 12 Months or More		Total	
December 31, 2017	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Government and federal agencies	$ -	$ -	$ 740,670	$ 10,559	$ 740,670	$ 10,559
Municipal obligations	748,165	2,668	1,798,262	26,695	2,546,427	29,363
Collateralized mortgage obligations	-	-	400,183	6,270	400,183	6,270
Residential mortgage-backed securities	1,320,738	6,144	5,465,789	109,940	6,786,527	116,084
Total	$ 2,068,903	$ 8,812	$ 8,404,904	$ 153,464	$10,473,807	$ 162,276
December 31, 2016						
U.S. Government and federal agencies	$ 1,494,908	$ 10,263	$ 1,004,609	$ 4,187	$ 2,499,517	$ 14,450
Municipal obligations	545,300	18,120	2,020,357	8,227	2,565,657	26,347
Collateralized mortgage obligations	521,365	5,673	45,282	130	566,647	5,803
Residential mortgage-backed securities	2,895,793	46,133	3,784,324	62,213	6,680,117	108,346
Total	$ 5,457,366	$ 80,189	$ 6,854,572	$ 74,757	$12,311,938	$ 154,946

Collateralized mortgage obligations and residential mortgage-backed securities comprise approximately 60% and 49% of total investment securities as of December 31, 2017 and 2016, respectively. The unrealized losses in collateralized mortgage obligations and residential mortgage-backed securities approximated 72% and 74% of total unrealized losses as of December 31, 2017 and 2016, respectively. These investments relate primarily to mortgage-backed securities of U. S. government-sponsored entities and agencies. Accordingly, it is expected that these securities would not be settled at a price less than the amortized cost bases of the investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because Hope has the ability and intent to hold these investments in the foreseeable future, management does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

NOTE 4: LOANS RECEIVABLE

Loans receivable consist of the following:

December 31,	**2017**	2016
Member Business Loans:		
Real estate:		
Construction and land development	**$ 6,699,359**	$ 2,210,093
Single family	**38,013,997**	33,395,748
Commercial	**7,890,062**	3,618,054
Other	**17,126,459**	17,596,917
Commercial and industrial	**11,873,250**	9,775,334
Member Mortgage Loans	**98,778,914**	69,918,909
Member Consumer Loans:		
Secured by automobiles	**14,336,512**	5,902,486
Unsecured	**5,118,591**	2,650,667
Secured by share accounts	**1,825,171**	1,759,006
Secured by real estate	**3,015,057**	2,551,643
Other secured consumer loans	**1,275,923**	202,913
	205,953,295	149,581,770
Less allowance for loan losses	**(3,594,718)**	(2,649,465)
	$ 202,358,577	$ 146,932,305

Related Party Loans

In the ordinary course of business, Hope makes loans to its officers, directors and their affiliates. The outstanding balance of loans made to such borrowers approximated $174,000 and $12,000 at December 31, 2017 and 2016, respectively.

Management believes these loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectability or present other unfavorable features.

Loan Concentrations

Hope grants commercial, real estate and installment loans to its members. Hope does not have any loan concentrations other than as reflected in the preceding summary.

NOTE 4: LOANS RECEIVABLE (Continued)

A summary of the loans and related allowance for possible loan losses evaluated for impairment both individually and collectively at December 31, 2017 and 2016, was as follows:

	Loans		Allowance		
December 31, 2017	Individually	Collectively	Individually	Collectively	Net
Member Business Loans:					
Real estate:					
Construction and land development	$ -	$ 6,699,359	$ -	$ 109,064	$ 6,590,295
Single family	2,212,377	35,801,620	128,305	523,977	37,361,715
Commercial	1,159,857	6,730,205	68,794	100,544	7,720,724
Other	431,292	16,695,167	87,864	280,728	16,757,867
Commercial and industrial	259,435	11,613,815	44,912	184,655	11,643,683
Member Mortgage Loans	6,505,022	92,273,892	776,356	1,030,549	96,972,009
Member Consumer Loans:					
Secured by automobiles	-	14,336,512	-	48,309	14,288,203
Unsecured	-	5,118,591	-	156,939	4,961,652
Secured by share accounts	-	1,825,171	-	30,177	1,794,994
Secured by real estate	-	3,015,057	-	17,891	2,997,166
Other secured consumer loans	-	1,275,923	-	5,654	1,270,269
	$10,567,983	$195,385,312	$ 1,106,231	$ 2,488,487	$202,358,577
December 31, 2016					
Member Business Loans:					
Real estate:					
Construction and land development	$ -	$ 2,210,093	$ -	$ 30,418	$ 2,179,675
Single family	706,254	32,689,494	-	487,198	32,908,550
Commercial	41,848	3,576,206	-	62,439	3,555,615
Other	490,743	17,106,174	109,682	303,030	17,184,205
Commercial and industrial	413,071	9,362,263	26,834	119,676	9,628,824
Member Mortgage Loans	2,663,050	67,255,859	484,710	805,825	68,628,374
Member Consumer Loans:					
Secured by automobiles	-	5,902,486	-	63,543	5,838,943
Unsecured	-	2,650,667	-	109,690	2,540,977
Secured by share accounts	-	1,759,006	-	42,524	1,716,482
Secured by real estate	-	2,551,643	-	3,693	2,547,950
Other secured consumer loans	-	202,913	-	203	202,710
	$4,314,966	$145,266,804	$ 621,226	$ 2,028,239	$146,932,305

