



EAGLE BANCORP
MONTANA, INC.

2020 ANNUAL REPORT

**OUR MISSION IS TO PROVIDE STRONG
FINANCIAL FUTURES FOR MONTANANS**

OPPORTUNITY BANK OF MONTANA opened its doors in August of 1922 as American Building and Loan with a single office in Helena, Montana. Since our first day, we have been a Montana community financial institution committed to providing strong financial futures for Montanans.

Today, Opportunity Bank of Montana is a \$1.3 billion community bank with 23-full service bank branches across Montana, offering customers a full range of banking, lending, and digital services. Our history of stability, growth, and a relationship approach to banking has stood the test of time for nearly 100 years.

OUR HISTORY

American Building and Loan survived the turbulence of the early 20th century, including the crash of 1929 and the ensuing Great Depression. The business operated under this name for more than 50 years until 1972 when American Building and Loan became American Savings and Loan Association and then American Federal Savings and Loan Association with the adoption of a federal thrift charter in 1975. The late-1970s was a period of rapid expansion. By 1980, American Federal Savings and Loan had grown to include branch locations in Townsend, Butte, and Bozeman, Montana. American Federal Savings and Loan remained strong through the savings and loan crisis of the 1980s when more than 1,000 savings and loan associations failed. In an effort to diversify its offerings, American Federal Savings and Loan converted its charter to a federal savings bank in 1991 and accordingly changed the name to American Federal Savings Bank, the name that would remain for the next 23 years.

Eagle Bancorp was established in 1999 as the holding company for the bank and began offering shares to the public in 2000. A subsequent public offering in 2010 afforded Eagle the ability to have its stock traded publicly on the NASDAQ stock exchange. In 2012, American Federal doubled its branch network and further expanded its footprint across Montana through the purchase of seven Montana banks owned by Sterling Financial Corporation. In 2014, American Federal applied to the State of Montana to convert its charter from a Federal savings bank to a Montana state-chartered bank. This change in charter provided an opportunity to rebrand the bank as Opportunity Bank of Montana, the name we proudly operate under today.

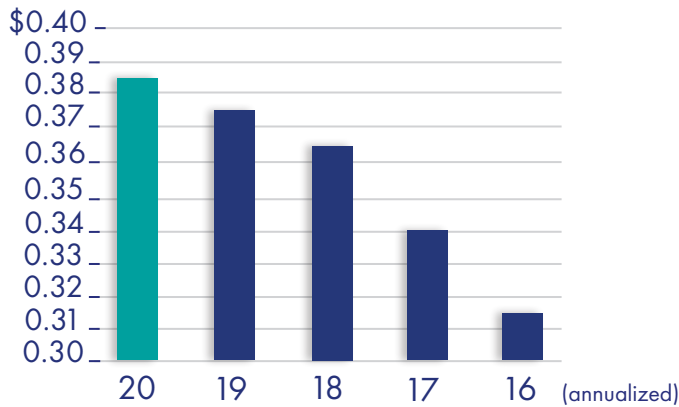
A series of acquisitions followed our rebranding. The bank acquired TwinCo, Inc. in 2018 adding two branches in Madison county. In 2019, the bank acquired Big Muddy Bancorp, Inc. adding branches in Teton and Fergus counties, and in January 2020, the bank completed the acquisition of Western Holding Company of Wolf Point adding a branch in Roosevelt county. These acquisitions solidified our position as the fourth-largest bank headquartered in Montana and expanded our branch network into the agriculturally-focused Ruby Valley, Golden Triangle, and Hi-Line regions. The bank is currently a leading Farm Services Agency guaranteed lender and a leading residential mortgage lender in Montana and has been recognized as one of the best in banking by industry observers.

FINANCIAL HIGHLIGHTS

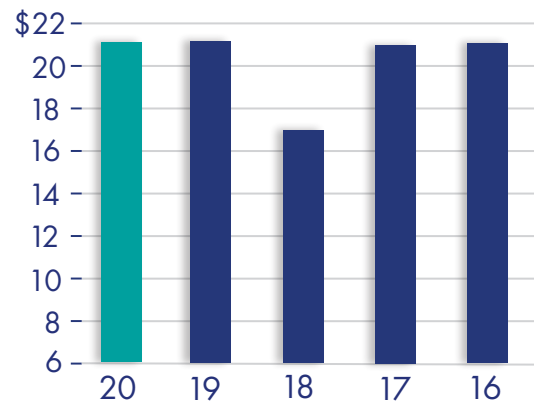
(Dollars in thousands)

	2020 year ended	2019 year ended	2018 year ended	2017 year ended	2016 year ended
SELECTED FINANCIAL CONDITION DATA:					
Total Assets.....	\$1,257,634	\$1,054,260	\$853,903	\$716,782	\$673,925
Net Loans.....	829,503	770,635	610,333	507,404	461,391
Total Securities.....	162,946	126,875	142,165	132,044	128,436
Total Deposits.....	1,033,083	808,993	626,611	520,564	512,795
Total Shareholders' Equity.....	152,938	121,659	94,806	83,616	59,456
SELECTED OPERATING DATA:					
Net Interest Income.....	43,170	38,785	29,741	23,766	20,793
Loan Loss Provision.....	3,130	2,627	980	1,228	1,833
Noninterest Income.....	49,067	23,841	12,122	14,331	15,990
Noninterest Expense.....	60,667	46,031	34,987	30,638	28,019
NET INCOME	21,206	10,872	4,982	4,103	5,132

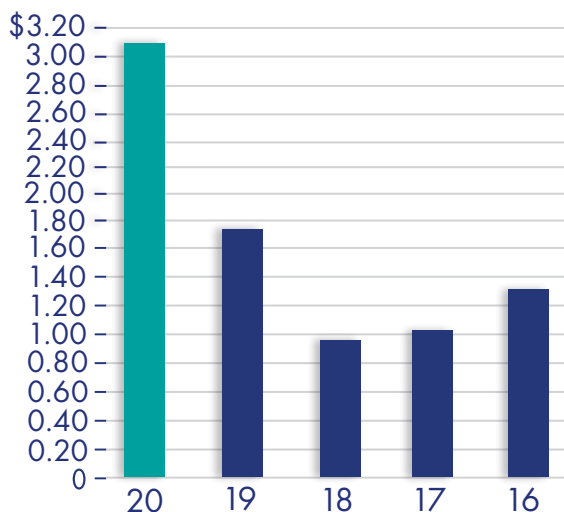
DIVIDENDS - dollars per share



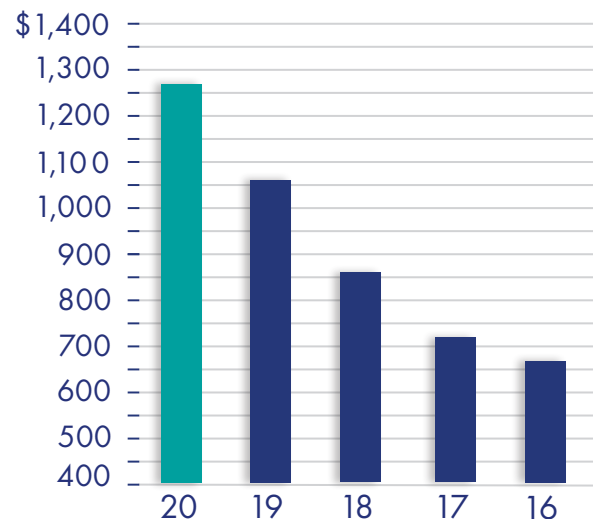
STOCK PRICE - in dollars



EARNINGS PER SHARE - basic in dollars



TOTAL ASSETS - dollars in millions



MARCH 17, 2021

TO OUR STOCKHOLDERS, CUSTOMERS, AND FRIENDS:



To Our Stockholders, Customers, and Friends:

I am pleased to present our Annual Report to Shareholders for our year ended December 31, 2020.

2020 will be forever remembered as the year when the coronavirus pandemic disrupted the world, our country, and our state. Each of us knows someone who has been affected by the virus through illness, job loss, or business closure. In 2020, our families were challenged in ways we had never thought possible as they struggled to do the commonplace, everyday things—continue to work at jobs, educate children, and care for the elderly. It is, therefore, my fervent hope that you and your families have been able to weather this unprecedented challenge and that this letter finds you healthy and safe.

Our Company faced many challenges in that momentous year, but because of our investment in growth and diversification, our strong capital position, the incredible dedication of our staff, and some good fortune in how the pandemic impacted Montana, we worked through the difficult year. In the process, we were able to set earnings records, achieve significant growth, and maintain strong credit quality.

For the year 2020, the Company achieved earnings of \$21.2 million, almost doubling last year's net income of \$10.9 million. Earnings per share also significantly increased to \$3.11 per diluted share from \$1.69 per diluted share, an increase of 84%. Our assets increased by 19% in 2020 with total loans reaching \$841.1 million. Deposits grew by over 27%, as we were able to maintain our strong core deposit franchise despite a slight decline in our cost of funds for the year. This enabled us to achieve an 11% increase in net interest income over the previous year.

Mortgage lending continued to be a significant strength for our Company. As the fourth largest Montana-based bank with 23 full-service branches and \$1.3 billion in assets, we continue to be one of the major residential mortgage lenders in Montana. Our loan origination volume for 2020 of \$926.2 million was approximately 77% higher than 2019's volume of \$524.4 million. This resulted in gain on sale of mortgage loans, which more than doubled from \$16.7 million in 2019 to \$36.4 million in 2020. We were also pleased the gain was achieved mostly by purchase money mortgage originations, as opposed to refinancing. We believe the reason was the continuing strength of Montana's residential real estate sector and the influx of new residents to the state. The buildup of our residential mortgage origination team, combined with the sustained low interest rate environment, enabled us to achieve the highest levels of originations and gain on sales in the Company's history.

We continue to follow our recent strategy of a combination of acquisition-fueled and organic growth. Our year began with the completion of our acquisition of Western Holding Company of Wolf Point and its wholly owned subsidiary, Western Bank of Wolf Point. The acquisition enabled us to continue to further expand our agricultural lending platform and significantly contribute to our goal of diversifying our markets and our loan portfolio. The Wolf Point acquisition accounted for about half of the growth in our balance sheet in 2020 with government stimulus efforts (such as the Paycheck Protection Program or "PPP") also contributing considerably.

As we look forward, 2021 may be a year with so many unknowns that traditional planning must be accompanied by an asterisk, "All of the above subject to the Covid recovery." We do not know when pandemic-related conditions will wind down and, if so, what the nature of a post-pandemic economic recovery will be, particularly as to the level of consumer spending. Above all, we believe it is essential to maintain a strong balance sheet, high capital, and realistic loan reserves. By continuing this approach, we believe we are positioned for continued loan growth in all sectors, while maintaining our traditionally strong credit culture and asset quality.



We were fortunate Montana's economy has fared better than many other parts of the country, and the outlook here is more positive than nine months ago. The Bureau of Business and Economic Research at the University of Montana, for example, projects wage and salary growth for the state will be approximately 4% in 2021.

Finally, I could not let any discussion of our performance in 2020 pass without expressing my deepest thanks to our outstanding employees. Throughout the year dealing with the pandemic, their hard work, good cheer, dedication to outstanding customer service, and embrace of our Company's core values were critical to the past year's success.

We sincerely appreciate the continuing trust and loyalty of all our constituencies – Stockholders, Customers, Employees, and Communities. We will work diligently to earn your continued confidence, and we thank you for the privilege of serving you!

