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Management Discussion and Analysis

Balance Sheet Analysis

Hope Credit Union's (HCU's) total assets stood at $292.9 million at December 31, 2018, up approximately $15 million from $278.7 million at December 31, 2017. This increase is primarily the result of growth in the commercial and mortgage loan portfolios.

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

	2018	2017
Loans receivable – net	224,827,736	202,358,577
Real estate and other assets acquired by foreclosure	564,303	501,237
Total	**225,392,039**	**202,859,817**
Percent of total assets	**77%**	**73%**

The increase in liabilities from $273.7million at December 31, 2017 to $287.8 million at December 31, 2018 was primarily the result of increased deposits. The deposit growth was partially offset by the repayment of some borrowings. Deposits and members' share accounts increased by $22.7 million, from $217.9 million at December 31, 2017 to $240.6 million at December 31, 2018. A new secondary capital loan of $3.0 million was offset partially by the reclassification of $904,000 of existing secondary capital debt to regular debt. Federal Home Loan Bank advances of $1.9 million and short-term notes payable of approximately $11.0 million were repaid during 2018.

Under 12 CFR 701.34(b) low-income designated credit unions, such as HCU, may accept secondary capital and 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:

	2017	2018
Secondary capital loans, net of maturity classifications	20,071,774	22,167,774
Regular reserve	10,000	10,000
Undivided profits	5,098,844	5,339,973
Accumulated other comprehensive income (loss)	(100,738)	(214,681)
Total net worth	**25,079,880**	**27,303,066**
Capital ratio	**9.0%**	**9.32%**

Earnings Analysis

Interest income increased in 2018 to $12.6 million from $10.1million in 2017 primarily because of growth in the loan portfolio. Total interest and dividend expense increased from $2.8 million in 2017 to $3.9 million in 2018. Dividend expense related to members' shares and certificates increased to $2.9 million in 2018 from $1.9 million in 2017. Interest expense related to borrowed funds increased from $907,000 in 2017 to $1.1 million in 2018.

The provision for loan losses grew in 2018 to $2.8 million from $1.5 million in 2017. This was primarily a reflection of growth in the overall loan portfolio, and higher than anticipated losses in the portfolios of merged credit unions.

Non-interest income increased from $10.4 million in 2017 to $13.7 million in 2018. Grant and contracts revenue increased to $9.2 million in 2018 from $5.9 million in 2017. Service charges and fees rose, from $3.5 million in 2017 to $4.3 million in 2018.

Non-interest expenses increased from $15.9 million in 2017 to $19.3 million in 2018. This increase in expenses was largely the result of HCU's continued growth in number of locations.

Alan Branson
Chief Financial Officer

William J. Bynum
Chief Executive Officer

Hope Federal Credit Union

FINANCIAL STATEMENTS

December 31, 2018 and 2017

Hope Federal Credit Union
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December 31, 2018 and 2017

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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, 2018 and 2017, 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 audits 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, 2018 and 2017, 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
April 30, 2019

December 31,	2018	2017
Assets		
Cash and cash equivalents	$ **31,924,227**	$ 37,429,574
Short-term investments	-	2,248,308
Investment securities available-for-sale	**13,193,642**	15,928,031
Loans receivable, net	**224,827,736**	202,358,577
Restricted investment securities	**1,824,909**	1,842,666
Premises and equipment, net	**11,673,204**	9,980,235
Accrued interest receivable	**939,928**	857,639
Grants and other receivables	**2,388,381**	3,041,911
Receivable from Hope Enterprise Corporation	**1,307,825**	1,027,247
National Credit Union Share Insurance Fund deposits	**2,037,801**	1,864,690
Goodwill, net	**171,131**	195,578
Real estate and other assets acquired by foreclosure	**564,303**	501,237
Prepaid expenses and other assets	**2,061,156**	1,399,968
Total assets	$ **292,914,243**	$ 278,675,661
Commitments and contingencies (Notes 10, 11, 14 and 15)		
Liabilities and members' equity		
Liabilities:		
Deposits and members' share accounts	$ **240,632,596**	$ 217,923,475
Accounts payable and accrued expenses	**4,572,115**	3,283,969
Notes payable to financial institutions	-	11,039,212
Federal Home Loan Bank advances	**19,502,466**	21,349,125
Maturity reclassification of secondary capital loans	**904,000**	-
Secondary capital loans, net of maturity reclassification	**22,167,774**	20,071,774
Total liabilities	**287,778,951**	273,667,555
Members' equity:		
Regular reserve	**10,000**	10,000
Undivided profits	**5,339,973**	5,098,844
Accumulated other comprehensive loss	**(214,681)**	(100,738)
Total members' equity	**5,135,292**	5,008,106
Total liabilities and members' equity	$ **292,914,243**	$ 278,675,661

