HCU Management Discussion & Analysis

Independent Auditors' Report
Hope Credit Union (HCU) received an unmodified, or 'clean' audit for FY 2022.

Balance Sheet Analysis
HCU's total assets stood at $538 million on December 31, 2022, up approximately $71 million (15.2%) from $467 million at December 31, 2021. This growth primarily resulted from increases in securities ($81 million) and loans ($9 million) which more than offset reductions in cash ($44 million). Given the continued increase in the interest rate environment, HCU's securities portfolio carried Unrealized Losses (i.e., Accumulated Other Comprehensive Loss) of $15.6 million at the end of 2022. None of the Unrealized Losses are related to credit factors but, rather, recognize the changes in market values of fixed-income securities in a rising rate environment. HCU has adequate sources of liquidity to fund loan demand and operations and does not anticipate realizing any of the losses in the portfolio.

As detailed in the following schedule, loan related assets are the largest category of HCU's assets:

	2022	2021
Loans receivable – net	255,606,764	246,865,993
Foreclosed and Repossessed Assets	1,190,380	256,283
Total	256,797,144	247,122,276
Percent of total assets	48%	53%

HCU's asset growth was funded by an $85 million (18.4%) increase in liabilities, from $462 million at December 31, 2021 to $547 million at December 31, 2022 primarily due to a $92 million increase in secondary capital funded by the Emergency Capital Investment Program (ECIP) at the US Treasury. ECIP is a historic $9 Billion investment to capitalize growth of CDFI depositories and increase capital in historically underserved areas. HCU's deposits remained relatively stable in terms of balances but continued to show reductions in average cost of deposits as HCU's Transformational Deposits replaced older, higher-cost certificates. Since 2020, HCU has raised close to $150 million in Transformational Deposits.

The increase in secondary capital via Treasury's ECIP investment radically transformed HCU's capital position and has positioned it for significant growth. Under 12 CFR 701.34(b), low-income designated credit unions such as HCU may accept subordinate debt as secondary capital, which is recognized as net worth for regulatory purposes. As described above, HCU's Unrealized Losses in its securities portfolio are reflected as Accumulated Other Comprehensive Loss (AOCL) in its Equity section of the balance sheet. However, AOCL is excluded from regulatory capital calculations. The following schedule details HCU's regulatory capital for 2021 and 2020:

	2022	2021
Secondary Capital, net	142,416,194	50,472,549
Regular Reserves & Undivided Earnings	6,313,811	6,073,327
Total	148,730,005	56,545,876
Percent of total assets	27.6%	12.1%

Earnings Analysis
Interest income increased $4 million (27.2%) in 2022 to $18.7 million from $14.7 million in 2021. Interest on the loan portfolio grew by $0.8 million due to continued strong portfolio performance and increased rates on new loan originations. Interest on the securities portfolio increased by $3.2 million due to the larger portfolio size discussed above along with higher interest rates in the bond market.

Total interest expense decreased from $3.5 million in 2021 to $2.8 million in 2022. Interest expense related to member shares and certificates decreased from $2.2 million in 2021 to $1.4 million in 2022, reflecting the impact of the Transformational Deposits replacing older, higher-cost certificates. At the end of 2022, HCU had reduced its cost of funds to a level comparable with most of its peers.

Interest expense related to borrowed funds remained relatively flat. The ECIP investment was made at 0% for the first 24 months and then escalates to a maximum rate of 2% at the end of Q2 2024. HCU has an opportunity to reduce the rate on the ECIP investment to as low as 0.5% based on its lending volume in high-impact markets.

The provision for loan losses in 2022 was ($0.9 million) compared to $2.6 million in 2021, as through the end of 2021, HCU elevated qualitative factors in calculating reserves in order to mitigate risks and uncertainties associated with the pandemic. During 2022, HCU was able to reduce its reserve levels as its loan portfolio continued to perform well coming out of the pandemic. At the end of 2022, there were no additional pandemic reserves to be recaptured, and HCU implemented CECL on January 1, 2023 with no transition reserve needed.

Non-interest income decreased from $14.2 million in 2021 to $10.1 million in 2022. Grant and contract revenue decreased from $9.4 million in 2021 to $4.3 million in 2022. Service charges and fees increased from $3.1 million in 2021 to $3.6 million in 2022, and Other Noninterest Income increased from $1.7 million in 2021 to $2.1 million in 2022.

Non-interest expenses increased $4.9 million from $21.7 million in 2021 to $26.6 million in 2022. HCU had maintained stable operating expenses in 2020 and 2021 largely related to reduced operating expenses associated with the pandemic-related teleworking, lobby closings, lower travel, utilities, etc. HCU resumed full in-person operations for all of 2022 and also made additional investments in personnel and systems to support future anticipated growth supported by the ECIP investment.

Alan Branson
Chief Financial Officer

William Bynum
Chief Executive Officer

HOPE FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

HOPE FEDERAL CREDIT UNION
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YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Hope Federal Credit Union
Jackson, Mississippi

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hope Federal Credit Union, which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of income, comprehensive loss, changes in members' (deficit) equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Federal Credit Union as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hope Federal Credit Union and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hope Federal Credit Union's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Hope Federal Credit Union's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hope Federal Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 27, 2023

HOPE FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and Cash Equivalents	$ 82,113,205	$ 104,577,140
Securities - Available-for-Sale	175,117,637	94,781,575
Other Investments	3,760,359	3,712,789
Loans, Net	255,606,764	246,865,993
Accrued Interest Receivable	1,707,557	962,883
Foreclosed and Repossessed Assets	1,190,380	256,283
Premises and Equipment, Net	12,899,291	11,709,394
NCUSIF (National Credit Union Share Insurance Fund) Deposit	3,314,275	2,850,929
Other Assets	2,359,588	1,429,174
Total Assets	$ 538,069,056	$ 467,146,160
LIABILITIES AND MEMBERS' (DEFICIT) EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 371,460,684	$ 369,828,412
Borrowed Funds	24,083,390	31,394,024
Secondary Capital Loans, Net	142,416,194	50,472,549
Accrued Interest Payable	146,538	262,113
Payable to Hope Enterprise Corporation	2,546,708	1,398,290
Accrued Expenses and Other Liabilities	6,677,619	8,638,266
Total Liabilities	547,331,133	461,993,654
MEMBERS' (DEFICIT) EQUITY		
Regular Reserves	-	10,000
Undivided Earnings	6,313,811	6,063,327
Accumulated Other Comprehensive Loss	(15,575,888)	(920,821)
Total Members' (Deficit) Equity	(9,262,077)	5,152,506
Total Liabilities and Members' (Deficit) Equity	$ 538,069,056	$ 467,146,160