Very Sincerely,

Peter J. Johnson

President/CEO

2020 EXECUTIVE TEAM AND BOARD OF DIRECTORS



PETER J. JOHNSON
President
Chief Executive Officer
Executive Team
Board Member



LAURA F. CLARK
Executive Vice President
Chief Financial Officer &
Chief Operating Officer
Executive Team



CHANTELLE R. NASH, J.D.
Senior Vice President
Chief Risk Officer
Corporate Secretary
Executive Team



DALE F. FIELD
Senior Vice President
Chief Credit Officer
Executive Team



MARK A. O'NEILL
Senior Vice President
Chief Lending Officer
Executive Team



P. DARRYL RENSMON
Senior Vice President
Chief Information Officer
Executive Team



LINDA M. CHILTON
Senior Vice President
Chief Retail Officer
Executive Team



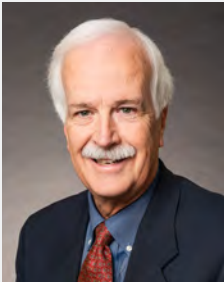
RACHEL R. AMDAHL
Senior Vice President
Chief Operations Officer
Executive Team



SHAVON R. CAPE
Co-Founder of JWT Capital, LLC
Board Member



TANYA J. CHEMODUROW
President & Owner of Abatement
Contractors of Montana, LLC
Board Member



RICK F. HAYS
Retired
Board Chair



COREY JENSEN
President & Chief Executive Officer of
Vision Net Inc.
Board Member



BENJAMIN G. RUDDY
Vice President
Opportunity Bank Agricultural Division
Board Member



MAUREEN J. RUDE
Retired
Board Member



KENNETH M. WALSH
Retired
Board Member



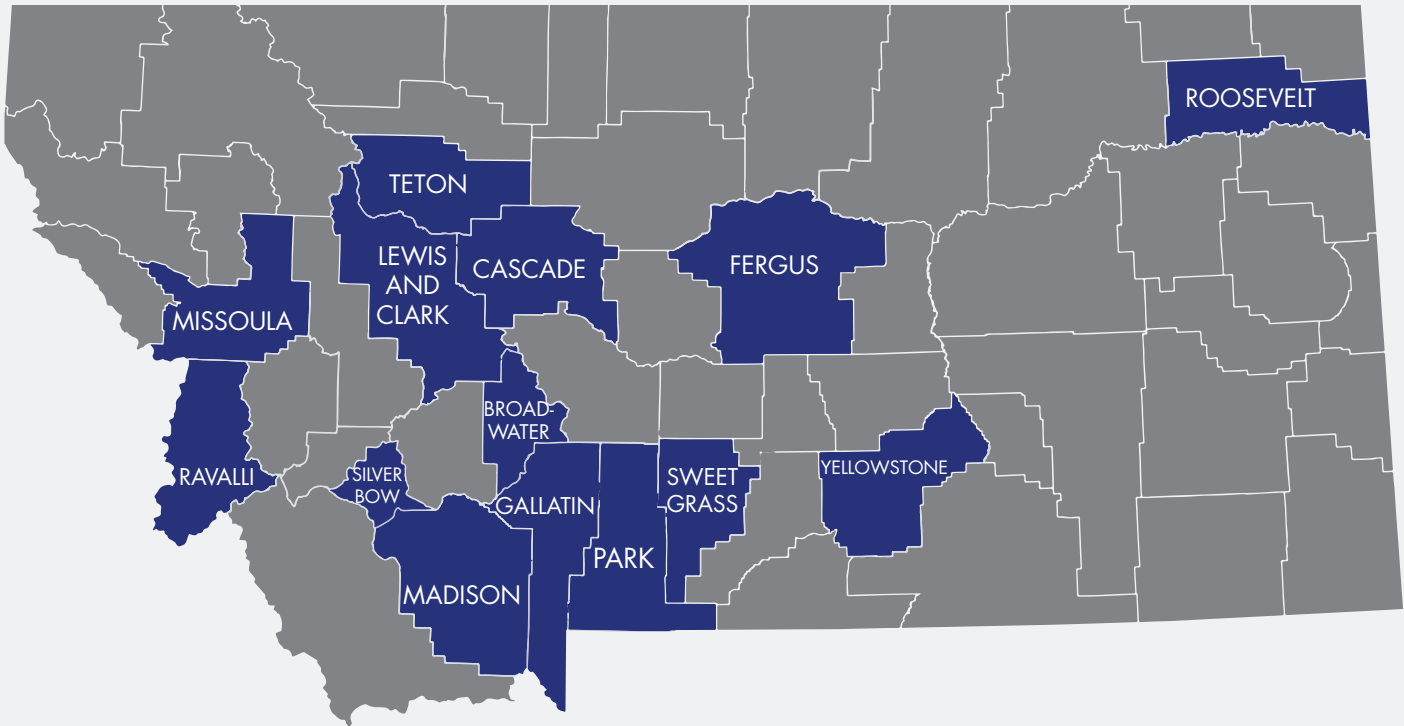
CYNTHIA A. UTTERBACK
CPA, Shareholder at Anderson
ZurMuehlen Certified Public
Accountants & Business Advisors
Board Member

Not Pictured

THOMAS J. MCCARVEL
Retired
Board Member

OUR GROWING FOOTPRINT ACROSS MONTANA

Counties We Serve



FULL SERVICE BRANCHES

BIG TIMBER
101 McLeod St
Big Timber MT 59011

BILLINGS
455 S 24th St W
Billings MT 59102

895 Main St
Billings MT 59105
1005 N 27th St
Billings MT 59101

BOZEMAN
5 W Mendenhall St
Bozeman MT 59715

1455 W Oak St
Bozeman MT 59715

4150 Valley Commons Dr
Bozeman MT 59718

BUTTE
3401 Harrison Ave
Butte MT 59701

CHOTEAU
27 1st St NW
Choteau MT 59422

DENTON
423 Broadway Ave
Denton MT 59430

DUTTON
101 Main St W
Dutton MT 59433

GREAT FALLS
501 River Dr S
Great Falls MT 59405

HAMILTON
711 S 1st St
Hamilton MT 59840

HELENA
HEADQUARTERS
1400 Prospect Ave
Helena MT 59601

28 Neill Ave
Helena MT 59601

2090 Cromwell Dixon Ln
Helena MT 59602

LIVINGSTON
123 S Main St
Livingston MT 59047

MISSOULA
200 N Higgins Ave
Missoula MT 59802

1821 South Ave W
Missoula MT 59801

SHERIDAN
103 N Main St
Sheridan MT 59749

TOWNSEND
400 Broadway St
Townsend MT 59644

TWIN BRIDGES
107 S Main St
Twin Bridges MT
59754

WOLF POINT
111 3rd Ave S
Wolf Point MT 59201



EAGLE BANCORP
MONTANA, INC.

FORM 10-K

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-34682

Eagle Bancorp Montana, Inc.

(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of
incorporation or organization

27-1449820
(I.R.S. Employer
Identification No.)

1400 Prospect Avenue, Helena, MT
(Address of principal executive offices)

59601
(Zip Code)

Registrant's telephone number, including area code 406-442-3080

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock par value \$0.01 per share	EBMT	Nasdaq Global Market

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common stock held by non-affiliates of Eagle, computed by reference to the closing price at which the stock was sold as of June 30, 2020 was \$108,769,000. The outstanding number of shares of common stock of Eagle as of January 29, 2021 was 6,775,447.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement relating to its 2021 annual meeting of stockholders ("2021 Proxy Statement") are incorporated by reference into Part III of this Form 10-K. The 2021 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end to which this report relates.

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CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “plan,” “project,” “could,” “intend,” “target” and other similar words and expressions of the future. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the current global COVID-19 pandemic;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of the management of Eagle Bancorp Montana, Inc. (“Eagle” or the “Company”) and Opportunity Bank of Montana (“OBMT” or the “Bank”), Eagle’s wholly-owned subsidiary, and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause the Company’s actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- the negative impacts and disruptions resulting from the continuing outbreak of the novel coronavirus, or COVID-19, and the steps taken by governmental and other authorities to contain, mitigate and combat the pandemic, on the economies and communities we serve, which may likely have an adverse impact on our credit portfolio, goodwill, stock price, borrowers and the economy as a whole both globally and domestically;
- local, regional, national and international economic and market conditions and events and the impact they may have on us, our customers and our assets and liabilities;
- competition among depository and other financial institutions;
- risks related to the concentration of our business in Montana, including risks associated with changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- our ability to attract deposits and other sources of funding or liquidity;
- changes or volatility in the securities markets;
- our ability to implement our growth strategy, including identifying and consummating suitable acquisitions, raising additional capital to finance such transactions, entering new markets, possible failures in realizing the anticipated benefits from such acquisitions and an inability of our personnel, systems and infrastructure to keep pace with such growth;
- the effect of acquisitions we may make, if any, including, without limitation, the failure to achieve expected revenue growth and/or expense savings from such acquisitions;
- risks related to the integration of any businesses we have acquired or expect to acquire, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel;
- potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
- political developments, uncertainties or instability;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- the need to retain capital for strategic or regulatory reasons;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit insurance premium assessments;

- our ability to develop and maintain secure and reliable information technology systems, effectively defend ourselves against cyberattacks, or recover from breaches to our cybersecurity infrastructure;
- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Overview

Eagle Bancorp Montana, Inc. (“Eagle” or the “Company”), is a Delaware corporation that holds 100% of the capital stock of Opportunity Bank of Montana (the “Bank”), formerly American Federal Savings Bank (“AFSB”). The Bank was founded in 1922 as a Montana-chartered building and loan association and has conducted operations and maintained its administrative office in Helena, Montana since that time. In 1975, the Bank adopted a federal thrift charter and in October 2014 converted to a Montana chartered commercial bank and became a member bank in the Federal Reserve System. The Bank currently has 23 full-service branches and 26 automated teller machines located in our market areas and we participate in the Money Pass® ATM network. The Bank also operates certain branches under the brand names Dutton State Bank, Farmers State Bank of Denton and The State Bank of Townsend.

We provide loan and deposit services to customers who are predominantly small businesses and individuals throughout Montana. We are a diversified lender with a focus on residential mortgage loans, commercial real estate mortgage loans, commercial business loans, agricultural loans and second mortgage/home equity loan products.

The Bank is headquartered at 1400 Prospect Avenue, Helena, Montana, 59601. Investor information for the Company may be found at www.opportunitybank.com. The contents on or accessible through our website are not incorporated into this report.

Recent Events

COVID-19

The Company's operations and financial results in 2020 were substantially influenced by the COVID-19 pandemic. The pandemic negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, increased unemployment levels and decreased consumer confidence generally. In addition, the pandemic resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, which directly impacted our financial results and operations.

In response, the Company updated operating protocols by closing branch lobbies and ensuring its online banking services while prioritizing the health and safety of clients and associates. Branches offered drive through services without interruption, while lobbies were accessible to clients via appointment. The State of Montana adopted a mandatory mask directive in July 2020 for indoor areas open to the public. Bankers, support teams and management largely continued working alternating rotational schedules to cover essential services while protecting from potential exposure of an entire team at a particular location; however, in 2021 employees began to gradually return to normal schedules in some offices with written contingency plans in place should the need arise. In addition, the Company has maintained its focus on enhancing remote, mobile, and online services and processes.

Acquisitions

As a continuing part of its growth strategy, the Company intends to enhance its market share in Montana through organic growth and opportunistic acquisitions. Potential acquisitions are periodically evaluated by the Company's Merger and Acquisition Committee.

In January 2018, the Company acquired TwinCo, Inc. ("TwinCo"), a Montana corporation, and TwinCo's wholly-owned subsidiary, Ruby Valley Bank, a Montana chartered commercial bank merged into the Bank. Ruby Valley Bank operated two branches in Madison County, Montana. The total consideration paid was \$18.93 million and included cash consideration of \$9.90 million and common stock issued of \$9.03 million.

In January 2019, the Company acquired Big Muddy Bancorp, Inc. ("BMB"), a Montana corporation and BMB's wholly-owned subsidiary, The State Bank of Townsend ("SBOT"), a Montana chartered commercial bank merged into the Bank. SBOT operated four branches in Townsend, Dutton, Denton and Choteau, Montana. The total consideration paid was \$16.44 million of Eagle common stock issued.