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

Years ended December 31,	2018	2017
Interest income		
Interest and fees on loans	$ 11,941,640	$ 9,555,900
Interest on securities and interest-bearing accounts	685,908	543,876
Total interest income	12,627,548	10,099,776
Interest expense		
Members' shares and certificates	2,879,904	1,933,550
Borrowed funds	1,058,637	907,000
Total interest expense	3,938,541	2,840,550
Net interest income	8,689,007	7,259,226
Provision for loan losses	2,775,766	1,514,972
Net interest income after provision for loan losses	5,913,241	5,744,254
Non-interest income		
Grants and contracts revenue	9,203,328	5,913,321
Service charges and fees	4,322,975	3,486,049
Other income	147,145	10,456
Gain on acquisition of businesses	-	988,886
Realized investment losses	-	(7,672)
Total non-interest income	13,673,448	10,391,040
Non-interest expense		
Employee compensation and benefits	7,452,926	6,374,704
Professional and outside services	2,081,663	1,329,681
Marketing and promotional	220,503	220,147
Office occupancy and operations	7,124,748	5,893,300
Loss from sale and impairments of foreclosed real estate	242,047	279,607
Other	2,223,673	1,796,912
Total non-interest expense	19,345,560	15,894,351
Net income	$ 241,129	$ 240,943

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

Years ended December 31,		**2018**		2017
Net Income	**$**	**241,129**	$	240,943
Other comprehensive income (loss)				
Unrealized losses on investment securtities available for sale:				
Unrealized holding losses arising during the year		**(113,943)**		(70,254)
Reclassification adjustment for losses included in operations		**-**		7,672
Total unrealized losses on securities		**(113,943)**		(62,582)
Comprehensive income	**$**	**127,186**	$	178,361

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

Years ended December 31, 2018 and 2017	Regular Reserve	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, January 1, 2017	$ 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
Net income		**241,129**		**241,129**
Change in unrealized loss on investment securities available for sale			**(113,943)**	**(113,943)**
Balance, December 31, 2018	**$ 10,000**	**$ 5,339,973**	**$ (214,681)**	**$ 5,135,292**

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

Hope Federal Credit Union
Statements of Cash Flows

Years ended December 31,	2018	2017
Operating activities:		
Net income	$ 241,129	$ 240,943
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,200,960	1,201,519
Investment discount accretions and premium amortizations	37,038	47,742
Realized investment losses	-	7,672
Loss on sale of fixed assets	12,845	6,535
Gain on acquisition of businesses	-	(988,886)
Provision for loan losses	2,775,766	1,514,972
Net loan origination costs deferred	(104,314)	(49,800)
Losses on sale and impairments of foreclosed real estate	242,047	279,607
Changes in operating assets and liabilities:		
Prepaid expense and other assets	(661,188)	(265,037)
Accrued interest receivable	(82,289)	(165,698)
Grants and other receivables	653,530	(1,964,977)
Receivable from and payable to primary sponsor	(682,160)	(2,365,298)
Accounts payable and accrued expenses	1,288,148	2,170,365
Net cash provided by (used in) operating activities	4,921,512	(330,341)
Investing activities:		
Net change in short-term investments	2,248,308	3,259,050
Cash received in business acquisitions	-	3,789,335
Purchase of investment securities available-for-sale	(100,750)	(1,760,391)
Proceeds from maturities and pay-downs of investment securities available-for-sale	2,684,156	2,959,307
Proceeds from sale of investment securities available-for-sale	-	3,044,392
Net increase in loans	(26,600,128)	(45,645,988)
Proceeds from sales of foreclosed real estate	861,781	488,988
Purchase of property and equipment	(2,188,122)	(1,608,713)
Purchase of restricted security investments	-	(17,300)
Proceeds from sale of restricted security investments	17,757	-
Net change in National Credit Union Insurance Fund deposit	(173,111)	(337,665)
Net cash used in investing activities	(23,250,109)	(35,828,985)
Financing activities:		
Net change in deposits and members' share accounts	22,709,121	38,467,494
Proceeds from secondary capital loans	3,000,000	3,000,000
Repayment of secondary capital loans	-	(749,950)
Proceeds from note payable with financial institution	16,500,000	17,000,000
Repayment of note payable with financial institution	(27,539,212)	(6,000,000)
Proceeds from Federal Home Loan Bank advances	1,500,000	6,338,355
Repayment of Federal Home Loan Bank advances	(3,346,659)	(3,184,371)
Net cash provided by financing activities	12,823,250	54,871,528
Increase (decrease) in cash and cash equivalents	(5,505,347)	18,712,202
Cash and cash equivalents, beginning of year	37,429,574	18,717,372
Cash and cash equivalents, end of year	$ 31,924,227	$ 37,429,574
Supplemental Cash Flow Disclosure:		
Non-cash activities:		
Property received upon foreclosure of loans	$ 1,166,894	$ 1,039,015
Premise received in settlement of related party receivables	$ 694,205	$ -
Assets acquired through assumption of liabilities, excluding cash and cash equivalents received (Note 2)	$ -	$ 20,967,847
Interest paid	$ 3,818,797	$ 2,753,472