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INTEREST INCOME		
Loans	$ 14,714,855	$ 13,932,118
Securities	3,942,478	799,715
Total Interest Income	18,657,333	14,731,833
INTEREST EXPENSE		
Members' Share and Savings Accounts	1,437,222	2,205,621
Borrowed Funds	1,336,823	1,349,274
Total Interest Expense	2,774,045	3,554,895
Net Interest Income	15,883,288	11,176,938
(CREDIT) PROVISION FOR LOAN LOSSES	(866,274)	3,414,780
Net Interest Income After (Credit) Provision for Loan Losses	16,749,562	7,762,158
NONINTEREST INCOME		
Service Charges and Fees	3,555,880	3,121,236
Other Noninterest Income	2,127,953	1,734,478
Grants and Contracts Revenue	4,282,747	9,424,789
Net Gains (Losses) on Sales and Impairments of Foreclosed and Repossessed Assets	120,658	(62,032)
Total Noninterest Income	10,087,238	14,218,471
NONINTEREST EXPENSE		
Employee Compensation and Benefits	13,155,147	10,423,259
Occupancy	3,699,203	3,266,270
Operations	5,789,069	5,347,952
Professional and Outside Services	1,683,145	1,397,620
Educational and Promotional	261,832	306,237
Loan Servicing	1,437,598	600,119
Other Operating Expenses	570,322	397,425
Total Noninterest Expense	26,596,316	21,738,882
NET INCOME	$ 240,484	$ 241,747

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
NET INCOME	$ 240,484	$ 241,747
OTHER COMPREHENSIVE LOSS:		
Securities - Available-for-Sale		
Unrealized Holding Loss Arising During the Period	(14,655,067)	(1,359,986)
TOTAL COMPREHENSIVE LOSS	$ (14,414,583)	$ (1,118,239)

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' (DEFICIT) EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCES - DECEMBER 31, 2020	$ 10,000	$ 5,821,580	$ 439,165	$ 6,270,745
Net Income	-	241,747	-	241,747
Other Comprehensive Loss	-	-	(1,359,986)	(1,359,986)
BALANCES - DECEMBER 31, 2021	10,000	6,063,327	(920,821)	5,152,506
Cumulative Effect of Change in Regulation (See Member's Equity in Note 1)	(10,000)	10,000	-	-
Net Income	-	240,484	-	240,484
Other Comprehensive Loss	-	-	(14,655,067)	(14,655,067)
BALANCES - DECEMBER 31, 2022	$ -	$ 6,313,811	$ (15,575,888)	$ (9,262,077)

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 240,484	$ 241,747
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	949,654	1,007,057
Amortization of Security Premiums and Discounts, Net	51,819	91,696
(Credit) Provision for Loan Losses	(866,274)	3,414,780
Amortization of Net Loan Origination Fees	239,798	14,112
Impairment Loss on Foreclosed and Repossessed Assets	-	62,032
Net Gains from Sales of Foreclosed and Repossessed Assets	(120,658)	-
Changes in:		
Accrued Interest Receivable	(744,674)	(8,241)
Other Assets	(930,414)	(42,976)
Payable to Hope Enterprise Corporation	1,148,418	1,398,290
Receivable from Hope Enterprise Corporation	-	3,033,806
Accrued Interest Payable	(115,575)	(200,374)
Accrued Expenses and Other Liabilities	(1,960,647)	1,764,673
Net Cash Provided (Used) by Operating Activities	(2,108,069)	10,776,602
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Securities - Available-for-Sale	(106,195,245)	(79,315,073)
Proceeds from Paydowns of Securities - Available-for-Sale	11,152,297	8,931,131
Sales of Other Investments	(47,570)	(444,407)
Loan Originations Net of Principal Collected on Loans to Members	(9,365,217)	(2,672,224)
Increase in NCUSIF Deposit	(463,346)	(392,300)
Proceeds from Sales of Foreclosed Assets	437,483	54,772
Sales of Premises and Equipment	377,517	-
Expenditures for Premises and Equipment	(2,517,068)	(580,643)
Net Cash Used by Investing Activities	(106,621,149)	(74,418,744)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	1,632,272	77,362,208
Proceeds from Secondary Capital Loans	92,569,000	44,785,775
Repayments of Secondary Capital Loans	-	(21,260,000)
Advances of Borrowed Funds	1,823,000	785,000
Repayments and Maturities of Borrowed Funds	(9,758,989)	(4,354,933)
Net Cash Provided by Financing Activities	86,265,283	97,318,050
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,463,935)	33,675,908
Cash and Cash Equivalents - Beginning of Year	104,577,140	70,901,232
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 82,113,205	$ 104,577,140

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
SUPPLEMENTARY DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Borrowed Funds Cash Paid for Interest	$ 1,348,906	$ 1,349,274
Members' Share and Savings Accounts Cash Paid for Interest	$ 1,540,714	$ 2,405,995
Transfers of Loans to Foreclosed and Repossessed Assets	$ 1,250,922	$ 251,134

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hope Federal Credit Union (Credit Union) is a federal-chartered cooperative association headquartered in Jackson, Mississippi, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among and creating a source of credit for its members, and under the supervision of the National Credit Union Administration.

The Credit Union is designated as a Community Development Financial Institution (CDFI) and a Minority Depository Institution (MDI) by the U.S. Treasury Department and is also recognized as a Low-Income Credit Union (LICU) by the National Credit Union Administration (NCUA). The Credit Union's Mission, Vision, and Values are summarized as follows:

Mission

To strengthen communities, build assets and improve lives in economically distressed areas of the Deep South by providing access to high quality financial products and related services.

Vision

To be a community development financial institution that: provides a substantial number of low-wealth people and communities with the financial tools and resources needed to achieve a better quality of life; influences policies and resources that impact our constituents and our interests; and is financially self-sufficient.