In January 2020, the Company acquired Western Holding Company of Wolf Point, a Montana corporation ("WHC"), and WHC's wholly-owned subsidiary, Western Bank of Wolf Point, a Montana chartered commercial bank ("WB") merged into the Bank. In the transaction, Eagle acquired one retail branch in Wolf Point, Montana. The total consideration paid was \$14.97 million and included cash consideration of \$6.50 million and common stock issued of \$8.47 million.

Business Strategy

Our principal strategy is to continue our profitability through building a diversified loan portfolio and operating the Bank as a full-service community bank that offers both retail, including mortgage, and commercial loan and deposit products in all of its markets. We believe that this focus will enable us to continue to grow our franchise, while maintaining our commitment to customer service, high asset quality and sustained net earnings.

The following are the key elements of our business strategy:

- Continue to diversify our portfolio by emphasizing our growth in commercial real estate and commercial business loans as a complement to our single family residential real estate lending. As of December 31, 2020, commercial real estate and commercial business loans constituted approximately 72.27% of total loans;
- Continue to emphasize the attraction and retention of lower cost core deposits;
- Seek opportunities where presented to acquire other institutions or expand our branch network through opening new branches and/or loan production offices;
- Maintain our strong asset quality; and
- Operate as a community-oriented independent financial institution that offers a broad array of financial services with high levels of customer service.

Our results of operations may be significantly affected by our ability to effectively implement our business strategy including our plans for expansion through strategic acquisitions. If we are unable to effectively integrate and manage acquired or merged businesses or attract significant new business through our branching efforts, our financial performance may be negatively affected.

Market Areas

We conduct business through our headquarters in Helena, Montana, in addition to 22 other full service branches located in Big Timber, Billings, Bozeman, Butte, Choteau, Denton, Dutton, Great Falls, Hamilton, Helena, Livingston, Missoula, Sheridan, Townsend, Twin Bridges and Wolf Point, Montana.

Montana is one of the largest states in terms of land mass but ranks as one of the least populated states. According to U.S. Census Bureau data for 2010, it had a population of 989,415 (1.07 million estimated for 2019). Helena is Montana's state capital and is the county seat of Lewis and Clark County. It is located within 120 miles of four of Montana's other five largest cities: Missoula, Great Falls, Bozeman and Butte, and is approximately midway between Yellowstone and Glacier National

Parks. Significant contributors to Montana's economy are agriculture, construction, energy production, forestry, healthcare, manufacturing, mining and the service industry. Tourism is also a large part of Montana's economy and is highly influenced by national parks, ski resorts, lakes and rural scenic areas.

The following table reflects our deposit market share and ranking by county:

County	Total Market Share Percentage ⁽¹⁾	Deposit Market Share Rank ⁽¹⁾
Broadwater, MT	100.00%	1
Cascade, MT	0.64%	9
Fergus, MT	5.33%	5
Gallatin, MT	3.51%	8
Lewis and Clark, MT	11.40%	4
Madison, MT	40.59%	2
Missoula, MT	1.70%	9
Park, MT	8.04%	5
Ravalli, MT	2.99%	6
Roosevelt, MT	33.17%	2
Silver Bow, MT	11.83%	4
Sweet Grass, MT	29.61%	2
Teton, MT	17.27%	2
Yellowstone, MT	0.78%	9

⁽¹⁾ Source: FDIC.gov-data as of June 30, 2020.

Competition

We face strong competition in our primary market areas for retail deposits and the origination of loans. Historically, Montana was a unit banking state. This means that the ability of Montana state banks to create branches was either prohibited or significantly restricted. As a result of unit banking, Montana has a significant number of independent financial institutions serving a single community in a single location. While the state's population is approximately 1.07 million people, there are 46 credit unions in Montana as well as one national thrift institution and 39 commercial banks as of December 31, 2020. Our most direct competition for depositors has historically come from locally owned and out-of-state commercial banks, thrift institutions and credit unions operating in our primary market areas. Competition in our primary market areas has increased in recent years. Our competition for loans also comes from banks, thrifts and credit unions, in addition to mortgage bankers and brokers. Our principal market areas can be characterized as markets with moderately increasing incomes, relatively low unemployment, increasing wealth (particularly in the growing resort areas such as Bozeman) and moderate population growth.

Lending Activities

General

The Bank originates residential 1-4 family loans held for investment and originated for sale in the secondary market. The banks also originates commercial real estate, home equity, consumer and commercial loans. Residential 1-4 family loans include residential mortgages and construction of residential properties. Commercial real estate loans include loans on multi-family dwellings, nonresidential property, commercial construction and development and farmland loans. Home equity loans include loans secured by the borrower's primary residence. Typically, the property securing such loans is subject to a prior lien. Consumer loans consist of loans secured by collateral other than real estate, such as automobiles, recreational vehicles and boats. Personal loans and lines of credit are made on deposits held by the Bank and on an unsecured basis. Commercial business loans consist of business loans and lines of credit on a secured and unsecured basis and include agriculture production loans.

Fee Income

The Bank receives lending related fee income from a variety of sources. Its principal source of this income is from the origination and servicing of sold mortgage loans. Fees generated from mortgage loan servicing generally consist of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing for loans held by others. Fees, net of amortization of mortgage servicing rights were \$5.66 million and \$2.32 million for the years ended December 31, 2020 and 2019, respectively. Other loan related fee income for late charges and other ancillary fees were \$746,000 and \$438,000 for the years ended December 31, 2020 and 2019, respectively.

Residential 1-4 Family Loans

The Bank originates residential 1-4 family mortgage loans secured by property located in the Bank's market areas. At December 31, 2020, the Bank's balance of 1-4 family mortgage loans was \$110.80 million or 13.14% of total loans. The Bank generally originates residential 1-4 family mortgage loans in amounts of up to 80.0% of the lesser of the appraised value or the selling price of the mortgaged property without requiring private mortgage insurance. A mortgage loan originated by the Bank, whether fixed rate or adjustable rate, can have a term of up to 30 years. The Bank holds substantially all of its adjustable rate and its 8, 10 and 12-year fixed rate loans in portfolio. Adjustable rate loans limit the periodic interest rate adjustment and the minimum and maximum rates that may be charged over the term of the loan. The Bank's fixed rate 15-year and 20-year loans are held in portfolio or sold in the secondary market depending on market conditions. Generally, all 30-year fixed rate loans are sold in the secondary market. The volume of loan sales is dependent on the volume, type and term of loan originations, as well as market conditions.

The Bank derives a significant portion of its noninterest income from servicing of loans that it has sold. The Bank offers many of the fixed rate loans it originates for sale in the secondary market on a servicing retained basis. This means that we process the borrower's payments and send them to the purchaser of the loan. This retention of servicing enables the Bank to increase fee income and maintain a relationship with the borrower. At December 31, 2020, the Bank had \$1.47 billion in residential 1-4 family mortgage loans and \$67.79 million in other loan categories sold with servicing retained. The Bank does not ordinarily purchase home mortgage loans from other financial institutions.

Property appraisals on real estate securing the Bank's single-family residential loans are made by state certified and licensed independent appraisers who are approved annually by the Board. Appraisals are performed in accordance with applicable regulations and policies. The Bank generally obtains title insurance policies on all first mortgage real estate loans originated. On occasion, refinancing of mortgage loans are approved using title reports instead of title insurance. Title reports are also allowed on home equity loans. Borrowers generally remit funds with each monthly payment of principal and interest, to a loan escrow account from which the Bank makes disbursements for such items as real estate taxes and hazard and mortgage insurance premiums as they become due.

The Bank also lends funds for the residential 1-4 family construction. Residential 1-4 family construction loans are made both to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Residential 1-4 family construction loans accounted for \$46.29 million or 5.49% of the Bank's total loan portfolio at December 31, 2020.

A foreclosure moratorium in effect due to the COVID-19 pandemic was recently extended until June 30, 2021 for federally backed mortgages. The Bank has encountered minimal impact related to the moratorium due to historically low number of foreclosures, and working with borrowers on forbearances as the need arises.

Commercial Real Estate Loans

The Bank originates commercial real estate loans including loans on multi-family dwellings. Commercial real estate loans made up 37.56% of the Bank's total loan portfolio, or \$316.67 million at December 31, 2020. The Bank's commercial real estate loans are primarily permanent loans secured by improved property such as office buildings, retail stores, commercial warehouses and apartment buildings. The terms and conditions of each loan are tailored to the needs of the borrower and based on the financial strength of the project and any guarantors. Generally, commercial real estate loans originated by the Bank will not exceed 75.0% of the appraised value or the selling price of the property, whichever is less. Commercial real estate loans are typically made with fixed rates of interest and 5 to 15-year maturities. Upon maturity, the loan is repaid or the terms and conditions are renegotiated. Generally, all commercial real estate loans that we originate are secured by property located in the state of Montana and within the market areas of the Bank. The Bank's largest single commercial real estate loan at December 31, 2020 was originated by the Bank and participated 8.60% to another bank in northwestern Montana. The Company's share of the total outstanding loan at December 31, 2020 was \$9.46 million and it is collateralized by

commercial real estate located in Bozeman, Montana. At December 31, 2020 this loan is performing in accordance with its repayment terms.

The Bank also lends funds for commercial construction and development. Commercial construction and development loans accounted for \$65.28 million or 7.74% of the Bank's total loan portfolio at December 31, 2020. In addition, the bank originates loans secured by farm and ranch real estate. Farmland loans accounted for \$65.92 million or 7.82% of the Bank's total loan portfolio at December 31, 2020.

Home Equity Loans

The Bank also originates home equity loans. These loans are secured by the borrowers' primary residence, but are typically subject to a prior lien, which may or may not be held by the Bank. At December 31, 2020, \$56.56 million or 6.71% of our total loans were home equity loans. Borrowers may use the proceeds from the Bank's home equity loans for many purposes, including home improvement, debt consolidation or other purchasing needs. The Bank offers fixed rate, fixed payment home equity loans as well as variable and fixed rate home equity lines of credit. Fixed rate home equity loans typically have terms of no longer than 15 years.

Home equity loans are secured by real estate but they have historically carried a greater risk than first lien residential mortgages because of the existence of a prior lien on the property securing the loan, as well as the flexibility the borrower has with respect to the loan proceeds. The Bank attempts to minimize this risk by maintaining conservative underwriting policies on such loans. We generally make home equity loans for not more than 85.0% of appraised value of the underlying real estate collateral, less the amount of any existing prior liens on the property securing the loan.

Consumer Loans

As part of its strategy to invest in higher yielding shorter term loans, the Bank emphasized growth of its consumer lending portfolio in recent years. This portfolio includes personal loans secured by collateral other than real estate, unsecured personal loans and lines of credit and loans secured by deposits held by the Bank. As of December 31, 2020, consumer loans totaled \$20.17 million or 2.39% of the Bank's total loan portfolio. These loans consist primarily of auto loans, RV loans, boat loans, personal loans and credit lines and deposit account loans. Consumer loans are originated in the Bank's market areas and generally have maturities of up to 7 years. For loans secured by savings accounts, the Bank will lend up to 90.0% of the account balance on single payment loans and up to 100.0% for monthly payment loans.

Consumer loans have a shorter term and generally provide higher interest rates than residential loans. Consumer loans can be helpful in improving the spread between average loan yield and cost of funds and at the same time improve the matching of the maturities of rate sensitive assets and liabilities.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Creditworthiness of the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Commercial Loans

Commercial business loans amounted to \$109.21 million, or 12.95% of the Bank's total loan portfolio at December 31, 2020, including Paycheck Protection Program ("PPP") loans of \$29.58 million. Agricultural production loans amounted to \$52.24 million, or 6.20% of the Bank's total loan portfolio at December 31, 2020. The Bank's commercial business loans are traditional business loans and are not secured by real estate. Such loans may be structured as unsecured lines of credit or may be secured by inventory, accounts receivable or other business assets. Agricultural operating loans are generally secured with equipment, cattle, crops or other non-real property and at times the underlying real property.