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 from (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or liabilities in inactive markets; (iii) inputs other than quoted prices that are observable for the asset or liability; and (iv) inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
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

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

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, 2018 and 2017, net deferred origination costs approximated $957,000 and $852,000, respectively.

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 and all troubled debt restructured loans with modifications granted after fiscal year 2016. Large groups of smaller balance member loans, including mortgage loans less than 240 days past due that are not troubled debt restructurings, are collectively evaluated for impairment. Hope does not separately identify individual consumer loans for impairment.

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

Restricted Investment Securities

Restricted investment securities are carried at cost and consist of investments in Federal Home Loan Bank stock and shares of corporate credit unions. Hope periodically evaluates these restricted securities for impairment based on ultimate recovery of par value. No impairment was identified for Hope's restricted investment securities during 2018 and 2017.

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 began using the alternative permitted for private entities and began 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 2018 and 2017. Amortization expense approximated $24,000 in 2018 and 2017. Accumulated amortization approximated $73,000 and $49,000 for 2018 and 2017, 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.

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

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.

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, 2018 and 2017, grants and other receivables included federally awarded grants of approximately $1,950,000 and $2,507,000, respectively. As of December 31, 2018 and 2017, 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 2018 and 2017, Hope had marketing and promotional expenses of approximately $221,000 and $223,000, 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 April 30, 2019, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, *"Revenue from 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, 2017. 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. ASU 2014-09, ASU 2015-14, and ASU 2016-08 are effective for the Company on January 1, 2019.

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

In January 2016, the FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities*", which is intended to improve the recognition and measurement of financial instruments. ASU 2016-01 (as subsequently amended by ASU 2018-03 for certain technical corrections and clarifications) significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The guidance in ASU 2016-02 (as subsequently amended by ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20) requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As with previous guidance, there continues to be a differentiation between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. Lease assets and liabilities arising from both finance and operating leases will be recognized in the statement of financial position. ASU 2016-02 leaves the accounting for leases by lessors largely unchanged from previous GAAP. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. In addition, ASU 2018-11 provides for an additional (and optional) transition method by which entities may elect to initially apply the transition requirements in Topic 842 at that Topic's effective date with the effects of initially applying Topic 842 recognized as a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption and without retrospective application to any comparative prior periods presented. Also, ASU 2018-20 provides certain narrow-scope improvements to Topic 842 as it relates to lessors. The guidance in ASU 2016-02 will become effective 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 (Topic 326)*", which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. FASB subsequently issued ASU 2018-19 in November 2018, which changes the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*", addressing eight specific cash flow issues in an effort to reduce diversity in practice. The amended guidance is effective for the Company in 2019 and early adoption is permitted.

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

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

In August 2018, the FASB issued ASU 2018-13, *"Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement"* which improves the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This guidance is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted.

Hope is still evaluating the potential impact that these future accounting pronouncements may have on its financial statements.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements in order to conform to the method of presentation used in 2018.

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 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.

NOTE 2: BUSINESS ACQUISITIONS (Continued)

The net gain on acquisition recognized in 2017 represented 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

As part of the business acquisitions consummated in 2017, 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 $465,000 and $453,000 as of December 31, 2018 and 2017, respectively, and is included in other assets. The deferred compensation obligation assumed approximated $142,000 as of December 31, 2018 and 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, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Negotiable certificates of deposits	$ 980,000	$ -	$ -	$ 980,000
U.S. Government and federal agencies	3,025,271	6,032	40,861	2,990,442
Municipal obligations	3,773,625	5,986	33,689	3,745,922
Collateralized mortgage obligations	294,508	-	7,332	287,176
Residential mortgage-backed securities	5,334,919	5,918	150,735	5,190,102
	$ 13,408,323	$ 17,936	$ 232,617	$ 13,193,642

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	3,286,520	11,806	28,045	3,270,281
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	6,774,718	20,424	98,598	6,696,544
	$ 16,028,769	$ 61,538	$ 162,276	$ 15,928,031

As of December 31, 2018, investment securities were pledged as collateral for the line of credit to a financial institution (see Note 7).