Core Values

Three core values undergird the Credit Union's work. The Credit Union adheres to these values without regard to circumstantial or environmental changes. The core values define the Credit Union's corporate identity. The Credit Union's dedication to these values must be evident in our products, services and operations:

- Equal Access to Economic Opportunity: Our work should reflect a commitment to fair and equal access to the economic opportunities that life has to offer.
- Excellence: The people and communities we serve have a right to expect excellence, and we have a responsibility to provide it. A commitment to excellence is a statement of respect for our customers, depositors, funders, investors, board of directors and each other.
- Bridge Builder: Recognizing both the limitations of our own human and financial resources and the necessity of broad support to address the development needs that face distressed people and communities, HOPE will seek to support partners and to engage, attract and influence the support of others to achieve our mission.

From its beginnings in 1995 at a single African American United Methodist Church in Jackson, MS, the Credit Union has grown to more than 25 locations serving over 36,000 members in the Deep South states of Alabama, Arkansas, Louisiana, Mississippi, and Tennessee.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of individuals who have contributed to the Credit Union's primary sponsor, Hope Enterprise Corporation (HEC). As described in Note 11 to these financial statements, HEC also operates as a Community Development Financial Institution (CDFI) for the purpose of providing capital to rural and economically disadvantaged communities and target markets.

In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members. Most members reside in the Deep South states of Mississippi, Louisiana, Tennessee, Arkansas, and Alabama.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities available-for-sale and the determination of the allowance for loan losses.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within the Deep South.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except for commercial and residential real estate loans.

Cash and Cash Equivalents

For purposes of the statements of financial condition and statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in other comprehensive loss. Realized gains and losses on securities available-for-sale are included in other noninterest income and, when applicable, are reported as a reclassification adjustment in other comprehensive loss. Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in noninterest income.

The Credit Union did not record any declines in the value of securities other than temporary impairment during the years ended December 31, 2022 and 2021.

Other Investments

Other investments are carried at cost and are evaluated for credit events resulting in impairment.

Loans, Net

The Credit Union originates consumer, mortgage and commercial loans directly to members and also purchases and sells loan participations. A substantial portion of the loan portfolio is represented by mortgage and commercial loans to members.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, adjusted for an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans.

The Credit Union has purchased credit-impaired loans (PCIL) that are accounted for in accordance with the provisions of ASC 310-30, *Loan and Debt Securities Acquired with Deteriorated Credit Quality*. PCIL are reported at their outstanding unpaid principal balance, adjusted for a purchase discount. The amount representing the excess of expected cash flows over the loans' purchase price is accreted into interest income using the interest method over the remaining contractual life of the loans. Total PCIL is immaterial for the years ended December 31, 2022 and 2021.

PCIL are reviewed periodically during the year to determine whether performance is materially as expected. If the Credit Union's analysis indicates subsequent decreases or delays in estimated future cash flows, the loans are reduced to the discounted net present value of future cash flows, which results in a reduction of income with a corresponding valuation (impairment) allowance.

The present value of any subsequent increases in the loans' actual or projected cash flows is used first to reverse any existing valuation allowance. For any remaining increases in cash flows expected to be collected, the Credit Union increases the accretable yield on a prospective basis over the remaining term of the loans.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union's allowance for loan losses is that amount considered adequate to absorb expected losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowances established for these loans are based on an analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all the scheduled payments of principal or 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 that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

The Credit Union has concluded that the impairment impact of TDRs on its loans is insignificant to the financial statements. As such these impairments are not individually tracked but rather are adequately included in the loss allowance provided on a pooled basis.

The Credit Union has no material TDRs at December 31, 2021.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: This portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators may be closely correlated to the credit quality of these loans. Weak economic trends may indicate the borrowers' capacity to repay their obligations may be deteriorating.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators may be closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Commercial: Commercial loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate project and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations. All other commercial loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators may be closely correlated to the credit quality of these loans.

The Credit Union assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectibility of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The risk ratings for commercial loans can be grouped into the following major categories, defined as follows:

Pass: Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Special Mention: Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard: Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectible and anticipated to be charged off.

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Payables from Hope Enterprise Corporation

As described in Note 11 to these financial statements, HEC and the Credit Union have entered into a contractual agreement wherein HEC agrees to reimburse the Credit Union for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions. HEC has also purchased participated interests in commercial loans serviced by the Credit Union.

Amounts due to the Credit Union related to contractual reimbursements and payables to HEC regarding loan servicing and other costs are presented net on the statements of financial condition. Management evaluates the net receivable or payable for collectibility and determined that no reserve was required as of December 31, 2022 and 2021.

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

Premises and Equipment, Net

Land and construction in progress are carried at cost. Buildings, furniture, and equipment are carried at cost, less accumulated depreciation. Buildings, furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NCUSIF Deposit

The deposit in the NCUSIF is in accordance with National Credit Union Administration (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 would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to certain other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' (Deficit) Equity

Prior to January 1, 2022, the Credit Union was required by regulation to maintain a statutory reserve (Regular Reserve). This Regular Reserve, which represented a regulatory restriction of members' equity, was established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The Regular Reserve was not available for the payment of dividends. Effective January 1, 2022, the Regular Reserve is no longer required by regulation. All Regular Reserves amounts were transferred to Undivided Earnings effective January 1, 2022.

The Credit Union is subject to various regulatory net worth requirements by the NCUA.

Comprehensive Loss

Comprehensive loss consists of net income and other comprehensive loss. Accumulated other comprehensive loss, also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities.

Revenue Recognition

The Credit Union recognizes revenue in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to charge.

- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to charge.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans, securities, and deposits held in other financial institutions. In addition, certain noninterest income streams, such as income from fees and charges on loans and grant contributions, are also not within the scope of the guidance. Noninterest income considered to be within the scope of Topic 606 is discussed as follows:

HEC Contractual Revenue

Under the terms of the contractual arrangements, the Credit Union has agreed to provide financial products and service offerings in certain low-income communities in which HEC has a mission to promote economic development. In consideration for these contractual services, HEC has agreed to reimburse the Credit Union for its normal operating expenses, excluding dividend payments, on a monthly basis. The contractual arrangement provides for HEC to pay the Credit Union an amount to cover all normal operating expenses sufficient to enable the Credit Union to maintain a net income of no less than $240,000 annually. The performance obligation to HEC is satisfied through the incurrence of the aforementioned costs, and the revenue is recognized over time, typically one month.