Commercial business loans of this nature usually involve greater credit risk than residential 1-4 family loans. The collateral we receive is typically related directly to the performance of the borrower's business which means that repayment of commercial business loans is dependent on the successful operations and income stream of the borrower's business. Such risks can be significantly affected by economic conditions. In addition, commercial lending generally requires substantially greater oversight efforts compared to residential real estate lending.

Loans to One Borrower

Under Montana law, commercial banks such as the Bank, are subject to certain exemptions and are allowed to select the Office of the Comptroller of the Currency (“OCC”) formula used to determine limits on credit concentrations to single borrowers to an amount equal to 15.0% of the institution’s total capital. As of December 31, 2020, the Bank’s limit to a single borrower was \$23.00 million. Our largest aggregation of loans to one borrower was approximately \$15.27 million at December 31, 2020. This consisted of four loans: two commercial real estate loans secured by two separate detention facilities, a commercial real estate loan secured by a chemical dependency treatment facility and a commercial loan. The first commercial real estate loan had a principal balance of \$4.22 million at December 31, 2020. However, 80.0% of that amount, or \$3.38 million at December 31, 2020 was sold to Montana Board of Investments, leaving a net principal balance payable to the Bank of \$844,000. As of December 31, 2020, the principal balance on the second commercial real estate loan was \$7.78 million. However, 90.0% of this loan is guaranteed by the USDA Rural Development. Thus, 90.0% of the loan, or \$7.00 million at December 31, 2020, is not required to be included in the Bank’s limitations to a single borrower under applicable banking regulations. This leaves approximately \$778,000 subject to the lending limit described above. The third commercial real estate loan had a principal balance of \$3.25 million as of December 31, 2020. The commercial loan had a principal balance of \$11,000 at December 31, 2020. As a result, the total amount subject to the lending limit at December 31, 2020 was \$4.89 million. At December 31, 2020, these loans were performing in accordance with their terms. The Bank maintains the servicing for these loans.

Loan Solicitation and Processing

Our customary sources of mortgage loan applications include repeat customers, walk-ins and referrals from home builders and real estate brokers. We also advertise in local newspapers and on local radio and television. We currently have the ability to accept online mortgage loan applications and provide pre-approvals through our website. Our branch managers and loan officers located at our headquarters and in branches, have authority to approve certain types of loans when presented with a completed application. Other loans must be approved at our main offices as disclosed below. No loan consultants or loan brokers are currently utilized for either residential or commercial lending activities.

After receiving a loan application from a prospective borrower, a credit report and verifications are obtained to confirm specific information relating to the loan applicant’s employment, income and credit standing. When required by our policies, an appraisal of the real estate intended to secure the proposed loan is undertaken by an independent fee appraiser. In connection with the loan approval process, our staff analyzes the loan applications and the property involved. Officers and branch managers are granted lending authority based on the nature of the loan and the managers’ level of experience. We have established a series of loan committees to approve any loans which may exceed the lending authority of particular officers or branch managers. Three Directors of the Board are required for approval of any loan, or aggregation of loans to a single borrower, that currently exceeds \$3.00 million.

Loan applicants are promptly notified of the decision by a letter setting forth the terms and conditions of the decision. If approved, these terms and conditions include the amount of the loan, interest rate basis, amortization term, a brief description of real estate to be mortgaged, tax escrow and the notice of requirement of insurance coverage to be maintained. We generally require title insurance on first mortgage loans and fire and casualty insurance on all properties securing loans, which insurance must be maintained during the entire term of the loan.

Loan Commitments

We generally provide commitments to fund fixed and adjustable-rate single-family mortgage loans for periods up to 60 days at a specified term and interest rate, and other loan categories for shorter time periods. The total amount of loans in process of origination for sale into the secondary market with interest rate lock commitments was \$227.98 million as of December 31, 2020.

Investment Activities

General

State-chartered commercial banks such as the Bank have the authority to invest in various types of investment securities, including United States Treasury obligations, securities of various Federal agencies (including securities collateralized by mortgages), certificates of deposits of insured banks and savings institutions, municipal securities, corporate debt securities and loans to other banking institutions.

Eagle maintains liquid assets that may be invested in specified short-term securities and other investments. Liquidity levels may be increased or decreased depending on the yields on investment alternatives. They may also be increased based on management's judgment as to the attractiveness of yields available in relation to other opportunities. Liquidity levels can also change based on management's expectation of future yield levels, as well as management's projections as to the short-term demand for funds to be used in the Bank's loan origination and other activities.

Investment Policies

The investment policy of Eagle, which is established by the Board, is designed to foster earnings and liquidity within prudent interest rate risk guidelines, while complementing the Bank's lending activities. The policy provides for available-for-sale (including those accounted for under ASC Topic 825), held-to-maturity and trading classifications. However, Eagle currently does not hold any securities for purposes of trading or held-to-maturity. The policy permits investments in high credit quality instruments with diversified cash flows while permitting us to maximize total return within the guidelines set forth in our interest rate risk and liquidity management policies. Permitted investments include but are not limited to U.S. government obligations, government agency or government-sponsored agency obligations, state, county and municipal obligations, asset-backed securities and mortgage-backed securities ("MBSs"). Collateralized mortgage obligations ("CMOs"), investment grade corporate debt securities and commercial paper are also included.

Our investment policy also includes several specific guidelines and restrictions to ensure adherence with safe and sound activities. The policy prohibits investments in high-risk mortgage derivative products (as defined within the policy) without prior approval from the Board. To secure such approval, management must demonstrate the business advantage of such investments.

We do not participate in the use of off-balance sheet derivative financial instruments, except interest rate caps and floors. Further, Eagle does not invest in securities which are not rated investment grade at time of purchase.

The Board, through its asset/liability committee, has charged the President and CEO with implementation of the investment policy. All transactions are reported to the Board monthly, as well as the current composition of the portfolio, including market values and unrealized gains and losses.

Sources of Funds

General

Deposits are the major source of our funds for lending and other investment purposes. Borrowings are also used to compensate for reductions in the availability of funds from other sources. In addition to deposits and borrowings, we derive funds from loans and investment securities principal payments. Funds are also derived from proceeds for the maturity, call and sale of investment securities and from the sale of loans. Loan and investment securities principal payments are a relatively stable source of funds, while loan prepayments and deposit inflows are significantly influenced by general interest rates and financial market conditions.

Deposits

We offer a variety of deposit accounts. Deposit account terms vary, primarily as to the required minimum balance amount, the amount of time that the funds must remain on deposit and the applicable interest rate.

Our current deposit products include certificates of deposit accounts ranging in terms from 90 days to five years, as well as, checking, savings and money market accounts. Individual retirement accounts ("IRAs") are included in certificates of deposit. The Bank may also enter into fixed rate brokered certificates when rates are competitive with other funding sources.

Deposits are obtained primarily from residents of Montana. We believe we are able to attract deposit accounts by offering outstanding service, competitive interest rates, convenient locations and service hours. We use traditional methods of advertising to attract new customers and deposits, including radio, television, print media advertising, sales training and incentive programs for employees. Management believes that nonresidents of Montana hold an insignificant number and amount of deposit accounts.

We pay interest rates on deposits which are competitive in our market. Interest rates on deposits are set by senior management, based on a number of factors, including: projected cash flow; a current survey of a selected group of competitors' rates for similar products; external data which may influence interest rates; investment opportunities and loan demand; and scheduled certificate maturities and loan and investment repayments.

Borrowings

Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances from FHLB of Des Moines ("FHLB") to supplement our supply of lendable funds and to meet deposit withdrawal requirements. We have Federal funds lines of credit with Pacific Coast Bankers Bank ("PCBB"), PNC Financial Services Group, Inc. ("PNC"), United Bankers' Bank ("UBB") and Zions Bank.

In June, 2020, the Company completed the issuance of \$15.00 million in aggregate principal amount of subordinated notes due in 2030 in a private placement transaction to certain qualified institutional accredited investors. The notes will bear interest at an annual fixed rate of 5.50%. Starting July 1, 2025, interest will accrue at a floating rate per annum equal to a benchmark rate, which is expected to be the three-month term Secured Overnight Financing Rate ("SOFR") plus a spread of 509.0 basis points. In February 2017, the Company completed the issuance, through a private placement, of \$10.00 million aggregate principal amount of 5.75% fixed senior unsecured notes due in 2022. In June 2015, the Company completed the issuance of \$10.00 million in aggregate principal amount of subordinated notes due in 2025 in a private placement transaction to an institutional accredited investor. The notes had an annual fixed rate of 6.75%. The notes were redeemed on July 10, 2020. In September 2005, our predecessor entity formed a special purpose subsidiary, Eagle Bancorp Statutory Trust I (the "Trust"), for the purpose of issuing trust preferred securities in the amount of \$5.16 million. Our predecessor entity issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the trust preferred securities. Upon the closing of the second-step conversion and reorganization, we assumed the obligations of our predecessor in connection with the subordinated debentures and trust preferred securities.

Other Activities

The Company previously offered wealth management services at its locations through financial advisors employed by the Bank. The Company discontinued its wealth management services during July of 2019. Income from wealth management services was \$0 and \$258,000 for the years ended December 31, 2020 and 2019, respectively.

Subsidiary Activity

We are permitted to invest in the capital stock of, or originate secured or unsecured loans to, subsidiary corporations. The following are subsidiaries of the Company: Opportunity Bank of Montana, Eagle Bancorp Statutory Trust I and Western Financial Services, Inc. AFSB NMTC Investment Fund, LLC, which was previously a subsidiary of the Bank, was divested in November 2019.

Employees and Human Capital Resources

As of December 31, 2020, we had 335 full-time employees and 19 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

Retention and Benefits

Employee retention helps us operate efficiently and achieve one of our business objectives, which is being a high-level service provider. We believe our commitment to living out our core values, actively prioritizing concern for our employees' well-being, supporting our employees' career goals, offering competitive wages and providing valuable benefits aids in retention of our top-performing employees. We promote health and wellness of our employees and strive to keep the employee portion of health care premiums to a minimum. In addition, nearly all of our employees are shareholders of the Company through participation in our Employee Stock Ownership Plan ("ESOP"), which aligns employee and shareholder interests by providing stock ownership on a tax-deferred basis at no investment cost to our employees.

Growth and Development

We believe that the success of our business is largely due to the quality of our employees, the development of each employee's full potential, and our ability to provide timely and satisfying recognition and rewards. We encourage and support the development of our employees and, whenever possible, strive to fill vacancies from within. We invest in employees' professional development including tuition reimbursement for courses and fees paid for certifications.

Health and Safety

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic presented a unique challenge with regard to maintaining employee safety while continuing successful operations. Through teamwork and the adaptability of our management and staff, we were able to transition during the peak of the pandemic, over a short period of time, to rotational work schedules allowing employees to effectively work from remote locations and ensure a safely-distanced working environment for employees performing customer facing activities at branches. All employees are encouraged to stay at home or work from home if they are experiencing signs or symptoms of a possible COVID-19 illness and have been provided paid time off to cover compensation during such absences.

Community Involvement

Employees are encouraged to become involved in their communities and are offered paid time off for participating in bank-sponsored events. Employees may also take 12 hours of paid time off per calendar year during normal working hours for individual volunteer efforts.

Regulation

Set forth below is a brief description of certain laws and regulations applicable to Eagle and the Bank. These descriptions of laws and regulations as well as those contained elsewhere do not purport to be complete and are qualified in their entirety by reference to applicable laws and regulations. Legislative or regulatory changes in the future could adversely affect our operations or financial condition.

General

As a state-chartered commercial bank, the Bank is subject to extensive regulation, examination and supervision by the Federal Reserve Bank of Minneapolis ("FRB") and Montana Division of Banking and Financial Institutions. The Bank is a member of the FRB System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation ("FDIC"). There are periodic examinations to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. Under certain circumstances, the FDIC may also examine the Bank. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate allowance for loan losses for regulatory purposes. Eagle, as a bank holding company, is required to file certain reports with, and is subject to examination by, and must otherwise comply with the rules and regulations of the FRB. Eagle is also subject to the rules and regulations of the Securities and Exchange Commission ("SEC") under the federal securities laws. See Holding Company Regulation section below.