The amortized cost and related approximate fair value of investment securities available-for-sale at December 31, 2018 by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 1,835,345	$ 1,830,065
Due after one year through five years	3,861,042	3,825,650
Due after five years through ten years	2,377,017	2,347,825
Mortgage-backed securities	5,334,919	5,190,102
	$ 13,408,323	$ 13,193,642

NOTE 3: INVESTMENT SECURITIES (Continued)

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. Proceeds from the sale of investment securities approximated $3,044,000 during 2017. There were no realized gains or losses recognized during 2018.

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, 2018 and 2017. 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, 2018 and 2017 is summarized below:

	Held Less than 12 Months		Held 12 Months or More		Total	
December 31, 2018	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Government and federal agencies	$ 671,859	$ 3,446	$ 1,682,672	$ 37,415	$ 2,354,531	$ 40,861
Municipal obligations	-	-	2,286,389	33,689	2,286,389	33,689
Collateralized mortgage obligations	-	-	287,066	7,332	287,066	7,332
Residential mortgage-backed securities	249,703	3,054	4,537,439	147,681	4,787,142	150,735
Total	$ 921,562	$ 6,500	$ 8,793,566	$ 226,117	$ 9,715,128	$ 232,617
December 31, 2017						
U.S. Government and federal agencies	$ 368,097	$ 1,944	$ 1,430,580	$ 26,101	$ 1,798,677	$ 28,045
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	952,641	4,200	4,775,879	94,398	5,728,520	98,598
Total	$ 2,068,903	$ 8,812	$ 8,404,904	$ 153,464	$10,473,807	$ 162,276

Collateralized mortgage obligations and residential mortgage-backed securities comprise approximately 42% and 45% of total investment securities as of December 31, 2018 and 2017, respectively. The unrealized losses in collateralized mortgage obligations and residential mortgage-backed securities approximated 68% and 65% of total unrealized losses as of December 31, 2018 and 2017, 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, 2018.

NOTE 4: LOANS RECEIVABLE

Loans receivable consist of the following:

December 31,	2018	2017
Member Business Loans:		
Real estate:		
Construction and land development	$ 3,216,000	$ 6,699,359
Single family	50,130,597	38,013,997
Commercial	7,329,476	7,890,062
Other	22,715,081	17,126,459
Commercial and industrial	12,895,781	11,873,250
Member Mortgage Loans	110,855,195	98,778,914
Member Consumer Loans:		
Secured by automobiles	13,864,797	14,336,512
Unsecured	4,637,724	5,118,591
Secured by share accounts	1,738,667	1,825,171
Secured by real estate	2,177,537	3,015,057
Other secured consumer loans	298,834	1,275,923
	229,859,689	205,953,295
Less allowance for loan losses	(5,031,953)	(3,594,718)
	$ 224,827,736	$ 202,358,577

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 $620,000 and $578,000 at December 31, 2018 and 2017, 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, 2018 and 2017, was as follows:

	Loans		Allowance		
December 31, 2018	Individually	Collectively	Individually	Collectively	Net
Member Business Loans:					
Real estate:					
Construction and land development	$ -	$ 3,216,000	$ -	$ 33,575	$ 3,182,425
Single and multi-family	2,175,278	47,955,319	123,198	765,805	49,241,594
Commercial	1,030,081	6,299,395	128,570	89,920	7,110,986
Other	428,605	22,286,476	87,946	400,736	22,226,399
Commercial and industrial	247,585	12,648,196	50,701	218,325	12,626,755
Member Mortgage Loans	8,170,914	102,684,281	998,781	1,206,291	108,650,123
Member Consumer Loans:					
Secured by automobiles	-	13,864,797	-	630,082	13,234,715
Unsecured	-	4,637,724	-	230,149	4,407,575
Secured by share accounts	-	1,738,667	-	19,185	1,719,482
Secured by real estate	-	2,177,537	-	29,766	2,147,771
Other secured consumer loans	-	298,834	-	18,923	279,911
	$12,052,463	$217,807,226	$ 1,389,196	$ 3,642,757	$224,827,736

December 31, 2017					
Member Business Loans:					
Real estate:					
Construction and land development	$ -	$ 6,699,359	$ -	$ 109,064	$ 6,590,295
Single and multi-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

NOTE 4: LOANS RECEIVABLE (Continued)

As of December 31, 2018 and 2017, information relative to member business and mortgage loans evaluated individually for impairment is as follows:

December 31, 2018	Unpaid Principal Balance	Total Loans with No Specific Allowance	Total Loans with a Specific Allowance	Specific Allowance
Member Business Loans:				
Real estate:				
Single and multi-family	$ 2,175,278	$ 1,139,491	$ 1,035,787	$ 123,198
Commercial	1,030,081	-	1,030,081	128,570
Other	428,605	-	428,605	87,946
Commercial and industrial	247,585	-	247,585	50,701
Member Mortgage Loans	8,170,914	1,968,065	6,202,849	998,781
	$12,052,463	$ 3,107,556	$ 8,944,907	$ 1,389,196

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 and multi-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

The average recorded investment in impaired loans evaluated individually approximated $10,494,000 in 2018 and $7,441,000 in 2017. Interest income recognized on impaired loans approximated $484,000 in 2018 and $191,000 in 2017.