Service Charges and Deposit Account Fees

The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Debit Card Interchange Fees

When members use their debit cards to pay merchants for goods or services, the Credit Union retains a fee from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network. Card holder rewards, which are a cost of obtaining interchange fee income, are immaterial to the financial statements.

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes.

Advertising Costs

Advertising and promotion costs totaled approximately $262,000 and $306,000 for the years ended December 31, 2022 and 2021, respectively, and are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. This standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Credit Union adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption. As such, a ROU asset and liability was recorded as of January 1, 2022 and this is immaterial to the financial statements.

ROU assets represent the Credit Union’s right to use an underlying asset for the lease term and lease liabilities represent the Credit Union’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In November 2018, the FASB approved ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*. The main objective of the ASUs is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASUs replace the incurred loss impairment methodology in current accounting principles generally accepted in the United States of America with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASUs are effective for the Credit Union for the fiscal year beginning after December 15, 2022, including interim periods within this fiscal year. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 and associated updates on the financial statements, however, the impact on the financial statements is not expected to be material.

NOTE 2 REVENUE FROM CONTRACTS WITH MEMBERS

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31:

	2022	2021
In Scope of ASC 606		
HEC Contractual Revenue	$ 494,300	$ 4,441,500
Service Charges and Deposit Account Fees	3,121,481	2,773,114
Debit Card Interchange Fees	1,203,889	1,379,819
Total Noninterest Income in Scope of ASC 606	4,819,670	8,594,433
Noninterest Income Not Within Scope of ASC 606	5,267,568	5,624,038
Total Noninterest Income	$ 10,087,238	$ 14,218,471

The Credit Union does not typically enter into long-term revenue contracts with customers and, therefore, does not experience significant contract balances. As of December 31, 2022 and 2021, the Credit Union did not have any significant contract balances or capitalize any contract acquisition costs.

NOTE 3 SECURITIES AND OTHER INVESTMENTS

The amortized cost and fair value of securities available-for-sale are as follows:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities	$ 15,060,682	$ -	$ (859,245)	$ 14,201,437
U.S. Treasury Notes	18,580,310	-	(1,228,513)	17,351,797
Federal Agency Mortgage-Backed Securities	56,883,445	19,232	(5,216,386)	51,686,291
Collateralized Mortgage Obligation Securities	55,020,247	547	(5,092,910)	49,927,884
Small Business Administration Securities	6,543,391	-	(736,681)	5,806,710
Municipal Bonds	37,870,450	61,257	(2,523,189)	35,408,518
Negotiable Certificates of Deposit	735,000	-	-	735,000
Total	$ 190,693,525	$ 81,036	$ (15,656,924)	$ 175,117,637

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities	$ 5,088,409	$ -	$ (141,504)	$ 4,946,905
U.S. Treasury Notes	10,584,374	-	(137,187)	10,447,187
Federal Agency Mortgage-Backed Securities	37,129,307	73,679	(396,141)	36,806,845
Collateralized Mortgage Obligation Securities	23,299,801	9,679	(198,594)	23,110,886
Small Business Administration Securities	4,975,795	23,749	(41,501)	4,958,043
Municipal Bonds	13,644,710	52,931	(165,932)	13,531,709
Negotiable Certificates of Deposit	980,000	-	-	980,000
Total	$ 95,702,396	$ 160,038	$ (1,080,859)	$ 94,781,575

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

There were no sales of securities available-for-sale during the years ended December 31, 2022 and 2021.

The amortized cost and estimated fair value of securities, at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities, U.S. Treasury Notes, Municipal Bonds, and Negotiable Certificates of Deposit:		
Less Than One Year	$ 1,115,839	$ 1,106,673
One to Five Years	47,239,864	44,549,571
Five to Ten Years	14,537,156	12,735,541
After Ten Years	9,353,583	9,304,967
Subtotal	72,246,442	67,696,752
Federal Agency Mortgage-Backed, Collateralized Mortgage Obligation and Small Business Administration Securities	118,447,083	107,420,885
Total	$ 190,693,525	$ 175,117,637

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, is shown below:

	2022			
	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government and Federal Agency Securities	$ (222,649)	$ 9,777,350	$ (636,596)	$ 4,424,087
U.S. Treasury Notes	(326,544)	7,700,466	(901,969)	9,651,331
Federal Agency Mortgage-Backed Securities	(1,395,031)	24,283,849	(3,821,355)	24,845,227
Collateralized Mortgage Obligation Securities	(3,013,784)	36,709,442	(2,079,126)	13,007,765
Small Business Administration Securities	(188,471)	2,603,280	(548,210)	3,203,430
Municipal Bonds	(1,426,126)	21,640,476	(1,097,063)	6,799,787
Total Available-for-Sale	$ (6,572,605)	$ 102,714,863	$ (9,084,319)	$ 61,931,627

	2021			
	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government and Federal Agency Securities	$ (15,917)	$ 970,591	$ (125,587)	$ 3,976,315
U.S. Treasury Notes	(137,187)	10,447,190	-	-
Federal Agency Mortgage-Backed Securities	(396,123)	32,751,649	(18)	1,788
Collateralized Mortgage Obligation Securities	(174,359)	15,070,894	(24,235)	3,216,290
Small Business Administration Securities	(41,501)	3,731,873	-	-
Municipal Bonds	(139,522)	7,604,661	(26,410)	581,808
Total Available-for-Sale	$ (904,609)	$ 70,576,858	$ (176,250)	$ 7,776,201

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

At December 31, 2022, 226 securities with unrealized losses have depreciated 8.68% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. government, and/or secured by mortgage loans or insured deposits. These unrealized losses relate principally to current interest rates for similar types of securities. 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 the results of reviews of the issuer's financial condition. As management has the ability to hold securities for the foreseeable future, no declines are deemed to be other than temporary.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other Investments

Other investments are summarized as follows:

	December 31,	
	2022	2021
Contributed Capital Accounts and Deposits	$ 995,008	$ 995,008
FHLB Stock	2,115,400	2,085,800
Loans to, and Investments in, CUSOs	649,951	631,981
Total	$ 3,760,359	$ 3,712,789

Contributed Capital Accounts and Deposits

The Credit Union maintains contributed capital accounts and deposits with various corporate credit unions and service providers that are uninsured.

These uninsured deposits are subject to impairment or loss in the event the corporate credit union or other entity is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Dallas (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is, therefore, reported at cost, subject to impairment.