NOTE 4: LOANS RECEIVABLE (Continued)

As of December 31, 2017 and 2016, information relative to member business and mortgage loans evaluated individually for impairment is as follows:

December 31, 2017	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Member Business Loans:				
Real estate:				
Single family	$ 2,212,377	$ 1,512,909	$ 699,468	$ 128,305
Commercial	1,159,857	177,089	982,768	68,794
Other	431,292	2,687	428,605	87,864
Commercial and industrial	259,435	-	259,435	44,912
Member Mortgage Loans	6,505,022	1,279,469	5,225,553	776,356
	$10,567,983	$ 2,972,154	$ 7,595,829	$ 1,106,231
December 31, 2016				
Member Business Loans:				
Real estate:				
Single family	$ 706,254	$ 706,254	$ -	$ -
Commercial	41,848	41,848	-	-
Other	490,743	7,593	483,150	109,682
Commercial and industrial	413,071	363,587	49,484	26,834
Member Mortgage Loans	2,663,050	983,002	1,680,048	484,710
	$ 4,314,966	$ 2,102,284	$ 2,212,682	$ 621,226

The average recorded investment in impaired loans evaluated individually approximated $7,441,000 in 2017 and $5,449,000 in 2016. Interest income recognized on impaired loans approximated $191,000 in 2017 and $132,000 in 2016.

Credit Quality Indicators

The credit quality indicator utilized by Hope 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 member business 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 criticized/especially mentioned have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the

NOTE 4: LOANS RECEIVABLE (Continued)

repayment prospects for the loan or of Hope'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 Hope will sustain some loss if the deficiencies are not corrected. Loans 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.

The following is a summary of the carrying amount of member business loans by credit quality indicator at December 31, 2017 and 2016:

December 31, 2017	Pass Categories	Especially Mentioned Category	Substandard Category	Doubtful Category	Total
Real estate:					
Construction and land development	$ 2,826,819	$ 3,872,540	$ -	$ -	$ 6,699,359
Single family	6,954,187	28,847,433	2,212,377	-	38,013,997
Commercial	1,304,817	5,425,388	1,159,857	-	7,890,062
Other	4,948,888	11,746,279	2,687	428,605	17,126,459
Commercial and industrial	4,222,923	7,390,892	259,435	-	11,873,250
Total member business loans	$ 20,257,634	$ 57,282,532	$ 3,634,356	$ 428,605	$ 81,603,127
December 31, 2016					
Real estate:					
Construction and land development	$ 879,030	$ 1,331,063	$ -	$ -	$ 2,210,093
Single family	7,445,849	25,243,645	510,360	195,894	33,395,748
Commercial	1,718,495	1,857,711	41,848	-	3,618,054
Other	3,717,072	13,389,102	7,593	483,150	17,596,917
Commercial and industrial	3,565,614	5,796,649	413,071	-	9,775,334
Total member business loans	$ 17,326,060	$ 47,618,170	$ 972,872	$ 679,044	$ 66,596,146

Member mortgage and consumer loans are underwritten using standardized criteria and characteristics. Generally mortgage loans with a member's total debt to gross income ratio exceeding 43% will not be approved. Except for impaired member mortgage loans greater than 240 days past due, which are measured for impairment individually, these loans are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals and are delineated as either performing or nonperforming.

NOTE 4: LOANS RECEIVABLE (Continued)

Performing loans include current and 30 – 89 days past due. Nonperforming loans include loans greater than 90 days past due still accruing and non-accrual loans.

	Consumer Loans		
December 31, 2017	**Performing**	**Nonperforming**	**Total**
Member mortgage loans	**$ 90,867,756**	**$ 7,911,158**	**$ 98,778,914**
Member consumer loans:			
Secured by automobiles	**14,159,174**	**177,338**	**14,336,512**
Unsecured	**5,117,123**	**1,468**	**5,118,591**
Secured by share accounts	**1,769,952**	**55,219**	**1,825,171**
Secured by real estate	**3,015,057**	**-**	**3,015,057**
Other secured consumer loans	**1,271,167**	**4,756**	**1,275,923**
	$ 116,200,229	**$ 8,149,939**	**$ 124,350,168**
December 31, 2016			
Member mortgage loans	$ 64,050,359	5,868,550	$ 69,918,909
Member consumer loans:			
Secured by automobiles	5,870,042	32,444	5,902,486
Unsecured	2,650,667	-	2,650,667
Secured by share accounts	1,670,622	88,384	1,759,006
Secured by real estate	2,539,407	12,236	2,551,643
Other secured consumer loans	202,913	-	202,913
	$ 76,984,010	$ 6,001,614	$ 82,985,624