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, 2018 and 2017:

December 31, 2018	Pass Categories	Especially Mentioned Category	Substandard Category	Doubtful Category	Total
Real estate:					
Construction and land development	$ 834,000	$ 2,382,000	$ -	$ -	$ 3,216,000
Single and multi- family	6,375,805	41,579,515	1,822,328	352,949	50,130,597
Commercial	1,413,310	4,886,085	35,722	994,359	7,329,476
Other	7,450,677	14,835,799	-	428,605	22,715,081
Commercial and industrial	3,983,322	8,664,873	22,558	225,028	12,895,781
Total member business loans	$ 20,057,114	$ 72,348,272	$ 1,880,608	$ 2,000,941	$ 96,286,935

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 and multi-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

As of December 31, 2018, Hope has loans outstanding of approximately $7,079,000 that are partially collateralized by credit enhancement guarantees from HEC through a charter school credit enhancement program. Total credit enhancement guarantees from HEC for these loans aggregated $4,955,000 as of December 31, 2018.

NOTE 4: LOANS RECEIVABLE (Continued)

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.

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 and Mortgage Loans		
December 31, 2018	**Performing**	**Nonperforming**	**Total**
Member mortgage loans	**$ 99,589,445**	**$ 11,265,750**	**$ 110,855,195**
Member consumer loans:			
Secured by automobiles	**13,761,423**	**103,374**	**13,864,797**
Unsecured	**4,578,353**	**59,371**	**4,637,724**
Secured by share accounts	**1,718,416**	**20,251**	**1,738,667**
Secured by real estate	**2,166,962**	**10,575**	**2,177,537**
Other secured consumer loans	**298,834**	**-**	**298,834**
	$ 122,113,433	**$ 11,459,321**	**$ 133,572,754**
December 31, 2017			
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

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, 2018	Accretable Yield	Carrying Amount of Loans
Balance at beginning of year	$ 2,248,697	$ 11,121,958
Accretion recorded to interest income	(599,721)	-
Decrease in expected cash flows	(1,013,042)	-
Payments received and charge-offs, net	-	(4,835,142)
Balance at end of year	$ 635,934	$ 6,286,816

Year ended December 31, 2017		
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, 2018 and 2017 was as follows:

December 31, 2018	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	$ 2,647,179	$ -	$ -	$ 568,821	$ 3,216,000
Single and multi-family	48,619,557	542,546	-	968,494	50,130,597
Commercial	6,299,395	-	-	1,030,081	7,329,476
Other	22,000,415	162,457	-	552,209	22,715,081
Commercial and industrial	11,579,704	1,000,000	-	316,077	12,895,781
Member Mortgage Loans	96,036,730	3,552,715	-	11,265,750	110,855,195
Member Consumer Loans:					
Secured by automobiles	13,145,725	615,698	-	103,374	13,864,797
Unsecured	4,520,244	58,109	-	59,371	4,637,724
Secured by share accounts	1,647,380	71,036	-	20,251	1,738,667
Secured by real estate	2,118,624	48,338	-	10,575	2,177,537
Other secured consumer loans	286,748	12,086	-	-	298,834
	$ 208,901,701	$ 6,062,985	$ -	$ 14,895,003	$ 229,859,689

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 and multi-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

NOTE 4: LOANS RECEIVABLE (Continued)

There were no loans past due over 90 days and still accruing interest as of December 31, 2018 and 2017.

Loans in Process of Foreclosure

Loans in process of foreclosure include those for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction. Included in mortgage loans are approximately $1,515,000 of member loans secured by single family residential mortgage real estate that are in process of foreclosure as of December 31, 2018. Specific valuation allowances for these loans approximated $254,000 as of December 31, 2018. In addition to the single family residential real estate loans in process of foreclosure, Hope also held approximately $514,000 and $333,000 of foreclosed single family residential properties in other real estate owned as of December 31, 2018 and 2017, respectively.

In addition, included in member business loans are approximately $2,000,000 of loans that are in process of foreclosure as of December 31, 2018. Specific valuation allowances related to these loans approximated $241,000 as of December 31, 2018.