Dodd-Frank Act

In July 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act has significantly changed the bank regulatory structure and affected the lending, investment, trading and operating activities of financial institutions and their holding companies. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations, some of which have not yet been issued in final form. The Dodd-Frank Act and implementing regulations have increased the regulatory burden, compliance cost and interest expense for Eagle and the Bank.

On May 25, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act") was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Regulatory Relief Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion and for large banks with assets of more than \$50 billion. Many of these changes could result in meaningful regulatory changes for community banks such as the Bank, and their holding companies.

Federal Regulation of Commercial Banks

General

Deposits in the Bank, a Montana state-chartered commercial bank are insured by the FDIC. The bank has no branches in any other state. The Bank is subject to regulation and supervision by the Montana Department of Administration's Banking and Financial Institutions Division and the FRB. The federal laws that apply to the Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, and the nature, amount of, and collateral for loans. Federal laws also regulate community reinvestment and insider credit transactions and impose safety and soundness standards.

The Bank's general permissible lending limit for loans-to-one-borrower is 15.0% of unimpaired capital and surplus. An additional amount may be lent, equal to 10.0% of total capital, if the loan is fully secured by certain readily marketable collateral, which is defined to include certain financial instruments and bullion, but generally does not include real estate.

The federal banking agencies, have adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to submit or implement an acceptable plan, the appropriate federal banking agency may issue an enforceable order requiring correction of the deficiencies.

Federal Home Loan Bank System

The Bank is a member of the FHLB of Des Moines. FHLB of Des Moines is one of 11 regional FHLBs that administer the home financing credit function of banks, credit unions and savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. As a member, the Bank is required to purchase and maintain a specified amount of shares of capital stock in the FHLB of Des Moines.

The FHLBs continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

Federal Reserve System

The Federal Reserve System requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their checking and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve System may be used to satisfy liquidity requirements.

As a member of the Federal Reserve System, the Company is required to maintain a minimum level of investment in FRB stock based on a specific percentage of its capital and surplus. A reduction in value of the Bank's FRB stock may result in a corresponding reduction in the Bank's capital.

Insurance of Deposit Accounts

Deposit accounts at the Bank are insured by the FDIC, generally up to a maximum of \$250,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts. The Bank's deposits, therefore, are subject to FDIC deposit insurance assessments. Assessments paid to the FDIC by the Bank and other banking institutions are used to fund the FDIC's Federal Deposit Insurance Fund.

Insurance of Accounts and Regulation by the FDIC

As insurer of deposits in banks, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving FRB an opportunity to take such action. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement with the FDIC. We are not aware of any practice, condition or violation that might lead to the termination of the Bank's deposit insurance.

Assessments Under Dodd-Frank

The FDIC assesses deposit insurance premiums on each insured institution quarterly based on annualized rates for one of four risk categories. The assessment base for calculating deposit insurance assessments is an institution's average total assets minus its average tangible equity (defined as Tier I capital). Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Rates are based on each institution's risk category and certain specified risk adjustments. Stronger institutions pay lower rates while riskier institutions pay higher rates. The assessment rate schedule establishes assessments ranging from 2.5 to 45 basis points. The FDIC may increase or decrease its rates for each quarter by 2 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

Minimum Reserve Ratios

The Dodd-Frank Act established 1.35% as the minimum reserve ratio for the Deposit Insurance Fund ("DIF"). The FDIC adopted a plan under which it would meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act required the FDIC to offset the effect on institutions, with assets less than \$10 billion, of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. During 2018 the DIF ratio reached 1.36%. The FDIC indicated it would automatically apply a small Bank's credits to reduce its regular insurance assessment up to the entire amount of the assessment once a ratio of 1.38% was reached. During 2019, the reserve ratio exceeded 1.38% and a credit of \$224,000 was established to offset future FDIC insurance premiums. Credits totaling \$134,000 were applied during 2019, and credits totaling \$72,000 were applied during 2020. In addition to the statutory minimum ratio, the FDIC must designate a reserve ratio, known as the designated reserve ratio, or DRR, which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. In addition to the assessment for deposit insurance, through 2019, institutions were required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund.

Capital Requirements

State chartered commercial banks, such as the Bank, are required by the FRB to maintain minimum levels of regulatory capital. These minimum capital standards include: a ratio of total capital to risk-weighted assets of 10.5%, a ratio of Tier 1 capital to risk-weighted assets of 8.5%, a ratio of common equity Tier 1 capital to risk-weighted assets of 7.0%, or a ratio of Tier 1 capital to total assets of 4.0%. All of these ratios except for the ratio of Tier 1 capital to total assets include the capital conservation buffer of 2.5% phased-in beginning January 1, 2019. The regulations require that, in meeting the capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires state chartered commercial banks to maintain Tier 1 and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 8.5% and 10.5%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0.0% to 100.0%, assigned by the FRB capital regulation based on the risks believed inherent in the type of asset. Tier 1 capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock. Also included

is the allowance for loan losses limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100.0% of core capital. The FRB also has authority to establish individual minimum capital requirements for financial institutions.

Basel III – New Capital and Prompt Corrective Action Regulations. In July 2013, the federal bank regulatory agencies issued interim final rules that revise and replace the current risk-based capital requirements in order to implement the “Basel III” regulatory capital reforms released by the Basel Committee on Banking Supervision and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Basel III reforms reflected in the final rules include an increase in the risk-based capital requirements and certain changes to capital components and the calculation of risk-weighted assets.

Effective January 1, 2015, bank holding companies with consolidated assets of \$1 billion or more and banks like Opportunity Bank were required to comply with new minimum capital ratio requirements to be phased-in between January 1, 2015 and January 1, 2019. Now fully phased in, the capital conservation buffer requires maintenance of a minimum of 2.5% common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements. The fully phased in rules consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5% which increased to 7.0% during 2019 with the capital conservation buffer of 2.5%; (ii) a Tier 1 capital to total risk weighted assets ratio of 6.0% which increased to 8.5% during 2019 with the capital conservation buffer of 2.5%; (iii) a total capital to total risk weighted assets ratio of 8.0% which increased to 10.5% during 2019 with the capital conservation buffer of 2.5%; and (iv) a Tier 1 capital to adjusted average total assets (“leverage”) ratio of 4.0%. If the capital ratio levels of a banking organization fall below the capital conservation buffer amount, the organization will be subject to limitations on (i) the payment of dividends; (ii) discretionary bonus payments; (iii) discretionary payments under Tier 1 instruments; and (iv) engaging in share repurchases.

The federal bank regulatory agencies also implemented changes to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital ratios begin to show signs of weakness. These changes took effect beginning January 1, 2015 and require insured depository institutions to meet the following increased capital ratio requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8.0%; (iii) a total capital ratio of 10.0%; and (iv) a Tier 1 leverage ratio of 5.0%. See also the additional discussion below under “Prompt Corrective Action.”

Management believes that, as of December 31, 2020, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

Prompt Corrective Action

Federal bank regulatory agencies are required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution’s degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8.0%, a ratio of Tier 1 capital to risk-weighted assets of less than 6.0%, a ratio of common equity Tier 1 capital to risk-weighted assets of less than 4.5%, or a ratio of Tier 1 capital to total assets of less than 4.0% is considered to be “undercapitalized.” An institution that has a total risk-based capital ratio less than 6.0%, a Tier 1 capital ratio of less than 4.0%, a common equity Tier 1 capital ratio of less than 3.0% or a Tier 1 leverage ratio that is less than 3.0% is considered to be “significantly undercapitalized.” An institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be “critically undercapitalized.” Subject to a narrow exception, the FRB is required to appoint a receiver or conservator for a bank that is “critically undercapitalized.” Regulations also require that a capital restoration plan be filed with the FRB within 45 days of the date a bank receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. “Significantly undercapitalized” and “critically undercapitalized” institutions are subject to more extensive mandatory regulatory actions. The FRB also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. At December 31, 2020, the Bank’s capital ratios met the “well capitalized” standards.

Limitations on Capital Distributions

A principal source of the parent holding company's cash is from dividends received from the Bank, which are subject to government regulation and limitation. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. The Bank is subject to Montana state law and, in certain circumstances, Montana law places limits or restrictions on a bank's ability to declare and pay dividends. Additionally, current guidance from the FRB provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters. Basel III also introduces additional limitations on banks' ability to issue dividends by imposing a capital conservation buffer requirement.

Transactions with Affiliates

The Bank's authority to engage in transactions with "affiliates" is limited by regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the FRB's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. Eagle and the Bank are separate and distinct legal entities. Eagle is an affiliate of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions, *i.e.* "covered transactions," are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, banks are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no bank may purchase the securities of any affiliate other than a subsidiary.

Our authority to extend credit to executive officers, directors and 10.0% or greater shareholders ("insiders"), as well as entities controlled by these persons, is governed by Sections 22(g) and 22(h) of the Federal Reserve Act and its implementing regulation, FRB Regulation O. Among other things, loans to insiders must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for bank-wide lending programs that do not discriminate in favor of insiders. Regulation O also places individual and aggregate limits on the amount of loans that may be made to insiders based, in part, on the institution's capital position, and requires that certain prior board approval procedures be followed. Extensions of credit to executive officers are subject to additional restrictions on the types and amounts of loans that may be made. At December 31, 2020, we were in compliance with these regulations.

Holding Company Regulation

General

Eagle is a bank holding company subject to regulatory oversight of the FRB. Eagle is required to register and file reports with the FRB and is subject to regulation and examination by the FRB. In addition, the FRB has enforcement authority over Eagle and its nonbank institution subsidiaries which also permits the FRB to restrict or prohibit activities that are determined to present a serious risk to the Bank.

Mergers and Acquisitions

Eagle must obtain approval from the FRB before acquiring more than 5.0% of the voting stock of another bank or bank holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for Eagle to acquire control of a bank, the FRB would consider the financial and managerial resources and future prospects of Eagle and the target institution, the effect of the acquisition on the risk to the Deposit Insurance Fund, the convenience and the needs of the community and competitive factors.

Eagle obtained the necessary approvals from the FRB and the Montana Division of Banking and Financial Institutions before acquiring each of its previous acquisitions and WHC on January 1, 2020.

Acquisition of Eagle

Under the Bank Holding Company Act and the Change in Bank Control Act, a notice or application must be submitted to the FRB if any person (including a company), or a group acting in concert, seeks to acquire 10.0% or more of Eagle's outstanding voting stock, unless the FRB has found that the acquisition will not result in a change in control of Eagle. In acting on such a notice or application, the FRB must take into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effect of the acquisition. Any company that acquires control will be subject to regulation as a bank holding company.

Federal Securities Laws

Eagle's common stock is registered with the SEC under the Exchange Act. We are subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, filed with or furnished to the SEC, are available free of charge through our Internet website, www.opportunitybank.com, as soon as reasonably practical after we have electronically filed such material with, or furnished it to, the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents on or accessible through, these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

ITEM 1A. RISK FACTORS

Risks Related to Economic and Market Conditions

The COVID-19 pandemic is adversely affecting us and our customers, employees, and third-party service providers, and the adverse impacts on our business, financial position, results of operations, and prospects could be significant.

COVID-19 has negatively impacted the global and national economy, disrupted supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, increased unemployment levels and decreased consumer confidence, generally. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities. The pandemic could influence the recognition of credit losses in our loan portfolios and increase our allowance for credit losses, particularly as businesses remain closed and as more customers are expected to draw on their lines of credit or seek additional loans to help finance their businesses. Furthermore, the pandemic could affect the stability of our deposit base as well as our capital and liquidity position, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, result in lost revenue and cause us to incur additional expenses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairments in future periods on the securities we hold as well as reductions in other comprehensive income.