NOTE 4: LOANS RECEIVABLE (Continued)

The following is a summary of the purchased credit impaired loans acquired in the 2017 business acquisitions, as described in Note 2, as of the dates of acquisition:

	MCU	BWMEFCU	TRFCU	Total
Contractually required principal and interest at acquisition	$ 2,288,821	$ 1,947,531	$ 10,996,288	$ 15,232,640
Non-accretable difference (expected losses and foregone interest)	(29,080)	(5,493)	(298,709)	(333,282)
Cash flows expected to be collected at acquisition	2,259,741	1,942,038	10,697,579	14,899,358
Accretable yield	328,176	352,166	1,862,294	2,542,636
Basis in purchased credit impaired loans at acquisition	$ 1,931,565	$ 1,589,872	$ 8,835,285	$ 12,356,722

Changes in the carrying amount of the accretable yield for purchased credit impaired loans were as follows:

Year ended December 31, 2017	Accretable Yield	Carrying Amount of Loans
Balance at beginning of year	$ -	$ -
Acquisitions	2,542,636	12,356,722
Accretion recorded to interest income	(293,939)	-
Payments received, net	-	(1,234,764)
Balance at end of year	$ 2,248,697	$ 11,121,958

NOTE 4: LOANS RECEIVABLE (Continued)

An aging analysis of past due and nonaccrual loans by class at December 31, 2017 and 2016 was as follows:

December 31, 2017	Current	Past Due 30-89 Days	Accruing and Past Due Greater Than 90 Days	Nonaccrual	Total
Member Business Loans:					
Real estate:					
Construction and land development	$ 6,699,359	$ -	$ -	$ -	$ 6,699,359
Single family	36,315,809	542,546	-	1,155,642	38,013,997
Commercial	6,730,205	-	-	1,159,857	7,890,062
Other	16,405,147	162,457	-	558,855	17,126,459
Commercial and industrial	10,613,815	1,000,000	-	259,435	11,873,250
Member Mortgage Loans	77,947,744	12,920,012	-	7,911,158	98,778,914
Member Consumer Loans:					
Secured by automobiles	13,927,236	231,938	-	177,338	14,336,512
Unsecured	5,113,638	3,485	-	1,468	5,118,591
Secured by share accounts	1,670,189	99,763	-	55,219	1,825,171
Secured by real estate	3,015,057	-	-	-	3,015,057
Other secured consumer loans	1,270,791	376	-	4,756	1,275,923
	$ 179,708,990	$ 14,960,577	$ -	$ 11,283,728	$ 205,953,295

December 31, 2016	Current	Past Due 30-89 Days	Accruing and Past Due Greater Than 90 Days	Nonaccrual	Total
Member Business Loans:					
Real estate:					
Construction and land development	$ 2,210,093	$ -	$ -	$ -	$ 2,210,093
Single family	32,471,378	20,327	-	904,043	33,395,748
Commercial	3,576,206	-	-	41,848	3,618,054
Other	16,779,790	333,977	-	483,150	17,596,917
Commercial and industrial	9,092,196	596,279	-	86,859	9,775,334
Member Mortgage Loans	53,332,989	10,717,370	-	5,868,550	69,918,909
Member Consumer Loans:					
Secured by automobiles	5,623,054	246,988	-	32,444	5,902,486
Unsecured	2,633,204	17,463	-	-	2,650,667
Secured by share accounts	1,511,005	159,617	-	88,384	1,759,006
Secured by real estate	2,502,318	37,089	-	12,236	2,551,643
Other secured consumer loans	202,913	-	-	-	202,913
	$ 129,935,146	$ 12,129,110	$ -	$ 7,517,514	$ 149,581,770

NOTE 4: LOANS RECEIVABLE (Continued)

There were no loans past due over 90 days and still accruing interest as of December 31, 2017 and 2016.

Troubled Debt Restructurings

At December 31, 2017 and 2016, held for investment loans of Hope classified as troubled debt restructurings (TDRs) approximated $11,979,000 and $10,869,000, respectively. Hope had no commitments outstanding to lend additional amounts as of December 31, 2017 and 2016 to borrowers with outstanding loans classified as TDRs.

TDRs are generally evaluated along with impaired loans. As of December 31, 2017, mortgage loan TDRs past due greater than 240 days and all mortgage loan TDRs which occurred in 2017 and 2016 were individually evaluated for impairment. For mortgage loan TDRs less than 240 days past due that were modified prior to 2016, Hope evaluated impairment on a collective basis using similar results derived from the mortgage loan TDR individual loan analysis results of the 2017 and 2016 modified loans. Because the mortgage loan TDR modifications occurring prior to 2016 generally included only term extensions, Hope believes the collective evaluated allowance approximates the allowance required using an individual impairment analysis for these TDRs. These remaining TDRs approximated $4,503,000 and the related allowance for loan losses for these loans approximated $502,000 as of December 31, 2017.