Troubled Debt Restructurings

At December 31, 2018 and 2017, held for investment loans of Hope classified as troubled debt restructurings (TDRs) approximated $13,269,000 and $11,979,000, respectively. Hope had no commitments outstanding to lend additional amounts as of December 31, 2018 and 2017 to borrowers with outstanding loans classified as TDRs.

TDRs are generally evaluated along with impaired loans. As of December 31, 2018, mortgage loan TDRs past due greater than 240 days and all mortgage loan TDRs which occurred in 2018 and 2017 were individually evaluated for impairment. For mortgage loan TDRs less than 240 days past due that were modified prior to 2017, Hope evaluated impairment on a collective basis using similar results derived from the mortgage loan TDR individual loan analysis results of the 2018 and 2017 modified loans. Because the mortgage loan TDR modifications occurring prior to 2017 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 $4,858,000 and the related allowance for loan losses for these loans approximated $680,000 as of December 31, 2018.

For all TDRs, Hope had a related loan loss allowance of approximately $1,542,000 and $1,382,000 at December 31, 2018 and 2017, respectively. During 2018, TDR mortgage loans and commercial loans with outstanding balances of $701,000 and $1,015,000, respectively, subsequently defaulted within twelve months of their modification date. During 2017, there were no TDRs that subsequently defaulted within twelve months of their modification date. There were approximately $0 and $60,000 in specific charge-offs related to TDRs during 2018 and 2017, respectively.

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, 2018	Number	Amount	Number	Amount	Number	Amount
Member Business Loans:						
Secured by real estate	1	$ 214,433	0	$ -	1	$ 214,433
Member Mortgage Loans	63	5,519,018	91	7,427,491	154	12,946,509
Member Consumer Loans:						
Secured by real estate	1	22,484	0	-	1	22,484
Not secured by real estate	5	21,281	10	64,622	15	85,903
Total TDRs Outstanding	70	$ 5,777,216	101	$7,492,113	171	$13,269,329
December 31, 2017						
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

During 2018 and 2017, 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,	**2018**	2017
Balance at beginning of year	**$ 3,594,718**	$ 2,649,465
Provision for loan losses	**2,775,766**	1,514,972
Loans charged off	**(1,761,705)**	(1,006,545)
Recoveries	**423,174**	436,826
	$ 5,031,953	$ 3,594,718

The balance in the allowance for possible loans losses by portfolio segment at December 31, 2018 and 2017 was as follows:

December 31, 2018	Balance at Beginning of	Charge-Offs	Recoveries	Provision for Loan Losses	Balances at End of Year
Member Business Loans:					
Real estate:					
Construction and land development	$ 109,064	$ -	$ -	$ (75,489)	$ 33,575
Single and multi-family	652,282	-	15,961	220,760	889,003
Commercial	169,338	-	-	49,152	218,490
Other	368,592	-	-	120,090	488,682
Commercial and industrial	229,567	(119)	-	39,578	269,026
Member Mortgage Loans	1,806,905	(315,321)	-	713,488	2,205,072
Member Consumer Loans:					
Secured by automobiles	48,309	(958,517)	262,978	1,277,312	630,082
Unsecured	156,939	(420,730)	123,249	370,691	230,149
Secured by share accounts	30,177	(27,030)	12,756	3,282	19,185
Secured by real estate	17,891	(30,794)	6,925	35,744	29,766
Other secured consumer loans	5,654	(9,194)	1,305	21,158	18,923
	$3,594,718	$ (1,761,705)	$ 423,174	$ 2,775,766	$ 5,031,953

NOTE 4: LOANS RECEIVABLE (Continued)

December 31, 2017	Balance at Beginning of	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 and multi-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 5: PREMISES AND EQUIPMENT

Premises and equipment are as follows:

December 31,	**2018**	2017
Land	**$ 1,289,847**	$ 1,289,847
Buildings and improvements	**7,912,214**	8,730,907
Leasehold improvements	**605,659**	184,106
Computer and equipment	**5,192,547**	5,169,046
Furniture and fixtures	**2,671,869**	1,822,038
Construction in progress	**1,773,448**	315,834
	$ 19,445,584	$ 17,511,778
Less accumulated depreciation	**(7,772,380)**	(7,531,543)
	$ 11,673,204	$ 9,980,235

As of December 31, 2018, Hope had construction in progress commitments with estimated costs to complete of approximately $1,063,000.