Loans to, and Investments in, Credit Union Service Organizations (CUSOs)

The Credit Union has minor ownership interests in CUSOs providing services to the credit union market. Such investments, as a practical expedient, are recorded at cost, less impairment, plus or minus observable price changes.

NOTE 4 LOANS, NET

The composition of loans is as follows:

	December 31, 2022	December 31, 2021
Consumer:		
Auto	$ 18,909,319	$ 14,368,467
Share Secured	2,375,215	2,293,347
Other Secured	660,743	494,369
Unsecured	5,016,144	4,073,707
Subtotal	26,961,421	21,229,890
Residential Real Estate	135,572,656	128,442,550
Commercial	98,333,100	104,600,946
Total Loans	260,867,177	254,273,386
Net Deferred Loan Origination Costs	1,538,678	1,298,880
Allowance for Loan Losses	(6,799,091)	(8,706,273)
Loans, Net	$ 255,606,764	$ 246,865,993

The Credit Union has purchased loan participations originated by other financial institutions which are secured by commercial property. These loan participations were purchased without recourse and the originating financial institution performs all loan servicing functions on these loans. The total loan participations included in the commercial segment above totaled approximately $13,707,000 and $18,766,000 at December 31, 2022 and 2021, respectively.

The Credit Union has sold loan participations to various other financial institutions, which are secured by commercial property. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial loan segment above, totaled approximately $11,479,000 and $12,035,000 at December 31, 2022 and 2021, respectively.

The Credit Union offers nontraditional commercial and residential mortgage loans to its members. These loans include hybrid and variable interest only mortgages. Hybrid loans consist of loans that are fixed for an initial period of three, five, or seven years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower. The interest only loans allow the borrower to pay only interest for a specified number of years. These types of loans may result in a lack of principal amortization or even negative amortization if the minimum payment is less than the interest accruing on the loan.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the real estate and commercial loan captions above, totaled approximately $11,088,000 and $38,452,000 at December 31, 2022 and 2021, respectively.

NOTE 4 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows:

	2022			
	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses				
Balance at Beginning of Year	$ 229,978	$ 3,324,567	$ 5,151,728	$ 8,706,273
(Credit) Provision for Loan Losses	830,090	(50,646)	(1,645,718)	(866,274)
Loans Charged-Off	(998,737)	(302,567)	(438,721)	(1,740,025)
Recoveries of Loans Previously Charged-Off	450,008	51,059	198,050	699,117
Balance at End of Year	$ 511,339	$ 3,022,413	$ 3,265,339	$ 6,799,091
Ending Balance: Individually Evaluated for Impairment	$ -	$ 920,860	$ 801,168	$ 1,722,028
Ending Balance: Collectively Evaluated for Impairment	510,966	2,101,553	2,464,171	5,076,690
Total Allowance for Loan Losses	$ 511,339	$ 3,022,413	$ 3,265,339	$ 6,799,091
Loans				
Ending Balance: Individually Evaluated for Impairment	$ -	$ 13,427,328	$ 4,280,785	$ 17,708,113
Ending Balance: Collectively Evaluated for Impairment	26,900,796	122,145,328	94,052,315	$ 243,098,439
Total Loans	$ 26,961,421	$ 135,572,656	$ 98,333,100	$ 260,867,177

	2021			
	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 182,902	$ 3,259,404	$ 2,810,306	$ 6,252,612
Provision for Loan Losses	142,871	165,980	3,105,929	3,414,780
Loans Charged-Off	(645,448)	(100,817)	(1,263,820)	(2,010,085)
Recoveries of Loans				-
Previously Charged-Off	549,653	-	499,313	1,048,966
Balance at End of Year	$ 229,978	$ 3,324,567	$ 5,151,728	$ 8,706,273
Ending Balance: Individually Evaluated for Impairment	$ -	$ 927,669	$ 1,461,737	$ 2,389,406
Ending Balance: Collectively Evaluated for Impairment	229,978	2,396,898	3,689,991	6,316,867
Total Allowance for Loan Losses	$ 229,978	$ 3,324,567	$ 5,151,728	$ 8,706,273
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ -	$ 13,763,765	$ 7,115,878	$ 20,879,643
Ending Balance: Collectively Evaluated for Impairment	21,229,890	114,678,785	97,485,068	233,393,743
Total Loans	$ 21,229,890	$ 128,442,550	$ 104,600,946	$ 254,273,386

NOTE 4 LOANS, NET (CONTINUED)

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings at December 31:

Risk Rating:	2022	2021
Pass	$ 87,074,824	$ 92,663,067
Special Mention	4,722,076	4,935,698
Substandard	6,447,990	6,655,901
Doubtful	88,210	346,280
Loss	-	-
Total	$ 98,333,100	$ 104,600,946

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

	2022		
	Payment Activity		
	Performing	Nonperforming	Total
Consumer:			
Auto	$ 18,785,984	$ 123,335	$ 18,909,319
Share Secured	2,374,675	540	2,375,215
Other Secured	660,743	-	660,743
Unsecured	4,915,159	100,985	5,016,144
Residential Real Estate	127,518,073	8,054,583	135,572,656
Total	$ 154,254,634	$ 8,279,443	$ 162,534,077

	2021		
	Payment Activity		
	Performing	Nonperforming	Total
Consumer:			
Auto	$ 14,300,130	$ 68,337	$ 14,368,467
Share Secured	2,293,347	-	2,293,347
Other Secured	494,369	-	494,369
Unsecured	3,990,598	83,109	4,073,707
Residential Real Estate	122,117,488	6,325,062	128,442,550
Total	$ 143,195,932	$ 6,476,508	$ 149,672,440

NOTE 4 LOANS, NET (CONTINUED)

The following tables show an aging analysis of the loan portfolio by time past due:

	2022				
	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Consumer:					
Auto	$ 18,010,827	$ 775,157	$ -	$ 123,335	$ 18,909,319
Share Secured	2,312,808	61,867	-	540	2,375,215
Other Secured	633,575	27,168	-	-	660,743
Unsecured	4,658,674	256,485	-	100,985	5,016,144
Residential Real Estate	118,429,162	9,088,911	-	8,054,583	135,572,656
Commercial	98,222,907	110,193	-	-	98,333,100
Total	$ 242,267,953	$ 10,319,781	$ -	$ 8,279,443	$ 260,867,177

	2021				
	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Consumer:					
Auto	$ 13,732,083	$ 568,047	$ -	$ 68,337	$ 14,368,467
Share Secured	2,279,503	13,844	-	-	2,293,347
Other Secured	493,038	1,331	-	-	494,369
Unsecured	3,846,276	144,322	-	83,109	4,073,707
Residential Real Estate	116,132,092	5,985,396	-	6,325,062	128,442,550
Commercial	103,195,399	-	-	1,405,547	104,600,946
Total	$ 239,678,391	$ 6,712,940	$ -	$ 7,882,055	$ 254,273,386

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2022 and 2021.