For all TDRs, Hope had a related loan loss allowance of approximately $1,382,000 and $487,000 at December 31, 2017 and 2016, respectively. There were approximately $60,000 in specific charge-offs related to TDRs for 2017. During 2017, there were no TDRs that subsequently defaulted within twelve months of their modification date. There were approximately $108,000 in specific charge-offs related to TDRs for 2016. Additionally, during 2016 there was one member business loan of approximately $105,000 and 1 member mortgage loan of approximately $59,000 in TDRs that subsequently defaulted within twelve months of their modification dates.

NOTE 4: LOANS RECEIVABLE (Continued)

A summary of held for investment loans classified as TDRs outstanding were as follows:

	In Accrual Status		In Non-Accrual Status		Total TDRs Oustanding	
December 31, 2017	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Member Business Loans:						
Secured by real estate	**1**	**$ 221,512**	**1**	**$ 428,605**	**2**	**$ 650,117**
Not secured by real estate	**0**	**-**	**1**	**28,288**	**1**	**28,288**
Member Mortgage Loans	**60**	**5,244,325**	**73**	**6,009,299**	**133**	**11,253,624**
Member Consumer Loans:						
Secured by real estate	**1**	**23,152**	**0**	**-**	**1**	**23,152**
Not secured by real estate	**8**	**24,204**	**0**	**-**	**8**	**24,204**
Total TDRs Outstanding	**70**	**$ 5,513,193**	**75**	**$6,466,192**	**145**	**$ 11,979,385**
December 31, 2016						
Member Business Loans:						
Secured by real estate	1	$ 228,162	2	$ 533,577	3	$ 761,739
Not secured by real estate	1	7,500	2	74,359	3	81,859
Member Mortgage Loans	62	5,090,718	58	4,870,089	120	9,960,807
Member Consumer Loans:						
Secured by real estate	3	45,657	0	-	3	45,657
Not secured by real estate	5	18,812	0	-	5	18,812
Total TDRs Outstanding	72	$5,390,849	62	$5,478,025	134	$10,868,874

During 2017 and 2016, primarily all TDR modifications were the result of interest rate adjustments and term extensions. As a result, there were no significant permanent reductions in the pre-modification recorded investment as a result of these concessions.

NOTE 4: LOANS RECEIVABLE (Continued)

Allowance for Loan Losses

Activity in the allowance for loan losses is as follows:

December 31,	2017	2016
Balance at beginning of year	$ 2,649,465	$ 2,460,529
Provision for loan losses	1,514,972	1,266,124
Loans charged off	(1,006,545)	(1,313,075)
Recoveries	436,826	235,887
	$ 3,594,718	$ 2,649,465

The balance in the allowance for possible loans losses by portfolio segment at December 31, 2017 and 2016 was as follows:

December 31, 2017	Balance at Beginning	Charge-Offs	Recoveries	Provision for Loan Losses	Balances at End of Year
Member Business Loans:					
Real estate:					
Construction and land development	$ 30,419	$ -	$ -	$ 78,645	$ 109,064
Single family	487,198	(48,764)	173,433	40,415	652,282
Commercial	62,439	-	243	106,656	169,338
Other	412,712	(183,119)	-	138,999	368,592
Commercial and industrial	146,509	-	-	83,058	229,567
Member Mortgage Loans	1,290,535	(219,895)	-	736,265	1,806,905
Member Consumer Loans:					
Secured by automobiles	63,542	(66,387)	117,919	(66,765)	48,309
Unsecured	109,691	(423,038)	111,706	358,580	156,939
Secured by share accounts	42,524	(41,115)	10,740	18,028	30,177
Secured by real estate	3,693	(23,050)	13,545	23,703	17,891
Other secured consumer loans	203	(1,177)	9,240	(2,612)	5,654
	$ 2,649,465	$ (1,006,545)	$ 436,826	$ 1,514,972	$ 3,594,718

NOTE 4: LOANS RECEIVABLE (Continued)

December 31, 2016	Balance at Beginning	Charge-Offs	Recoveries	Provision for Loan Losses	Balances at End of Year
Member Business Loans:					
Real estate:					
Construction and land development	$ 1,459	$ -	$ -	$ 28,960	$ 30,419
Single family	399,718	(114,918)	-	202,398	487,198
Commercial	84,223	-	140	(21,924)	62,439
Other	419,519	-	-	(6,807)	412,712
Commercial and industrial	256,727	(217,627)	390	107,019	146,509
Member Mortgage Loans	1,190,222	(383,271)	-	483,584	1,290,535
Member Consumer Loans:					
Secured by automobiles	5,866	(176,554)	120,739	113,491	63,542
Unsecured	56,178	(373,169)	89,139	337,543	109,691
Secured by share accounts	27,816	(42,019)	5,848	50,879	42,524
Secured by real estate	12,950	(5,517)	18,188	(21,928)	3,693
Other secured consumer loans	5,851	-	1,443	(7,091)	203
	$ 2,460,529	$ (1,313,075)	$ 235,887	$ 1,266,124	$ 2,649,465