NOTE 6: DEPOSITS AND MEMBERS' SHARE ACCOUNTS

Deposits and members' share accounts are summarized as follows:

December 31,	2018	2017
Members' shares and clubs	**$ 74,131,238**	$ 81,826,601
Non-members' shares	**12,572**	20,505
Members' shares certificates	**150,757,201**	119,216,509
Money market	**15,731,585**	16,859,860
	$ 240,632,596	$ 217,923,475

Included in members' share accounts and certificates were member certificates in amounts exceeding $250,000. These accounts approximated $86,768,000 and $79,763,000 at December 31, 2018 and 2017, respectively.

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

Years ended December 31,	2018	2017
Share certificates and clubs	**$ 2,582,650**	$ 1,673,989
Money market and savings	**297,254**	259,561
	$ 2,879,904	$ 1,933,550

A summary of maturities of member and non-member share certificates at December 31, 2018 are as follows:

Maturity within one year	**$ 72,229,539**
Maturity one to five years	**78,527,662**
Maturity more than five years	-
	$ 150,757,201

Related Party Deposits

In the ordinary course of business, officers, directors and their affiliates have deposit accounts with Hope. The deposit accounts totaled approximated $901,000 at December 31, 2018 and $659,000 at December 31, 2017. 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, 2018 and 2017 under a line of credit arrangement. Advances under the lines of credit are repayable within thirty days from the date of each advance. There were no outstanding borrowings as of December 31, 2018. As of December 31, 2017, Hope had borrowings outstanding of $11,000,000 secured by qualifying investments held for sale with an estimated fair value equal to 120% of amounts outstanding (see Note 3). The interest for these outstanding borrowings was 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 July 1, 2019.

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 represented advances on a $250,000 line of credit which were repaid in 2018. The $250,000 line of credit has no expiration date and there were no borrowings outstanding under this line as of December 31, 2018.

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 $19,502,000 and $21,349,000 at December 31, 2018 and 2017, 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 $44,147,000 and $43,935,000 as of December 31, 2018 and 2017, respectively.

A summary of the FHLB borrowings at December 31, 2018 and 2017 were as follows:

Maturity Year	Interest Rate Range	2018	2017
2018	0.9% - 4.148%	$ -	$ 924,191
2019	1.600%	**250,000**	250,000
2020	1.500%	**250,000**	250,000
2021	2.187% - 2.278%	**1,046,720**	1,382,049
2022	1.79% - 2.383%	**2,496,728**	2,854,672
2023	1.829% - 2.174%	**1,951,514**	1,353,714
2024	2.35% - 2.441%	**1,175,172**	1,369,576
2025	2.051% - 2.217%	**2,243,101**	2,580,144
2026	1.988%	**752,443**	846,817
2027	2.365% - 2.753%	**7,890,009**	8,664,099
2028	3.266%	**1,446,779**	873,863
		$ 19,502,466	$ 21,349,125

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, 2018 are as follows:

2019	$ 250,000
2020	250,000
2021	1,046,720
2022	2,496,728
2023	1,951,514
Maturing thereafter	13,507,504
	$ 19,502,466

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,	**2018**	2017
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**	1,050,000
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, 2018 and 2017), 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, 2018 and 2017), 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, 2018 and 2017), maturing on December 20, 2024	**550,000**	550,000
1% interest loan from a bank maturing on April 1, 2027	**76,774**	76,774
3% loan from a non-profit corporation, due October 14, 2026	**3,000,000**	3,000,000
3% loan from a private entity, due December 17, 2028	**3,000,000**	-
Fixed rate loan from Hope Enterprise Corporation bearing interest at 2.605% per annum, maturing on December 22, 2023	**1,500,000**	1,500,000
	23,071,774	20,071,774
Less maturity reclassification	**(904,000)**	-
	$ 22,167,774	$ 20,071,774

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, 2018 and 2017, approximately $904,000 and $0, 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, 2018 are as follows:

2019	$ 904,000
2020	904,000
2021	904,000
2022	904,000
2023	904,000
Maturing thereafter	18,551,774
	$ 23,071,774

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, 2018 and 2017 was 9.30% and 9.04%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes, as of December 31, 2018, that Hope meets all capital adequacy requirements to which it is subject.

NOTE 10: MEMBERS' EQUITY (Continued)

As of December 31, 2018, the most recent call reporting period, Hope was categorized as "*well capitalized*" under the NCUA regulatory framework for prompt corrective action. To be categorized 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, 2018 and 2017 (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, 2018						
Regulatory Net Worth	**$ 27,517,747**	**9.39%**	**$ 17,574,855**	**6.00%**	**$ 20,503,997**	**7.00%**
Risk-Based Net Worth Requirements	**$ 18,717,220**	**6.39%**	**N/A**	**N/A**	**N/A**	**N/A**
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

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, 2018 and 2017, 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

NOTE 11: ACTIVITIES WITH PRIMARY SPONSOR (Continued)

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, excluding dividend payments, on a monthly basis. The contractual arrangement provides for HEC to pay to Hope an amount to cover all normal operating expenses sufficient to enable Hope to maintain net income of no less than $240,000 annually.