The extent of the impact of the COVID-19 pandemic on our capital, liquidity, and other financial positions and on our business, results of operations, and prospects will depend on a number of evolving factors, including:

- *The duration, extent, and severity of the pandemic and the efficacy of vaccine roll-outs.* COVID-19 has not been contained and could affect significantly more households and businesses. The duration and severity of the pandemic continue to be impossible to predict.
- *The response of governmental and nongovernmental authorities.* Many of the actions taken by authorities have been directed at curtailing personal and business activity to contain COVID-19 while simultaneously deploying fiscal-and monetary-policy measures to assist in mitigating the adverse effects on individuals and businesses. These actions are not consistent across jurisdictions but, in general, have been rapidly expanding in scope and intensity.
- *The effect on our customers, counterparties, employees, and third-party service providers.* COVID-19 and its associated consequences and uncertainties may affect individuals, households, and businesses differently and unevenly. In the near-term if not longer, however, our credit, operational, and other risks are generally expected to increase.
- *The effect on economies and markets.* Whether the actions of governmental and nongovernmental authorities will be successful in mitigating the adverse effects of COVID-19 is unclear. National, regional, and local economies and markets could suffer lasting disruptions.
- *The success of hardship relief efforts to bridge the gap to reopening the economy.* The U.S. government has implemented programs to directly compensate individuals and grant or loan money to businesses in an effort to provide funding while the economy is shut down. Many banks, including the Bank, have implemented hardship relief programs that include payment deferral and short-term funding options. The success of these programs could mute the effect on the Company's credit losses, which may be difficult to determine.
- *Cybersecurity risks.* Cybersecurity risks are increased as the result of an increase in the number of employees working remotely.

The duration of these business interruptions and related impacts on our business and operations, which will depend on future developments, are highly uncertain and cannot be reasonably estimated at this time. The pandemic could cause us to experience higher credit losses in our lending portfolio, impairment of our goodwill and other financial assets, reduced demand for our products and services, and other negative impacts on our financial position, results of operations, and prospects.

The cumulative effects of COVID-19 and the measures implemented by governments to combat the pandemic on mortgaged properties may cause borrowers to be unable to meet their payment obligations under mortgage loans that we hold and may result in significant losses.

The extent to which COVID-19 impacts our business, results of operations and financial condition will depend on future developments, which are uncertain and difficult to predict. Even after COVID-19 has subsided, we may continue to

experience materially adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. The effects could have a material impact on our results of operations and heighten many of the other risk factors identified below.

Our business may be adversely affected by conditions in the financial markets and economic conditions generally and in our market areas in particular.

Our financial performance generally, and in particular the ability of our borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer and whose success we rely on to drive our future growth, is highly dependent upon the business environment in the markets in which we operate, principally in Montana, and in the United States as a whole. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in Montana. The economic conditions in our local markets may be different from, and in some instances worse than, the economic conditions in the United States as a whole. Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation and price levels, monetary policy, unemployment and strength of the domestic economy and local economy in the markets in which we operate. Unfavorable market conditions can result in deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; state or local government insolvency; or a combination of these or other factors.

In recent years, economic growth and business activity across a wide range of industries and regions in the U.S. has been slow and uneven. There are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt, further declining oil prices and ongoing federal budget negotiations that may have a destabilizing effect on financial markets. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. Such conditions could have a material adverse effect on the credit quality of our loans or our business, financial condition or results of operations.

Declines in home values could decrease our loan originations and increase delinquencies and defaults.

Declines in home values in our markets could adversely impact results from operations. Like all financial institutions, we are subject to the effects of any economic downturn, and in particular, a significant decline in home values would likely lead to a decrease in new home equity loan originations and increased delinquencies and defaults in both the consumer home equity loan and residential real estate loan portfolios and result in increased losses in these portfolios. Declines in the average sale prices of homes in our primary markets could lead to higher loan losses.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits, borrowings and trust preferred securities.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates.

We may be impacted by the retirement of London Interbank Offered Rate (“LIBOR”) as a reference rate.

In July of 2017, the United Kingdom’s Financial Conduct Authority (“FCA”), the regulatory agency that oversees LIBOR, announced that LIBOR rates may no longer be published after 2021. In response, the Alternative Reference Rate Committee (“ARRC”) convened to study potential replacement rates to be used as benchmarks. The ARRC has identified the Secured Overnight Financing Rate (“SOFR”) as a potential successor rate to LIBOR and published its Paced Transition Plan to encourage the adoption of SOFR. However, there are some key technical and conceptual differences between LIBOR and SOFR.

At this time, there is no consensus as to which rates may become acceptable alternatives to LIBOR, and it is impossible to predict how the alternatives will affect the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements. This uncertainty may adversely affect LIBOR rates and if LIBOR rates are no longer available, the Company may incur expenses in implementing substitute indices.

Strong competition may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Our profitability depends upon our ability to successfully compete in our market areas.

Risks Related to Our Business

We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings and the book values of these assets would decrease.

As a result of our branch and whole bank acquisitions we record goodwill. We are required to test our goodwill for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. It is possible that future impairment testing could result in a partial or full impairment of the value of our goodwill. If an impairment determination is made in a future reporting period, our earnings and the book value of goodwill will be reduced by the amount of the impairment.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

If the allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. If the assumptions prove to be incorrect, the allowance for loan losses may not be

sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease net income.

Our emphasis on the origination of consumer, commercial real estate and commercial business loans is one of the more significant factors in evaluating the allowance for loan losses. As we continue to increase the amount of such loans, additional or increased provisions for loan losses may be necessary and would decrease earnings.

Bank regulators periodically review our allowance for loan losses and may require an increase to the provision for loan losses or further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition.

We could record future losses on our securities portfolio.

A number of factors or combinations of factors could require us to conclude in one or more future reporting periods that an unrealized loss exists with respect to our investment securities portfolio that constitutes an impairment that is other than temporary, which could result in material losses to us. These factors include, but are not limited to, continued failure by the issuer to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of securities could decline if the overall economy and the financial condition of some of the issuers deteriorates and there is limited liquidity for these securities.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations.

Our accounting policies are essential to understanding our financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

From time to time, the Financial Accounting Standards Board and the Securities and Exchange Commission change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be hard to predict and could materially impact how we report our results of operations and financial condition. We could also be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements in material amounts.

Because we have increased our commercial real estate and commercial business loan originations, our credit risk has increased and continued downturns in the local real estate market or economy could adversely affect our earnings.

We intend to continue our recent emphasis on originating commercial real estate and commercial business loans. Commercial real estate and commercial business loans generally have more risk than the residential real estate (1-4 family) loans we originate. Because the repayment of commercial real estate and commercial business loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. A downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. As our commercial real estate and commercial business loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of

technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws or be vulnerable to cyberattacks. Failure to successfully keep pace with technological change affecting the financial services industry and avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition or results of operations.

We expect that new technologies and business processes applicable to the consumer credit industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

We depend on the services of our executive officers and other key employees.

Our success depends upon the continued employment of certain members of our senior management team. We also depend upon the continued employment of the individuals that manage several of our key functional areas. The departure of any member of our senior management team may adversely affect our operations.

We earn a significant portion of our noninterest income through sales of residential mortgages in the secondary market. We rely on the mortgage secondary market for some of our liquidity.

Our noninterest income attributable to mortgage banking activities has grown significantly in recent years. We originate and sell mortgage loans, including \$874.72 million of mortgage loans sold during 2020. We rely on Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corporation (“FHLMC”) and other purchasers to purchase loans in order to reduce our credit risk and provide funding for additional loans we desire to originate. We cannot provide assurance that these purchasers will not materially limit their purchases from us due to capital constraints or other factors, including, with respect to FNMA and FHLMC, a change in the criteria for conforming loans. In addition, various proposals have been made to reform the U.S. residential mortgage finance market, including the role of FNMA and FHLMC. The exact effects of any such reforms are not yet known, but may limit our ability to sell conforming loans to FNMA and FHLMC. In addition, mortgage lending is highly regulated, and our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of mortgage loans may also impact our ability to continue selling mortgage loans. If we are unable to continue to sell loans in the secondary market or we experience a period of low mortgage activity, our noninterest income as well as our ability to fund, and thus originate, additional mortgage loans may be adversely affected, which could have a material adverse effect on our business, financial condition or results of operations.

There can be no assurance we will be able to continue paying dividends on our common stock at recent levels.

We may not be able to continue paying quarterly dividends commensurate with recent levels given that the ability to pay dividends on our common stock depends on a variety of factors. The payment of dividends is subject to government regulation in that the regulatory authorities may prohibit banks and bank holding companies from paying dividends that would constitute an unsafe or unsound banking practice. Our ability to pay dividends is subject to certain regulatory requirements. The Federal Reserve generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of a subsidiary bank or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company’s financial position. The Federal Reserve Board policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions.

As a result, future dividends will generally depend on the level of earnings at the Bank. The Bank is subject to Montana law and, in certain circumstances, Montana law places limits or restrictions on a bank’s ability to declare and pay dividends. Also, in the event there shall occur an event of default on any of our debt instruments, we would be unable to pay any dividends on our common stock.

Our business strategy includes significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to pursue an organic growth strategy for our business; however, we regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions of financial institutions, branch acquisitions and other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful. There are risks associated with our growth strategy. To the extent that we grow through acquisitions, we cannot ensure that we will be able to adequately or profitably manage this growth.

Acquiring other banks, branches or other assets, as well as other expansion activities, involves various risks including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of integrating acquired banks or branches, the risk of loss of customers and/or employees of the acquired institution or branch, executing cost savings measures, not achieving revenue enhancements and otherwise not realizing the transaction's anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management's attention from ongoing business operations, may require investment in integration and in development and enhancement of additional operational and reporting processes and controls and may subject us to additional regulatory scrutiny.

Our growth initiatives may also require us to recruit and retain experienced personnel to assist in such initiatives. Accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, to the extent we expand our lending beyond our current market areas, we could incur additional risks related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets.

If we do not successfully execute our acquisition growth plan, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge, which would adversely affect our results of operations. While we believe we will have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth.

We may be unsuccessful in integrating the operations of the business we have acquired or expect to acquire in the future.

From time to time, we evaluate and acquire businesses that we believe complement our existing business. The acquisition component of our growth strategy depends on the successful integration of these acquisitions. We face numerous risks and challenges to the successful integration of acquired businesses, including the following:

- the potential for unexpected costs, delays and challenges that may arise in integrating acquisitions into our existing business;
- limitations on our ability to realize the expected cost savings and synergies from an acquisition;
- challenges related to integrating acquired operations, including our ability to retain key employees and maintain relationships with significant customers and depositors;
- challenges related to the integration of businesses that operate in new geographic areas, including difficulties in identifying and gaining access to customers in new markets; and
- the discovery of previously unknown liabilities following an acquisition associated with the acquired business.

If we are unable to successfully integrate the businesses we acquire, our business, financial condition and results of operations may be materially adversely affected.

Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis.

A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements.

Farmland and agriculture production lending presents unique credit risk.

As of December 31, 2020, approximately 14.01% of our total gross loan portfolio was comprised of farmland and agricultural production loans. As of December 31, 2020, we had \$118.16 million in farmland and agricultural production loans, including \$65.92 million in farmland loans, and \$52.24 million in agricultural production loans. Repayment of farmland and agricultural production loans depends primarily on the successful raising and feeding of livestock or planting and harvest of crops and marketing the harvested commodity. Collateral securing these loans may be illiquid. In addition, the limited purpose of some agricultural-related collateral affects credit risk because such collateral may have limited or no other uses to support values when loan repayment problems emerge. Our farmland and agricultural production lending staff have specific technical expertise that we depend on to mitigate our lending risks for these loans and we may have difficulty retaining or replacing such individuals. Many external factors can impact our agricultural borrowers' ability to repay their loans, including adverse weather conditions, water issues, commodity price volatility, diseases, land values, production costs, changing government regulations and subsidy programs, changing tax treatment, technological changes, labor market shortages/increased wages, and changes in consumers' preferences, over which our borrowers may have no control. These factors, as well as recent volatility in certain commodity prices could adversely impact the ability of those to whom we have made farmland and agricultural production loans to perform under the terms of their borrowing arrangements with us, which in turn could result in credit losses and adversely affect our business, financial condition and results of operations.