NOTE 5: PREMISES AND EQUIPMENT

Premises and equipment are as follows:

December 31,	**2017**	2016
Land	**$ 1,289,847**	$ 1,017,220
Buildings and improvements	**9,046,741**	7,242,605
Leasehold improvements	**184,106**	115,551
Computer and equipment	**5,169,046**	4,489,618
Furniture and fixtures	**1,822,038**	1,110,136
	$ 17,511,778	$ 13,975,130
Less accumulated depreciation	**(7,531,543)**	(5,430,926)
	$ 9,980,235	$ 8,544,204

NOTE 6: DEPOSITS AND MEMBERS' SHARE ACCOUNTS

Deposits and members' share accounts are summarized as follows:

December 31,	**2017**	2016
Members' shares and clubs	**$ 81,826,601**	$ 55,634,835
Non-members' shares	**20,505**	27,845
Members' shares certificates	**119,216,509**	89,664,596
Non-members' certificates	**-**	99,000
Money market	**16,859,860**	11,658,521
	$ 217,923,475	$ 157,084,797

Included in members' share accounts and certificates were member certificates in amounts of $250,000 or more. These accounts approximated $79,763,000 and $57,362,000 at December 31, 2017 and 2016, respectively.

Interest expense on members' share and deposit accounts is summarized as follows:

Years ended December 31,	**2017**	2016
Share certificates and clubs	**$ 1,673,989**	$ 1,075,463
Money market and savings	**259,561**	206,578
	$ 1,933,550	$ 1,282,041

A summary of maturities of member and non-member share certificates at December 31, 2017 are as follows:

Maturity within one year	**$ 37,313,345**
Maturity one to five years	**81,903,164**
Maturity more than five years	**-**
	$ 119,216,509

Related Party Deposits

In the ordinary course of business, officers, directors and their affiliates have deposit accounts with Hope. The deposit accounts totaled approximated $659,000 at December 31, 2017 and $254,000 at December 31, 2016. Management believes these deposit accounts had the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

NOTE 7: LINE OF CREDIT

Hope has entered into a loan agreement with a financial institution which provides for borrowings up to $12,000,000 as of December 31, 2017 and 2016 under a line of credit arrangement. Advances under the lines of credit are repayable within thirty days from the date of each advance. As of December 31, 2017 and 2016, Hope had borrowings outstanding of $11,000,000 and $0, respectively, secured by qualifying investments held for sale with an estimated fair value equal to 120% of amounts outstanding (see Note 3). This short term borrowing bears interest based on the federal funds rate, plus 2% (effective rate of 3.42% as of December 31, 2017). Pursuant to the loan agreement, the revolving line of credit expires on May 2, 2018.

Additionally, as part of the business acquisitions described in Note 2, Hope assumed a line of credit from a financial institution with an outstanding balance of approximately $39,000 as of December 31, 2017. This borrowing represents the advances on a $250,000 line of credit which is due on demand and bears interest at 2.5% per annum.

NOTE 8: FEDERAL HOME LOAN BANK ADVANCES

Hope is a member of the Federal Home Loan Bank of Dallas ("FHLB") and has entered into credit arrangements with the FHLB under which authorized borrowings are collateralized by Hope's FHLB stock as well as loans or other instruments which may be pledged. These advances carry a fixed rate of interest and approximated $21,349,000 and $18,195,000 at December 31, 2017 and 2016, respectively. Hope has pledged a security interest in its mortgage loan portfolio to the FHLB as collateral for these borrowings with a carrying value of approximately $43,935,000 and $35,532,000 as of December 31, 2017 and 2016, respectively.

A summary of the FHLB borrowings at December 31, 2017 and 2016 were as follows:

Maturity Year	**Interest Rate Range**	**2017**	2016
Maturing in 2017	0.9% - 0.95%	$ -	$ 750,000
Maturing in 2018	0.900%	**250,000**	250,000
Maturing in 2018	4.014% - 4.148%	**674,191**	1,328,052
Maturing in 2019	1.600%	**250,000**	250,000
Maturing in 2020	1.500%	**250,000**	250,000
Maturing in 2021	2.187% - 2.278%	**1,382,049**	1,710,084
Maturing in 2022	1.79% - 2.383%	**2,854,672**	3,205,368
Maturing in 2023	1.829% - 2.1%	**1,353,714**	1,550,567
Maturing in 2024	2.35% - 2.441%	**1,369,576**	1,559,384
Maturing in 2025	2.051% - 2.217%	**2,580,144**	2,909,959
Maturing in 2026	1.988%	**846,817**	939,335
Maturing in 2027	2.365% - 2.753%	**7,677,777**	2,544,578
Maturing in 2028	2.174%	**873,863**	947,814
Maturing in 2032	2.597%	**986,322**	-
		$ 21,349,125	$ 18,195,141

NOTE 8: FEDERAL HOME LOAN BANK ADVANCES (Continued)

A summary of the maturity of FHLB borrowings by year over the next five years and amounts maturing thereafter as of December 31, 2017 are as follows:

2018	$ 924,191
2019	250,000
2020	250,000
2021	1,382,049
2022	2,854,672
Maturing thereafter	15,688,213
	$ 21,349,125

NOTE 9: SECONDARY CAPITAL LOANS

Secondary capital loans consist of funding from private sources or affiliates of Hope's primary sponsor and from senior subordinated debentures issued pursuant to the Community Development Capital Initiative ("CDCI") program established by the U. S. Treasury for financial institutions that have been certified as community development financial institutions ("CDFI").