During 2018 and 2017, Hope recognized contractual service revenue of approximately $3,261,000 and $2,432,000, respectively, relative to these arrangements. In addition, Hope received grants from third parties of approximately $505,000 in 2018 and $300,000 in 2017 that were passed to Hope from HEC and its affiliates.

As of December 31, 2018 and 2017, Hope had secondary capital loans outstanding to HEC and its affiliates of approximately $12,475,000. Interest expense relating to these affiliated secondary capital loans approximated $258,000 in 2018 and $257,000 in 2017.

As of December 31, 2018 and 2017, HEC had deposit accounts with Hope totaling approximately $1,046,000 and $2,413,000, respectively.

During 2018, HEC transferred ownership in a building to Hope as repayment and satisfaction of a real estate secured loan receivable that originated in 2018 and which approximated $292,000. The excess of the estimated fair value of the building transferred over the carrying value of the real estate secured loan receivable approximated $402,000 and was applied as a settlement of certain receivables due from HEC for contractual service fees. Interest received by Hope from HEC prior to the settlement of the loan receivable approximated $10,000.

In addition, Hope had another real estate secured loan receivable outstanding from HEC which approximated $865,000 and $912,000 as of December 31, 2018 and 2017, respectively. The real estate loan receivable is repayable in monthly installments of $7,773, including interest at prime plus 1.5%. Interest income recognized on this related party loan approximated $56,000 and $52,000 in 2018 and 2017, respectively.

Accounts receivable from HEC approximated $595,000 and $1,027,000 as of December 31, 2018 and 2017, respectively. These balances represented amounts due from HEC for certain loan closings, net of amounts due to Hope relative to the contractual service arrangements.

HEC has a purchased participation interest in certain member business loans originated by Hope with an aggregate outstanding balance of approximately $4,489,000 and $2,766,000 as of December 31, 2018 and 2017, respectively.

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, 2018 and 2017.

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, 2018 and 2017.

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, 2018, impaired loans with a carrying value of $5,030,000 were reduced by specific valuation allowance allocations totaling $944,000 to a total reported fair value of $4,086,000 based on collateral valuations utilizing Level 3 valuation inputs. As of December 31, 2017, impaired loans with a carrying value of $7,596,000 were reduced by specific valuation allowance allocations totaling $1,106,000 to a total reported fair value of $6,490,000 based on net present value and 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 2018 and 2017, 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 $1,167,000 and $1,039,000 (utilizing Level 3 valuation inputs) during 2018 and 2017, 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 $243,000 during 2018 and $249,000 during 2017. Additionally, Hope recognized impairment losses of approximately $55,000 in 2018 and $26,000 in 2017 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, 2018 and 2017 were as follows:

	2018		2017	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	**$ 31,924,227**	**$ 31,924,227**	$ 37,429,574	$ 37,429,574
Short-term investments	**-**	**-**	2,248,308	2,248,308
Investment securities available for sale	**13,193,642**	**13,193,642**	15,928,031	15,928,031
Loans receivable	**224,827,736**	**227,302,153**	202,358,577	203,495,405
Grants and other receivables	**2,388,381**	**2,388,381**	3,047,911	3,041,911
Restricted investment securities	**1,824,909**	**1,824,909**	1,842,666	1,842,666
NCUSIF deposits	**2,037,801**	**2,037,801**	1,864,690	1,864,690
Financial Liabilities:				
Deposits and members' share accounts	**240,632,596**	**245,265,103**	217,923,475	217,522,277
Short-term borrowings	**-**	**-**	11,039,212	11,039,212
Federal Home Loan Bank advances	**19,502,466**	**19,084,112**	21,349,125	20,966,282
Secondary capital loans	**23,071,774**	**23,866,138**	20,071,774	20,937,100

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, 2018, Hope had commitments to extend credit of approximately $18,256,000 based upon the contractual amount of the commitment to respective member borrowers.

Concentration of Credit Risk

At December 31, 2018, Hope had cash deposits with five financial institutions, including their central clearing house, in excess of insured limits by approximately $26,631,000. 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, 2018.

NOTE 15: SUBSEQUENT EVENT

On April 11, 2019, Hope repurchased the senior subordinated debentures approximating $4,520,000 that were outstanding at December 31, 2018. These senior subordinated debentures were scheduled to mature on September 17, 2023 and were repurchased in full from the U. S. Treasury and retired as permitted pursuant to the terms of the purchase agreement.