Rights Related to the Legal and Regulatory Environment

Changes in the structure of Government-Sponsored Enterprises (“GSEs”) such as Fannie Mae and Freddie Mac and the relationship among the GSEs, the federal government and the private markets, or the conversion of the current conservatorship of the GSEs into receivership, could result in significant changes to our securities portfolio.

The GSEs are currently in conservatorship, with their primary regulator, the Federal Housing Finance Agency, acting as conservator. We cannot predict if, when or how the conservatorships will end, or any associated changes to the GSEs' business structure that could result. There are several proposed approaches, including possible legislative changes in discussion in both the House Financial Services Committee and the Senate Banking Committee which, if enacted, could change the nature of government participation in the private mortgage market or alternatively the structure of the GSEs, the relationship among the GSEs, the government and the private markets, including the trading markets for agency conforming mortgage loans and markets for mortgage-related securities in which we participate. We cannot predict the prospects for the enactment, timing or content of legislative or rulemaking proposals regarding the future status of any of these approaches. Accordingly, there continues to be uncertainty regarding the future of the GSEs, including whether they will continue to exist in their current form. GSE reform, if enacted, could result in a significant change and adversely impact our business operations, particularly as to our residential mortgage lending activities.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve Board and the Montana Division of Banking and Financial Institutions. The federal banking laws and regulations govern the activities in which we may engage, and are primarily for the protection of depositors and the Deposit Insurance Fund at the FDIC. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

Future legislation, regulatory reform or policy changes under the current U.S. administration could have a material effect on our business and results of operations.

New legislation, regulatory reform or policy changes under the current U.S. administration, including financial services regulatory reform, tax reform, and GSE reform, could impact our business. At this time, we cannot predict the scope or nature of these changes or assess what the overall effect of such potential changes could be on our results of operations or cash flows.

If our investment in the Federal Home Loan Bank of Des Moines becomes impaired, our earnings and shareholders' equity could decrease.

We are required to own common stock of FHLB to qualify for membership in the FHLB System and to be eligible to borrow funds under the FHLB's advance program. The aggregate cost of our FHLB common stock as of December 31, 2020 was \$2.06 million. FHLB common stock is not a marketable security and can only be redeemed by the FHLB.

FHLB's may be subject to accounting rules and asset quality risks that could materially lower their regulatory capital. In an extreme situation, it is possible that the capitalization of a FHLB, including the FHLB of Des Moines, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in FHLB of Des Moines common stock could be deemed impaired at some time in the future, and if this occurs, it would cause our earnings and shareholders' equity to decrease by the amount of the impairment charge.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company's executive office is located at 1400 Prospect Avenue in Helena, Montana. As of December 31, 2020, the Bank conducted its business through 26 locations; including 23 full service branches, and three other buildings located in Helena and Missoula, Montana. The following table includes the locations by city, as well as whether they are owned or leased.

Locations	Occupancy Type		Total Locations
	Owned	Leased	
Big Timber, Montana	1	-	1
Billings, Montana	1	2	3
Bozeman, Montana	2	1	3
Butte, Montana	1	-	1
Choteau, Montana	1	-	1
Denton, Montana	1	-	1
Dutton, Montana	1	-	1
Great Falls, Montana	-	1	1
Hamilton, Montana	1	-	1
Helena, Montana	4	1	5
Livingston, Montana	1	-	1
Missoula, Montana	1	2	3
Sheridan, Montana	1	-	1
Townsend, Montana	1	-	1
Twin Bridges, Montana	1	-	1
Wolf Point, Montana	1	-	1
Total	19	7	26

Management believes all locations are in good condition and meet the operating needs of the Company. As of December 31, 2020, the book value of premises and equipment owned by the Bank totaled \$58.76 million. For additional information regarding the Company's premises and equipment and lease obligations, see Note 6 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

ITEM 3. LEGAL PROCEEDINGS.

The Bank, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Bank. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's results of operations.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the Nasdaq Global Market under the symbol "EBMT." At the close of business on December 31, 2020, there were 6,775,447 shares of common stock outstanding, held by approximately 915 shareholders of record. The closing price of the common stock on December 31, 2020, was \$21.22 per share.

Payment of dividends on our shares of common stock is subject to determination and declaration by the Board of Directors (the "Board") and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, our results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will be declared or, if declared, what the amount of dividends will be, or whether such dividends, once declared, will continue.

On July 23, 2020, Eagle's Board of Directors (the "Board") authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. During the third quarter of 2020, 41,337 shares were purchased under this plan at an average price of \$15.75 per share. However, no shares were purchased during the three months ended December 31, 2020. The plan expires on July 23, 2021.

On July 18, 2019, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchased its shares and the timing of such repurchase depended upon market conditions and other corporate considerations. No shares were purchased under this plan during the year ended December 31, 2019 or the first quarter of 2020. However, during the second quarter of 2020, 1,281 shares were purchased at an average price of \$16.95 per share. In addition, during the third quarter of 2020, 20,158 shares were purchased at an average price of \$15.60 per share. The plan expired on July 18, 2020.

On July 19, 2018, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchased its shares and the timing of such repurchase depended upon market conditions and other corporate considerations. No shares were purchased under this plan during the year ended December 31, 2018. However, during the first quarter of 2019, 42,000 shares were purchased at an average price of \$17.43 per share. In addition, 28,000 shares were purchased during the second quarter of 2019 at an average price of \$17.09 per share. The plan expired on July 19, 2019.

ITEM 6. SELECTED FINANCIAL DATA.

This item has been omitted based on Eagle's status as a smaller reporting company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of the financial condition and results of operations of Eagle is intended to help investors understand our company and our operations. The financial review is provided as a supplement to, and should be read in conjunction with the Consolidated Financial Statements and the related Notes included elsewhere in this report.

Overview

Historically, our principal business has consisted of attracting deposits from the general public and the business community and making loans secured by various types of collateral, including real estate and other consumer assets. We are significantly affected by prevailing economic conditions, particularly interest rates, as well as government policies concerning, among other things, monetary and fiscal affairs, housing and financial institutions and regulations regarding lending and other operations, privacy and consumer disclosure. Attracting and maintaining deposits is influenced by a number of factors, including interest rates paid on competing investments offered by other financial and nonfinancial institutions, account maturities, fee structures and levels of personal income and savings. Lending activities are affected by the demand for funds and thus are influenced by interest rates, the number and quality of lenders and regional economic conditions. Sources of funds for lending activities include deposits, borrowings, repayments on loans, cash flows from maturities of investment securities and income provided from operations.

Our earnings depend primarily on our level of net interest income, which is the difference between interest earned on our interest-earning assets, consisting primarily of loans and investment securities, and the interest paid on interest-bearing liabilities, consisting primarily of deposits, borrowed funds, and trust-preferred securities. Net interest income is a function of our interest rate spread, which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest-bearing liabilities, as well as a function of the average balance of interest-earning assets compared to interest-bearing liabilities. Also contributing to our earnings is noninterest income, which consists primarily of service charges and fees on loan and deposit products and services, net gains and losses on sale of assets, and mortgage loan service fees. Net interest income and noninterest income are offset by provisions for loan losses, general administrative and other expenses, including salaries and employee benefits and occupancy and equipment costs, as well as by state and federal income tax expense.

The Bank has a strong mortgage lending focus, with a large portion of its loan originations represented by single-family residential mortgages, which has enabled it to successfully market home equity loans, as well as a wide range of shorter term consumer loans for various personal needs (automobiles, recreational vehicles, etc.). The Bank has also focused on adding commercial loans to our portfolio, both real estate and non-real estate. We have made significant progress in this initiative. As of December 31, 2020, commercial real estate and commercial business loans represented 53.12% and 19.15% of the total loan portfolio, respectively. The purpose of this diversification is to mitigate our dependence on the residential mortgage market, as well as to improve our ability to manage our interest rate spread. Recent acquisitions have added to our agricultural loans, which generally have shorter maturities and nominally higher interest rates. This has provided additional interest income and improved interest rate sensitivity. The Bank's management recognizes that fee income will also enable it to be less dependent on specialized lending and it maintains a significant loan serviced portfolio, which provides a steady source of fee income. As of December 31, 2020, we had mortgage servicing rights, net of \$10.11 million compared to \$8.74 million as of December 31, 2019. Gain on sale of loans also provides significant noninterest income in periods of high mortgage loan origination volumes. Such income will be adversely affected in periods of lower mortgage activity.

Fee income is also supplemented with fees generated from deposit accounts. The Bank has a high percentage of non-maturity deposits, such as checking accounts and savings accounts, which allows management flexibility in managing its spread. Non-maturity deposits and certificates of deposit do not automatically reprice as interest rates rise.

Management continues to focus on improving the Bank's earnings. Management believes the Bank needs to continue to concentrate on increasing net interest margin, other areas of fee income and control operating expenses to achieve earnings growth going forward. Management's strategy of growing the loan portfolio and deposit base is expected to help achieve these goals as follows: loans typically earn higher rates of return than investments; a larger deposit base should yield higher fee income; increasing the asset base will reduce the relative impact of fixed operating costs. The biggest challenge to the strategy is funding the growth of the statement of financial condition in an efficient manner. Though deposit growth has been steady, it may become more difficult to maintain due to significant competition and possible reduced customer demand for deposits as customers may shift into other asset classes.

Other than short term residential construction loans, we do not offer "interest only" mortgage loans on residential 1-4 family properties (where the borrower pays interest but no principal for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer "subprime loans" (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation).

The level and movement of interest rates impacts the Bank's earnings as well. The Federal Open Market Committee decreased the federal funds target rate during the year ended December 31, 2019 from 2.50% to 1.75%. The rate decreased from 1.75% to 0.25% during the year ended December 31, 2020. The rate reductions add continued pressure on loan yields.

COVID-19

The Company's performance for the year ended December 31, 2020 was strong due to higher mortgage banking operations, as a result of a historically low interest rate environment and substantial gains from loan sales. However, the Company also continues to see the impact of the COVID-19 pandemic and its consequences on our Montana communities. The Bank is focused on supporting our customers, communities and employees while prudently managing risk. The Bank is closely monitoring borrowers and businesses serviced and is providing debt service relief for those that have been impacted.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) providing economic relief for the country, including the \$349 billion Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) to fund short-term loans for small businesses. In April 2020, additional funding was approved for the PPP. Eagle began taking loan applications from its small business clients immediately after the program was implemented, and as of December 31, 2020 had helped 764 customers receive \$45.71 million in SBA PPP loans. The Bank has processed applications for PPP loan forgiveness for customers, with 195 loans representing over \$15.00 million now paid in full. The remaining 569 SBA PPP loans represent \$29.58 million.

While all industries have and will continue to experience adverse impacts as a result of the COVID-19 pandemic, we had exposures in the following impacted industries, as a percentage of loans as of December 31, 2020: health and social assistance (2.6%), hotels and lodging (4.1%), bars and restaurants (2.6%), casinos (1.2%) and nursing homes (0.5%). The Bank continues to reach out to specific borrowers to assess the risks and understand their needs.

The Bank has offered multiple accommodation options to its clients, including 90-day deferrals, forbearances and interest only payments. During 2020, the Montana Board of Investments (“MBOI”) began offering 12-months of interest payment assistance to qualified borrowers. As of December 31, 2020, remaining loan modifications for 40 nonresidential borrowers represented \$29.00 million in loans or 3.5% of total loans, compared to 66 borrowers representing \$55.21 million or 6.5% of loans as of September 30, 2020. The Bank qualified 32 borrowers for the MBOI program representing \$26.62 million in loans, which are included in the fourth quarter modifications. Only one loan in the hotel and lodging industry was approved in the MBOI loan program and was considered a troubled debt restructured (“TDR”) loan as of December 31, 2020. No other loans that had been modified related to COVID-19 were reported as TDR's due to the CARES Act exemption. As of December 31, 2020 there remain approximately 54 forbearances approved for residential mortgage loans, of which 49 are sold and serviced. Utilization of credit lines were 82.7% at the end of the fourth quarter compared to 83.4% at the end of the previous quarter, which aligns with historical usage rates.