To be certified as a CDFI, a financial institution must demonstrate that it serves an eligible target market and that at least 60% of its activities are directed to that target market. As a qualifying CDFI, Hope was eligible to apply for a CDCI capital investment of up to 3.5% of its total assets and no more than 50% of its capital and surplus. In connection therewith, Hope received the CDCI funding through the issuance of senior subordinated debentures qualifying as secondary capital loans totaling $4,520,000.

Secondary capital loans are available to cover any and all quarterly operating losses that exceed Hope's net available reserves and undivided earnings. Secondary capital loans used to cover operating losses are not required to be repaid and are recognized as income in the period the losses are incurred.

The variable rate secondary capital loans require principal repayments, unless Hope (i) would be unable to fully service existing senior indebtedness, (ii) would be unable to satisfy its operating expenses, or (iii) would not have available cash flows for the withdrawal of funds for the account.

The senior subordinated debentures have a maturity of 13 years and bear interest at 2% per annum until the 8th anniversary of the closing date (September 17, 2010) and thereafter at a rate of 9% per annum. The debentures are subordinated to claims of creditors, shareholders (depositors) and the National Credit Union Share Insurance Fund and may be redeemed prior to maturity at Hope's option, subject to approval by its regulatory authority. The debentures were issued pursuant to a securities purchase agreement which contains covenants that require continued eligibility and compliance with CDFI requirements and place limitations on the amount of executive compensation and dividends and repurchases of equity and debt instruments.

NOTE 9: SECONDARY CAPITAL LOANS (Continued)

Holders of the senior subordinated debentures have no voting rights, except under certain circumstances, including amendments to the senior subordinated securities and certain merger, exchange or consolidation events.

Secondary capital loans consisted of the following:

December 31,	**2017**	2016
Fixed rate loan from Hope Enterprise Corporation bearing interest at 1.00% per annum, maturing on December 31, 2023	**$ 5,000,000**	$ 5,000,000
Senior subordinated debenture payable to the U. S. Treasury maturing on September 17, 2023 and bearing interest at 2% through September 17, 2018 and 9% per annum thereafter	**4,520,000**	4,520,000
Fixed rate loan from ECD New Markets, LLC bearing interest at 5.45% per annum and maturing on January 1, 2027	**1,050,000**	1,800,000
Fixed rate loan from Hope Enterprise Corporation bearing interest at 1.00% per annum, maturing on December 13, 2023	**2,000,000**	2,000,000
Fixed rate loan from Hope Enterprise Corporation bearing interest at 1.00% per annum, maturing on April 29, 2025	**1,000,000**	1,000,000
Variable rate loan from ECD New Markets, LLC bearing interest at a minimum rate of 5% and a maximum rate of 10% (effective rate of 5.00% at December 31, 2016 and 2015), maturing on June 22, 2025	**825,000**	825,000
Variable rate loan from ECD New Markets, LLC bearing interest at a minimum rate of 5.45% and a maximum rate of 10.9% (effective rate of 5.45% at December 31, 2016 and 2015), maturing on September 30, 2024	**550,000**	550,000
Variable rate loan from ECD New Markets, LLC bearing interest at a minimum rate of 5% and a maximum rate of 10% (effective rate of 5% at December 31, 2016 and 2015), maturing on December 20, 2024	**550,000**	550,000
1% interest loan from a bank maturing on April 1, 2027	**76,774**	76,724
3% loan from a non-profit corporation, due October 14, 2026	**3,000,000**	1,500,000
Fixed rate loan from Hope Enterprise Corporation bearing interest at 2.605% per annum, maturing on December 22, 2023	**1,500,000**	-
	20,071,774	17,821,724
Less maturity reclassification	-	(826,724)
	$ 20,071,774	$ 16,995,000

NOTE 9: SECONDARY CAPITAL LOANS (Continued)

As a low-income designated credit union, Hope is allowed to offer secondary capital loans which are considered a component of net worth for regulatory purposes until they reach a maturity of five years or less. Secondary capital loans with maturities of five years or less are reclassified as subordinated debt, through a maturity reclassification adjustment of one-fifth of the amount due within five years. As of December 31, 2017 and 2016, approximately $0 and $827,000, respectively, were reclassified under these regulatory requirements.