NOTE 4 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans for December 31:

	2022			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Residential Real Estate	$ 9,483,134	$ 9,483,134	$ -	$ 9,029,090
Commercial	1,777,790	1,777,790	-	1,667,284
Total	$ 11,260,924	$ 11,260,924	$ -	$ 10,696,374
With an Allowance Recorded:				
Residential Real Estate	$ 3,944,194	$ 3,944,194	$ 920,860	$ 4,566,457
Commercial	2,502,995	2,502,995	801,168	$ 3,974,000
Total	$ 6,447,189	$ 6,447,189	$ 1,722,028	$ 8,540,457
Total Impaired Loans:				
Residential Real Estate	$ 13,427,328	$ 13,427,328	$ 920,860	$ 13,595,547
Commercial	4,280,785	4,280,785	801,168	5,641,284
Total	$ 17,708,113	$ 17,708,113	$ 1,722,028	$ 19,236,831

	2021			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Residential Real Estate	$ 8,575,046	$ 8,575,046	$ -	$ 13,118,153
Commercial	1,556,777	1,670,473	-	1,452,935
Total	$ 10,131,823	$ 10,245,519	$ -	$ 14,571,088
With an Allowance Recorded:				
Residential Real Estate	$ 5,188,719	$ 5,188,719	$ 927,669	$ 10,680,649
Commercial	5,445,405	5,445,405	1,461,737	4,054,030
Total	$ 10,634,124	$ 10,634,124	$ 2,389,406	$ 14,734,679
Total Impaired Loans:				
Residential Real Estate	$ 13,763,765	$ 13,763,765	$ 927,669	$ 23,798,802
Commercial	7,002,182	7,115,878	1,461,737	5,506,965
Total	$ 20,765,947	$ 20,879,643	$ 2,389,406	$ 29,305,767

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

NOTE 4 LOANS, NET (CONTINUED)

Summaries of loans modified in troubled debt restructurings and those related restructurings for which there was a payment default during the year ended December 31, 2022 are as follows. Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

	Troubled Debt Restructurings	
	Number of Loans	Post-Modification Outstanding Balance
Residential Real Estate	52	$ 5,116,905
Commercial	8	11,994
Total	60	$ 5,128,899

The Credit Union made accommodations to eligible borrowers who were adversely impacted by the COVID-19 pandemic. At December 31, 2021, the Credit Union had the following COVID-19 loan modifications outstanding: 6 commercial loans totaling approximately $4,287,000, 138 consumer loans totaling approximately $1,090,000 and 44 mortgage loans totaling approximately $4,401,000. At December 31, 2022, the Credit Union had no commercial or mortgage modifications outstanding and an immaterial amount of consumer modifications outstanding. Management is evaluating these loans for their impact on the allowance for loan losses.

NOTE 5 FORECLOSED AND REPOSSESSED ASSETS

Activity in foreclosed and repossessed assets is as follows:

	Years Ended December 31,	
	2022	2021
Balance - Beginning of Year	$ 256,283	$ 121,953
Transfers from Loans to Foreclosed Assets	1,250,922	251,134
Sales of Foreclosed Assets	(437,483)	(54,772)
Gain (Loss) on Sales of Foreclosed Assets	120,658	-
Impairment Loss on Foreclosed Assets	-	(62,032)
Balance - End of Year	$ 1,190,380	$ 256,283

NOTE 6 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment is summarized as follows:

	December 31, 2022	December 31, 2021
Land	$ 1,320,247	$ 1,389,347
Buildings and Improvements	11,575,066	11,750,621
Furniture and Equipment	9,390,018	9,522,848
Construction in Progress	1,230,348	91,798
Total	23,515,679	22,754,614
Less: Accumulated Depreciation	(10,616,388)	(11,045,220)
Total	$ 12,899,291	$ 11,709,394

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31, 2022	December 31, 2021
Share Savings	$ 80,258,646	$ 76,901,916
Share Drafts	64,087,159	51,406,452
Money Market	72,227,827	55,547,554
IRA Deposits	2,852,052	3,004,783
Other Deposits	10,996,242	12,241,401
Share and IRA Certificates	141,038,758	170,726,306
Total	$ 371,460,684	$ 369,828,412

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $86,646,000 and $82,718,000 at December 31, 2022 and 2021, respectively.

As of December 31, 2022, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2023	$ 74,944,543
2024	51,751,047
2025	10,558,601
2026	2,545,858
2027	1,238,709
Total	$ 141,038,758

Member accounts are insured to at least $250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 8 BORROWED FUNDS

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the FHLB whereby specific mortgage loans of the Credit Unions with advance equivalents of approximately $41,503,000 and $43,161,000 at December 31, 2022 and 2021, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line. Outstanding balances were $20,264,140 and $30,004,024 as of December 31, 2022 and 2021, respectively. The rate on these borrowings is determined at the time of advance and ranged from 1.09% to 3.26% as of December 31, 2022.

A summary of FHLB advances outstanding as of December 31 is as follows:

Year Maturing	Interest Rate	2022	2021
2022	0.54% - 2.38%	$ -	$ 6,182,996
2023	1.83% - 2.17%	792,589	1,090,739
2024	2.35% - 2.44%	349,323	563,254
2025	1.10% - 2.22%	3,445,237	4,151,227
2026	1.99%	355,631	457,809
2027	2.42% - 2.75%	3,927,658	4,642,530
2028	3.27%	897,307	1,041,467
2029	1.95% - 2.11%	3,864,172	4,388,326
2030	1.65% - 2.18%	6,632,221	7,485,677
		$ 20,264,140	$ 30,004,024

At December 31, 2022 and 2021, the Credit Union had an available line of credit with National Cooperative Bank of $12,000,000. The interest rates applied on any borrowing are determined on that date. As of December 31, 2022 and 2021, the Credit Union had securities safe kept with Merrill Lynch pledged for this line of credit arrangement. The line has no expiration date but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2022 and 2021.

