

HCU Management Discussion & Analysis

Independent Auditors' Report

Hope Credit Union (HCU) received an unmodified audit for FY 2025.

Executive Overview

HCU experienced significant balance sheet expansion, stable profitability, and material improvements in capital position during 2025. Total assets increased from \$683.9 million to \$860.2 million, driven primarily by strong loan growth and increased member deposits. Net income remained modest at \$240,012, consistent with the prior year, reflecting the Credit Union's mission-driven operating model.

HCU continues to operate as a Community Development Financial Institution (CDFI) and Low-Income Credit Union (LICU), focusing on underserved communities across the Deep South. Its financial performance reflects both mission-oriented lending and the stabilizing effect of substantial secondary capital and HEC support.

Balance Sheet Analysis

HCU's total assets stood at \$860 million on December 31, 2025, up approximately \$156 million (26%) from \$684 million at December 31, 2024. This growth resulted from a \$143 million (34%) increase in HCU's loan portfolio, primarily in the residential mortgage portfolio. On October 1, 2025, HCU completed a merger with 1st Choice Credit Union based in Atlanta (GA). This merger increased HCU's total assets by a little more than \$30 million and provides HCU with a strong partner in Grady Hospital as the launching point for HCU's work in Georgia.

Given the relative decrease in the interest rate environment at FYE 2025 compared to 2024, HCU's securities portfolio carried lower unrealized losses (i.e., Accumulated Other Comprehensive Loss) of \$5 million at the end of 2025 compared to \$10.7 million at the end of 2024. None of the unrealized losses are related to credit factors but, rather, recognize the changes in market values of fixed-income securities in a fluctuating rate environment. HCU has adequate sources of liquidity to fund loan demand and operations and does not anticipate realizing any of the losses in the portfolio. Loan related assets are the largest category of HCU's assets:

	2025	2024
Loans receivable – net	563,270,330	420,654,268
Loans Held-for-Sale	2,955,363	-
Accrued Interest Receivable	3,137,933	2,665,282
Foreclosed and Repossessed Assets	1,680,320	971,593
Total	571,043,946	424,291,143
Percent of total assets	66%	62%

HCU's asset growth was primarily funded by an increase of \$171 million (37%) in deposits, from \$457 million at December 31, 2024, to \$628 million at December 31, 2025. In 2022, HOPE added \$92 million in secondary capital funded by the Emergency Capital Investment Program (ECIP). ECIP is a historic \$9 Billion investment by the US Treasury Department to capitalize CDFI and MDI depositories and increase investment in historically underserved areas. HCU's share deposits remained stable in terms of cost of funds but HCU's certificates and non-member deposits experienced increases due to continued increases in the interest rate environment. Overall, HCU's cost of funds was slightly higher than peers as

the growth in the amount and cost of new certificates more than offset lower-cost Transformational Deposits.

The increase in secondary capital via the 2022 ECIP investment radically transformed HCU's capital position, situating the credit union for significant growth. Under 12 CFR 702.401(b), low-income designated credit unions such as HCU may accept subordinate debt as secondary capital, which is recognized as net worth for regulatory purposes. As described above, HCU's Unrealized Losses in its securities portfolio are reflected as Accumulated Other Comprehensive Loss (AOCL) in its Equity section of the balance sheet. However, AOCL is excluded from regulatory capital calculations. The following schedule details HCU's regulatory capital for 2025 and 2024:

	2025	2024
Secondary Capital, net	137,770,130	139,885,485
Undivided Earnings	7,065,743	6,825,731
Total	144,835,873	146,711,216
Percent of total assets	16.8	21.5

Earnings Analysis

Interest income increased \$7.2 million (23.9%) in 2025 to \$37.3 million from \$30.1 million in 2024. Interest on the loan portfolio grew by \$8.4 million due to strong portfolio growth and performance. Interest on the securities portfolio decreased by \$1.2 million due to lower interest rates in the bond market for new investments.

Total interest expense increased from \$8.3 million in 2024 to \$14.1 million in 2025. Interest expense related to shares and certificates increased from \$4.7 million in 2024 to \$9.1 million in 2025, reflecting the impact of the higher interest rates paid on certificates and non-member deposits relative to shares and share draft accounts. At the end of 2025, HCU's cost of funds was at a level comparable with its peers rather than being significantly below peers as in the past.

Interest expense related to borrowed funds increased from \$3.5 million in 2024 to \$5.1 million in 2025. During 2023, HCU borrowed funds from the FRB Bank Term Funding Program to assist with maintaining a higher liquidity position in response to market concerns about regional bank liquidity events in early 2023. These borrowings were repaid in 2024. The ECIP investment received in 2022 was made at 0% for the first 24 months and then escalated to a maximum rate of 2% at the end of Q2 2024. In September of 2025, the ECIP rate was reduced to 1.25% based on the volume of HCU's Deep-Impact lending. HCU has an opportunity to further reduce the rate on the ECIP investment to as low as 0.5% based on its lending volume in Deep-Impact markets.

The provision for loan losses in 2025 was \$6.5 million compared to \$2.5 million in 2024. Approximately \$3 million of the expense in 2025 was related to the growth of the loan portfolio. The remaining \$3.5 million of provision expense was primarily driven by the 1st Choice merger, HCU's consumer portfolio, and HCU's commercial portfolio. The provision expense associated with the 1st Choice merger was a one-time event.

Non-interest income increased from \$18.3 million in 2024 to \$29.7 million in 2025. Service charges and fees increased slightly from \$5.1 million in 2024 to \$5.3 million in 2025, and Other Noninterest Income

increased from \$1.7 million in 2024 to \$4.6 million in 2025. Grant and contract revenue increased from \$11.5 million in 2024 to \$19.8 million in 2025.

Non-interest expenses increased \$8.9 million from \$37.3 million in 2024 to \$46.2 million in 2025. In 2024 and 2025, HCU made significant investments in personnel and systems to support future growth related to the ECIP investment and the growth of its loan portfolio. Growth in non-interest expenses are projected to slow considerably in 2026.



Alan Branson
Chief Financial Officer



William Bynum
Chief Executive Officer