A summary of the maturity reclassifications of secondary capital loans by year over the next five years and amounts maturing thereafter as of December 31, 2017 are as follows:

2018	$ -
2019	-
2020	-
2021	-
2022	-
Maturing thereafter	20,071,774
	$ 20,071,774

NOTE 10: MEMBERS' EQUITY

Hope is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Hope's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, a credit union must meet specific capital regulations that involve quantitative measures of the credit union's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Hope's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require a credit union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets, as defined. Credit unions are also required to calculate a risk-based net worth (RBNW) requirement which establishes whether or not the credit union will be considered complex under the regulatory framework. Hope's net worth ratio as of December 31, 2017 and 2016 was 9.04% and 10.87%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes, as of December 31, 2017, that Hope meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent call reporting period, Hope was categorized as "*well capitalized*" under the NCUA regulatory framework for prompt corrective action. To be categorized

NOTE 10: MEMBERS' EQUITY (Continued)

as "*well capitalized*" a credit union must maintain a minimum net worth ratio of 7 percent of assets and meet any applicable risk-based net worth requirements. There are no conditions or events that management believes would change Hope's category.

Hope's actual regulatory capital amounts and ratios as of December 31, 2017 and 2016 (using quarter end balances, as permitted by regulation) are presented below:

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2017						
Regulatory Net Worth	**$ 25,180,618**	**9.04%**	**16,720,540**	**6.00%**	**19,507,296**	**7.00%**
Risk-Based Net Worth Requirements	**$ 16,943,480**	**6.08%**	**N/A**	**N/A**	**N/A**	**N/A**
At December 31, 2016						
Regulatory Net Worth	$ 21,862,899	10.87%	12,072,728	6.00%	14,084,849	7.00%
Risk-Based Net Worth Requirements	$ 13,581,819	6.75%	N/A	N/A	N/A	N/A

Hope is also subject to various U. S. Department of Housing and Urban Development (HUD) regulatory guidelines including minimum capital requirements in connection with seller-servicer agreements that Hope has entered into with secondary market investors. Failure to maintain minimum capital requirements could result in Hope's inability to originate and sell loans for the respective investor and, therefore, could have a direct material effect on Hope's financial statements. As of December 31, 2017 and 2016, Hope was in compliance with HUD guidelines and the various capital requirements by secondary market investors.

NOTE 11: ACTIVITIES WITH PRIMARY SPONSOR

Hope Enterprise Corporation (HEC) is the primary sponsoring organization of Hope and operates as a community development financial institution for the purpose of providing investment capital to rural and economically disadvantaged communities. As part of its strategy, HEC and certain of its affiliates have provided grants and secondary capital loans to Hope in order to provide an affordable lending program to low-income communities. Further, Hope and HEC have entered into certain contractual arrangements wherein HEC agreed to reimburse Hope for certain operating expenses and for certain losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions. Under the terms of the contractual arrangements, Hope has agreed to provide financial products and service offerings in certain low-income communities in which HEC has a mission to promote economic development. In consideration for these contractual services, HEC has agreed to reimburse Hope for its normal operating expenses,

NOTE 11: ACTIVITIES WITH PRIMARY SPONSOR (Continued)

excluding dividend payments, on a monthly basis. The contractual arrangements provide for a limitation on the fluctuating monthly amount HEC will reimburse Hope which is based upon a maximum monthly net income level of $20,000.

During 2017 and 2016, Hope recognized contractual service revenue of approximately $2,432,000 and $3,705,000, respectively, relative to these arrangements. In addition, Hope received grants from third parties of approximately $300,000 in 2017 and $1,651,000 in 2016 that were passed to Hope from HEC and its affiliates.

As of December 31, 2017 and 2016, Hope had secondary capital loans outstanding to HEC and its affiliates of approximately $12,475,000 and $11,725,000, respectively. Interest expense relating to these affiliated secondary capital loans approximated $257,000 in 2017 and $312,000 in 2016.

As of December 31, 2017 and 2016, HEC had deposit accounts with Hope totaling approximately $2,413,000 and $10,838,000, respectively.

As of December 31, 2017 and 2016, Hope had a real estate secured loan receivable outstanding from HEC of approximately $912,000 and $955,000, respectively. The real estate loan receivable is repayable in monthly installments of $7,773, including interest at prime plus 1.5%, and with a final balloon payment in December 2020. Interest income recognized on these related party loans approximate $52,000 and $49,000 in 2017 and 2016, respectively.

Accounts receivable from HEC approximated $1,027,000 as of December 31, 2017. Accounts payable to HEC approximated $1,338,000 as of December 31, 2016. These balances represented amounts due from or to HEC for certain loan closings, net of amounts due to Hope relative to the contractual service arrangements.

During 2016, Hope acquired certain branch facilities from HEC approximating $850,000, respectively. These facilities were donated to HEC and sold to Hope at the donated acquisition value.

Annually HEC incurs certain other expenses on behalf of Hope that are not reflected in the accompanying financial statements. These expenses include cost for certain personnel resources, marketing efforts and executing capital campaign strategies to support Hope's operations.