At December 31, 2021, the Credit Union had an available line of credit of $250,000 with Corporate America Credit Union. The interest rates applied on any borrowing are determined on that date. There were no assets pledged for this line of credit arrangement. The line has no expiration date but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2021. The line expired as of December 31, 2022.

During the year ended December 31, 2022, the Credit Union had an available line of credit of $30,000,000 with the United States Department of Agriculture (USDA). The interest rate is 2.375%. There were no assets pledged against this borrowing. Payments are due monthly. The Credit Union had a balance of approximately $1,341,000 as of December 31, 2022. The maturity date is December 15, 2056.

During the year ended December 31, 2022, the Credit Union also took a note payable with Bank of America. The balance was $463,000 as of December 31, 2022. The note has monthly payments beginning September 10, 2023 through maturity of September 10, 2027. The interest rate is 1%.

NOTE 9 SECONDARY CAPITAL LOANS, NET

Secondary capital loans consist of funding from private sources or affiliates of the Credit Union'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 a community development financial institution (CDFI).

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.

On June 28, 2022, the Credit Union entered into an agreement for receipt in secondary capital funds under the U.S. Treasury's Emergency Capital Investment Program (ECIP) from the NCUA. Receiving the award totaling $92,569,000. The purpose of the award recognizes secondary capital accounts for low-income designated credit unions as capital accounts.

The agreement grants the Credit Union two years interest free. After the second anniversary of the disbursement of the loan, interest is payable quarterly in arrears each year at a rate determined by the qualified lending, ranging from 0.5% to 2.0%. Principal payments will be paid, pending approval from the NCUA, on the 30th anniversary of the disbursement of the loan.

Secondary capital loans consisted of the following:

Description	2022	2021
Fixed Rate Note from First Horizon Bank at an interest rate of 3.50%, maturing on June 4, 2026	$ 2,000,000	$ 2,000,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on September 30, 2026 Maturity date was extended from September 30, 2024	550,000	550,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on December 20, 2026 Maturity date was extended from December 20, 2024	550,000	550,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2027 Maturity date was extended from January 13, 2026	2,000,000	2,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2027 Maturity date was extended from January 13, 2026	3,000,000	3,000,000
Fixed Rate Note from Regions Bank at an interest rate of 1.00%, maturing on April 1, 2027	76,774	76,774
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on April 29, 2027 Maturity date was extended from April 29, 2026	1,000,000	1,000,000

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

Secondary capital loans consisted of the following (Continued):

Description	2022	2021
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on June 22, 2027 Maturity date was extended from June 22, 2025	$ 825,000	$ 825,000
Fixed Rate Notes from Kresge Foundation at an interest rate of 3.00%, maturing on October 14, 2027	3,000,000	3,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2027 Maturity date was extended from December 31, 2026	5,000,000	5,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2027 Maturity date was extended from December 31, 2026	1,500,000	1,500,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2027 Maturity date was extended from December 31, 2026	14,560,775	14,560,775
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2027 Maturity date was extended from December 31, 2026	3,000,000	3,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2027 Maturity date was extended from December 31, 2026	2,000,000	2,000,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on January 1, 2029 Maturity date was extended from January 1, 2027	1,050,000	1,050,000
Fixed Rate Note from MetLife at an interest rate of 3.00%, maturing on February 27, 2029	2,500,000	2,500,000
Fixed Rate Note from W.K Kellogg Foundation at an interest rate of 2.00%, maturing on August 14, 2029	1,500,000	1,500,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 3.00%, maturing on December 17, 2029 Maturity date was extended from December 17, 2028	3,000,000	3,000,000
Fixed Rate Note from Inclusive 2nd Capital at an interest rate of 2.50%, maturing on December 20, 2031	4,750,000	4,750,000
Fixed Rate Note from ECIP at an interest rate of 2.00%, maturing on June 28, 2052	92,569,000	-
Subtotal	144,431,549	51,862,549
Less: Maturity Reclassification	(2,015,355)	(1,390,000)
Total	$ 142,416,194	$ 50,472,549

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

The Credit Union 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. As of December 31, 2022 and 2021, approximately $2,016,000 and $1,390,000, respectively, were reclassified under these regulatory requirements and are included in borrowed funds on the statements of financial condition.

A summary of the maturity of the secondary capital loans by year over the next five years are as follows:

Year Ending December 31,	Amount
2024	$ -
2025	1,100,000
2026	2,825,000
2027	35,137,549
Thereafter	105,369,000
Total	$ 144,431,549

NOTE 10 REGULATORY NET WORTH REQUIREMENTS

The Credit Union 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 the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications 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 the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). Effective December 31, 2021, and earlier, credit unions were also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which established whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum ratio to be considered complex under the regulatory framework was 6.00%.

NOTE 10 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

Effective January 1, 2022, the NCUA adopted the optional complex credit union leverage ratio (CCULR) for credit unions with total assets greater than $500 million. The CCULR is designed to reduce regulatory burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying credit union organizations that opt into the framework. As defined by section §702-104(d) of the NCUA's regulations, a qualifying credit union organization must have a net worth ratio of 9% or greater, off- statement of financial condition exposures of 25% or less of its total assets, trading assets and trading liabilities of 5% or less of its total assets, and goodwill and other intangible assets of 2% or less of total assets. Management believes they have met the criteria and has elected to use the CCULR framework.

A qualifying credit union may opt into and out of the CCULR framework by completing the associated election requirements on its quarterly call report. The CCULR framework was first available for qualifying credit unions in their March 31, 2022 call report.

Qualifying credit union organizations that elect to use the CCULR framework and that maintain a net worth ratio of greater than 9% will generally be considered well-capitalized and have met the capital requirements in the applicable capital rule. A qualifying credit union may opt into and out of the CCULR framework by completing the associated election requirements on its quarterly call report. The CCULR framework was first available for qualifying credit unions in their March 31, 2022 call report.

As of December 31, 2022, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 9% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are also presented in the table following.