NOTE 12: FAIR VALUE MEASUREMENTS

Investment securities available for sale were measured at fair value using level 2 inputs and represent the only financial assets measured at fair value by Hope on a recurring basis at December 31, 2017 and 2016.

NOTE 12: FAIR VALUE MEASUREMENTS (Continued)

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Hope has no financial liabilities measured at fair value on a non-recurring basis as of December 31, 2017 and 2016.

Financial assets of Hope measured at fair value at year end on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. The impaired loans are reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. As of December 31, 2017, impaired loans with a carrying value of $6,299,000 were reduced by specific valuation allowance allocations totaling $1,002,000 to a total reported fair value of $5,297,000 based on net present value and collateral valuations utilizing Level 3 valuation inputs. As of December 31, 2016, impaired loans with a carrying value of $2,213,000 were reduced by specific valuation allowance allocations totaling $621,000 to a total reported fair value of $1,592,000 based on collateral valuations utilizing Level 3 valuation inputs.

Hope has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and non-financial assets measured at fair value in the second step of a goodwill impairment test.

During 2017 and 2016, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for possible loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Foreclosed assets measured at fair value upon initial recognition totaled $1,039,000 and $959,000 (utilizing Level 3 valuation inputs) during 2017 and 2016, respectively. In connection with the measurement and initial recognition of the aforementioned foreclosed assets, Hope recognized charge-offs to the allowance for loan losses of approximately $344,000 during 2017 and $383,000 during 2016. Additionally, Hope recognized impairment losses of approximately $26,000 in 2017 and $130,000 in 2016 as a result of subsequent fair value remeasurements relating to foreclosed property held utilizing Level 3 valuation inputs.

Appraisals are generally obtained and used for impaired loan and foreclosed real estate valuation assessments. These appraisals incorporate measures such as recent sales prices for comparable properties or customized discounting criteria. Accordingly, collateral values are generally estimated using Level 3 valuation inputs.

NOTE 13: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of Hope's financial instruments at December 31, 2017 and 2016 were as follows:

	2017		2016	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ **37,429,574**	$ **37,429,574**	$ 18,717,372	$ 18,717,372
Short-term investments	**2,248,308**	**2,248,308**	1,032,488	1,032,488
Investment securities available for sale	**15,928,031**	**15,928,031**	20,289,395	20,289,395
Loans receivable	**202,358,577**	**203,495,405**	146,932,305	149,920,661
Grants and other receivables	**3,041,911**	**3,041,911**	1,076,934	1,076,934
Restricted investment securities	**1,110,300**	**1,110,300**	1,093,000	1,093,000
NCUSIF deposits	**1,864,690**	**1,864,690**	1,297,191	1,297,191
Financial Liabilities:				
Deposits and members' share accounts	**217,923,475**	**217,522,277**	157,084,797	157,258,243
Short-term borrowings	**11,039,212**	**11,039,212**	-	-
Federal Home Loan Bank advances	**21,349,125**	**20,966,282**	18,195,141	18,013,004
Secondary capital loans	**20,071,774**	**20,937,100**	17,821,724	20,131,459

Certain other financial instruments are not carried at fair value in the accompanying statements of financial condition, including accounts receivable, accrued interest receivable and payable, accounts payable and accrued liabilities. The carrying amount of these financial instruments not carried at fair value is a reasonable estimate of fair value because of the generally short periods of time in which related assets or liabilities are expected to be realized or liquidated, and because they do not present unanticipated credit concern.

The estimated fair values are significantly affected by assumptions used, principally the timing of future cash flows, the discount rate, judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent quotes, and in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. Potential tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale and/or settlement have not been taken into consideration.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Interest Rate Risk

Hope provides short-term and medium-term commercial and consumer loans with interest rates that are fixed or fluctuate with the prime lending rate. These loans are primarily funded through short-term member share accounts and certificates or secondary capital loans with variable and fixed rates. Accordingly, Hope is exposed to interest rate risk because, in changing interest rate environments, interest rate adjustments on assets and liabilities may not occur at the same time or in the same amount. Hope manages the overall rate sensitivity and mix of its asset and liability portfolio and attempts to minimize the effects that interest rate fluctuations will have on its net interest margin.

Hope is a party to various financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to extend credit and originate mortgage loans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contract or notional amounts of those instruments reflect the extent of the involvement Hope has in particular classes of financial instruments. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Hope's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. Hope uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments.

As of December 31, 2017, Hope had commitments to extend credit of approximately $18,578,000 based upon the contractual amount of the commitment to respective member borrowers.

Concentration of Credit Risk

At December 31, 2017, Hope had cash deposits with five financial institutions, including their central clearing house, in excess of insured limits by approximately $34,303,000. Hope periodically assesses the financial condition of these financial institutions and believes the risk of any loss is minimal.

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

NOTE 14: COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

Hope is defendant in litigation arising during normal business activities. Although the litigation is presently in discovery stages and legal counsel is unable to form an opinion, management is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial statements. Accordingly, no provision for loss contingency has been provided in the financial statements as of December 31, 2017.