	2022					
	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	$ 148,730,005	27.64%	$ 32,284,143	6.00%	$ 48,426,215	9.00%

	2021					
	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	$ 56,545,876	12.10%	$ 28,028,770	6.00%	$ 42,043,154	9.00%
Risk-Based Net Worth Requirement	$ 27,187,907	5.82%	N/A	N/A	N/A	N/A

NOTE 10 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

In performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

The Credit Union has unsecured secondary capital in the form of subordinated debt and is able to include the subordinated debt in the net worth calculation. At December 31, 2022 and 2021, the Credit Union applied $142,416,000 and $50,473,000 of subordinated debt towards the net worth calculation.

NOTE 11 RELATED PARTY TRANSACTIONS

Included in loans, net at December 31, 2022 and 2021, are loans to the Credit Union's board of directors, committee members, and senior executive staff of approximately $1,712,000 and $1,269,000, respectively. Advances and repayments on loans were not significant to the financial statements.

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union at December 31, 2022 and 2021 are approximately $2,024,000 and $1,243,000, respectively.

As described in Note 1, Hope Enterprise Corporation (HEC) is the primary sponsoring organization of the Credit Union and operates as a community development financial institution for the purpose of providing 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 the Credit Union in order to provide an affordable lending program to low-income communities. HEC and the Credit Union have entered into certain contractual agreements wherein HEC had agreed to reimburse the Credit Union 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, the Credit Union has agreed to provide financial products and service offerings in certain low-income communities in which HEC has a mission to promote economic development. In consideration for these contractual services, HEC had agreed to reimburse the Credit Union for its normal operating expenses, excluding dividend payments, on a monthly basis. The contractual arrangement provides for HEC to pay the Credit Union an amount to cover all normal operating expenses sufficient to enable Hope to maintain a net income of no less than $240,000 annually.

During 2022 and 2021, the Credit Union recognized contractual service revenue of approximately $494,000 and $4,442,000, respectively, related to these arrangements. The Credit Union received grants from third parties of approximately $-0- and $5,426,000 in 2022 and 2021, respectively, that were passed to the Credit Union from HEC and its affiliates.

NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2022 and 2021, the Credit Union had secondary capital loans outstanding to Hope and its affiliates of approximately $38,036,000 and $38,113,000, respectively. Interest expense related to the affiliated secondary capital loans was approximately $440,000 in 2022 and $575,000 in 2021.

As of December 31, 2022 and 2021, HEC had deposit accounts with the Credit Union totaling approximately $20,262,000 and $22,100,000, respectively.

In addition, the Credit Union had a real estate secured loan receivable outstanding from HEC which was approximately $744,000 and $761,000 as of December 31, 2022 and 2021, respectively. Interest income on this loan was immaterial as of December 31, 2022 and 2021.

As described in Note 1, accounts payable of approximately $2,547,000 and $1,398,000 are due to HEC as of December 31, 2022 and 2021, respectively. These balances represent amounts due from or to HEC for certain loan closings, net of amounts due to the Credit Union relative to service arrangements, and operational expenses.

HEC has purchased participation interests in certain commercial loans originated by the Credit Union. See Note 4 to these financial statements for more information regarding participations.

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES

<u>Off-Statement of Financial Condition Activities</u>

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

The Credit Union’s exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the financial statements.

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Statement of Financial Condition Activities (Continued)

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2022	December 31, 2021
Commitments to Grant Collateralized Loans:		
Commercial	$ 3,034,746	$ 2,656,332
Unfunded Unsecured Commitments Under Lines of Credit:		
Overdraft Protection	3,673,627	3,933,766
Credit Card Commitments	1,554,440	1,542,183
Other	695,777	578,845
Total	$ 8,958,590	$ 8,711,126

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Legal Contingencies

The Credit Union is a party to various collection related legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the financial condition of the Credit Union.

NOTE 13 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 14,201,437	$ -	$ 14,201,437
U.S. Treasury Notes	-	17,351,797	-	17,351,797
Federal Agency Mortgage-Backed Securities	-	51,686,291	-	51,686,291
Collateralized Mortgage Obligation Securities	-	49,927,884	-	49,927,884
Small Business Administration Securities	-	5,806,710	-	5,806,710
Municipal Bonds	-	35,408,518	-	35,408,518
Negotiable Certificates of Deposit	-	735,000	-	735,000
Total	$ -	$ 175,117,637	$ -	$ 175,117,637

	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 4,946,905	$ -	$ 4,946,905
US Treasury Notes	-	10,447,187	-	10,447,187
Federal Agency Mortgage-Backed Securities	-	36,806,845	-	36,806,845
Collateralized Mortgage Obligation Securities	-	23,110,886	-	23,110,886
Small Business Administration Securities	-	4,958,043	-	4,958,043
Municipal Bonds	-	13,531,709	-	13,531,709
Negotiable Certificates of Deposit	-	980,000	-	980,000
Total	$ -	$ 94,781,575	$ -	$ 94,781,575

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

NOTE 13 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

***Investment Securities*:** When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets consisted of the following for the years ended December 31:

	Fair Value at December 31, 2022			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 4,725,161	$ 1,722,028
PCIL	-	-	60,998	-
Foreclosed Assets	-	-	1,190,380	-

	Fair Value at December 31, 2021			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 8,244,718	$ 2,389,406
PCIL	-	-	298,947	-
Foreclosed Assets	-	-	256,283	-

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value.

	December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 4,725,161	Evaluation of Collateral	Estimation of Value	Not Meaningful
PCIL	60,998	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	1,190,380	Appraisal	Appraisal Adjustment	Not Meaningful

	December 31, 2021			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 8,244,718	Evaluation of Collateral	Estimation of Value	Not Meaningful
PCIL	298,947	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	256,283	Appraisal	Appraisal Adjustment	Not Meaningful

Impaired Loans: In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

PCL:: PCIL were initially recorded at the purchase price and are reviewed periodically during the year to determine whether performance is materially as expected. If the Credit Union's analysis indicates subsequent decreases or delays in estimated future cash flows, PCIL are reduced to the discounted net present value of future cash flows, which results in a reduction of income with a corresponding valuation (impairment) allowance.

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

Foreclosed Assets: Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other noninterest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

NOTE 14 SUBSEQUENT EVENTS

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 27, 2023, the date the financial statements were available to be issued.

Purchase Commitment

The Credit Union has entered into an agreement for the purchase of land for their new corporate headquarters in Jackson, MS. The purchase is expected to be completed in 2023. Total commitment under the agreement is expected to be material.