Our fee income could be reduced due to COVID-19. In keeping with guidance from regulators, we are actively working with COVID-19 affected customers to waive fees from a variety of sources, such as, but not limited to, insufficient funds and overdraft fees, early withdrawal fees, ATM fees, account maintenance fees, etc. These reductions in fees are thought, at this time, to be temporary in conjunction with the length of the expected COVID-19 related economic crisis. At this time, we are unable to project the materiality of such an impact, but recognize the breadth of the economic impact is likely to impact our fee income in future periods.

As of December 31, 2020, all of our capital ratios, and our subsidiary bank’s capital ratios, were in excess of all regulatory requirements. While we believe that we have sufficient capital to withstand an extended economic recession brought about by COVID-19, our reported and regulatory capital ratios could be adversely impacted by further credit losses. We rely on cash on hand as well as dividends from our subsidiary bank to service our debt. If our capital deteriorates such that our subsidiary bank is unable to pay dividends to us for an extended period of time, we may not be able to service our debt.

While certain valuation assumptions and judgments will change to account for pandemic-related circumstances such as widening credit spreads, we do not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP.

As of December 31, 2020, our goodwill was not impaired. COVID-19 could cause a further and sustained decline in our stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period. In the event that we conclude that all or a portion of our goodwill is impaired, a noncash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital. At December 31, 2020 we had goodwill of \$20.80 million.

The Company is committed to assisting our customers and communities in this time of need. The State of Montana entered its Phase 2 reopening on June 1, 2020 and Eagle reopened branch lobbies. However, due to increased COVID-19 cases throughout the state, branch lobbies were closed again. In addition, effective July 16, 2020, a mandatory mask directive for indoor areas open to the public was implemented for the State of Montana. Accommodations have been made for employees to work from home when feasible while keeping drive-ups open and scheduling in-person appointments.

Acquisitions

The Bank has used growth through mergers or acquisition, in addition to its strategy of organic growth. In January 2019, the Company acquired Big Muddy Bancorp, Inc. (“BMB”), a Montana corporation, and BMB’s wholly-owned subsidiary, The State Bank of Townsend, a Montana chartered commercial bank (“SBOT”). SBOT operated four branches in Townsend, Dutton, Denton and Choteau, Montana. The transaction provided an opportunity to expand market presence and lending activities throughout the state.

In January 2020, Eagle acquired Western Holding Company of Wolf Point (“WHC”), a Montana corporation, and WHC’s wholly-owned subsidiary, Western Bank of Wolf Point (“WB”), a Montana chartered commercial bank. In the transaction, Eagle acquired one retail bank branch in Wolf Point, Montana.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard requires organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also requires qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and was adopted by the Company in the first quarter of 2019. The adoption of the standard did not have a significant impact on our consolidated financial statements. The Company’s operating leases expire on various dates through 2028 and primarily relate to branch locations. As a result of adopting the lease standard on January 1, 2019, the Company recorded right-of-use assets of \$2.37 million and corresponding lease liabilities. The right-of-use assets are included in premises and equipment, net and the lease liabilities are included in accrued expenses and other liabilities on the consolidated statement of financial condition.

In March 2017, the FASB issued ASU No. 2017-08, Receivables–Nonrefundable Fees and Other Costs (Subtopic 310-20) to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Currently, entities generally amortize the premium as a yield adjustment over the contractual life of the security. The guidance does not change the accounting for callable debt securities held at a discount. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The adoption of this standard in the first quarter of 2019 did not have a significant impact on our consolidated financial statements, as we typically do not invest in these types of securities.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820) to remove disclosure requirements that no longer are considered cost beneficial, modify/clarify specific requirements of certain disclosures and add disclosure requirements identified as relevant. The amendment became effective for the Company on January 1, 2020 and did not have a significant impact on the consolidated financial statements.

In September 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

In October 2019, the FASB amended the effective date of the standard. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach).

The Company believes the amendments in this update will have an impact on the Company's consolidated financial statements and is continuing to evaluate the significance of that impact, even though the adoption date has been deferred. In that regard, we have established a working group under the direction of our Chief Credit Officer and Controller. The group is composed of individuals from the finance and credit administration areas of the Company. We are currently developing an implementation plan, including assessment of processes, segmentation of the loan portfolio and identifying and adding data fields necessary for analysis. The adoption of this standard is likely to result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model to an "expected loss" model. While we currently cannot reasonably estimate the impact of adopting this standard, we expect the impact will be influenced by the composition, characteristics and quality of our loan and securities portfolios, as well as the general economic conditions and forecasts as of the adoption date.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350) to amend and simplify current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. The guidance will be effective for the Company on January 1, 2023 and adoption of the standard is being evaluated to assess the impact on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848) which provides temporary optional expedients to ease the financial reporting burdens of the expected market transition from London Interbank Offered Rate ("LIBOR") to an alternative reference rate such as SOFR. The guidance was effective upon issuance and generally can be applied through December 31, 2022. The Company is currently evaluating this guidance to determine the date of adoption and the potential impact.

Critical Accounting Policies

Certain accounting policies are important to the understanding of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances, including, but without limitation, changes in interest rates, performance of the economy, financial condition of borrowers and laws and regulations. The following are the accounting policies we believe are critical.

Allowance for Loan Losses

We recognize that losses will be experienced on loans and that the risk of loss will vary with, among other things, the type of loan, the creditworthiness of the borrower, general economic conditions and the quality of the collateral for the loan. We maintain an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance for loan losses represents management's estimate of probable losses based on all available information. The allowance for loan losses is based on management's evaluation of the collectability of the loan portfolio, including past loan loss experience, known and inherent losses, information about specific borrower situations and estimated collateral values, and current economic conditions. The loan portfolio and other credit exposures are regularly reviewed by management in its determination of the allowance for loan losses. The methodology for assessing the appropriateness of the allowance includes a review of historical losses, internal data including delinquencies among others, industry data, and economic conditions.

As an integral part of their examination process, the FRB and the Montana Division of Banking will periodically review our allowance for loan losses and may require us to make additional provisions for estimated losses based upon judgments different from those of management. In establishing the allowance for loan losses, loss factors are applied to various pools of outstanding loans. Loss factors are derived using our historical loss experience and may be adjusted for factors that affect the collectability of the portfolio as of the evaluation date. Commercial business loans that are criticized are evaluated individually to determine the required allowance for loan losses and to evaluate the potential impairment of such loans under FASB ASC Topic 310 *Receivables*. Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of loans deteriorate as a result of the factors discussed previously. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations. The allowance is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results.

Mortgage Servicing Rights

For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on a market price valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that the fair value is less than the capitalized amount for the tranches. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported as assets and are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Derivative and Hedging Activities

FASB ASC Topic 815 *Derivatives and Hedging* requires that derivatives of the Company be recorded in the consolidated financial statements at fair value. These instruments have certain interest rate risk characteristics that change in value based upon changes in the market. The Company's derivatives are primarily the result of its mortgage banking activities in the form of interest rate lock commitments forward To-Be-Announced ("TBA") mortgage backed securities and bulk mandatory forward loan sale commitments. Derivatives are recorded as either other assets or other liabilities on the consolidated statements of financial condition and changes in the fair value of the derivatives are recorded in mortgage banking within noninterest income on the consolidated statements of income.

Fair Value

FASB ASC Topic 820 *Fair Value Measurements and Disclosures* establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Deferred Income Taxes

We use the asset and liability method of accounting for income taxes as prescribed in FASB ASC Topic 740 *Income Taxes*. Using this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on an ongoing basis as regulatory and business factors change. A reduction in estimated future taxable income could require us to record a valuation allowance. Changes in levels of valuation allowances could result in increased income tax expense, and could negatively affect earnings.

Financial Condition

December 31, 2020 compared to December 31, 2019

Total assets were \$1.26 billion at December 31, 2020, an increase of \$203.37 million, or 19.3% from \$1.05 billion at December 31, 2019. There were several factors impacting this increase. Loans receivable, net increased by \$58.86 million from December 31, 2019. In addition, total cash and cash equivalents increased by \$44.88 million from December 31, 2019 and has been impacted by PPP funds deposited by borrowers. Securities available-for-sale also increased by \$36.07 million from \$126.88 million at December 31, 2019. Mortgage loans held-for-sale increased \$29.01 million due to robust residential mortgage volumes during 2020. Total liabilities were \$1.10 billion at December 31, 2020, an increase of \$172.10 million, or 18.5%, from \$932.60 million at December 31, 2019. The increase was largely due to an increase in deposits partially offset by a reduction in FHLB advances and borrowings. Total deposits increased by \$224.09 million from December 31, 2019. However, FHLB advances and other borrowings decreased \$71.28 million from December 31, 2019. Total shareholders' equity increased by \$31.28 million from December 31, 2019.

Financial Condition Details

Investment Activities

We maintain a portfolio of investment securities, classified as either available-for-sale or held-to-maturity to enhance total return on investments. Our investment securities generally include U.S. government and agency obligations, U.S. treasury obligations, Small Business Administration pools, municipal securities, corporate obligations, mortgage-backed securities ("MBSs"), collateralized mortgage obligations ("CMOs") and asset-backed securities ("ABSs"), all with varying characteristics as to rate, maturity and call provisions. There were no held-to-maturity investment securities included in the investment portfolio at December 31, 2020 or 2019. All investment securities included in the investment portfolio are available-for-sale. Eagle also has interest-bearing deposits in other banks and federal funds sold, as well as, stock in FHLB and FRB. FHLB stock was \$2.06 million and \$4.68 million at December 31, 2020 and 2019, respectively. FRB stock was \$2.97 million and \$2.53 million at December 31, 2020 and 2019, respectively.

The following table summarizes investment activities:

	December 31,					
	2020		2019		2018	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total	Fair Value	Percentage of Total
	(Dollars in Thousands)					
Securities available-for-sale:						
U.S. government obligations	\$ 2,245	1.38%	\$ 695	0.55%	\$ 4,217	2.96%
U.S. treasury obligations	5,657	3.47%	12,902	10.17%	5,130	3.61%
Municipal obligations	99,088	60.81%	52,222	41.17%	68,278	48.04%
Corporate obligations	10,663	6.54%	8,388	6.61%	11,119	7.82%
Mortgage-backed securities	7,669	4.71%	9,495	7.48%	19,348	13.61%
Collateralized mortgage obligations	31,189	19.14%	33,334	26.27%	23,875	16.79%
Asset-backed securities	6,435	3.95%	9,839	7.75%	10,198	7.17%
Total securities available-for-sale	<u>\$162,946</u>	<u>100.00%</u>	<u>\$126,875</u>	<u>100.00%</u>	<u>\$142,165</u>	<u>100.00%</u>

Securities available-for-sale were \$162.95 million at December 31, 2020, an increase of \$36.07 million, or 28.4%, from \$126.88 million at December 31, 2019. Securities increased during the period due to the WHC acquisition, which included acquired securities of \$43.71 million. Excluding securities acquired, securities decreased by \$7.64 million. The decrease was due to sales and maturities of securities, largely offset by purchases during the period.

The following table sets forth information regarding fair values, weighted average yields and maturities of investments. The yields have been computed on a tax equivalent basis. Maturities are based on the final contractual payment dates and do not reflect the impact of prepayments or early redemptions that may occur.

	December 31, 2020															
	One Year or Less			One to Five Years			Five to Ten Years			After Ten Years			Total Investment Securities			
	Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield	Approximate Market Value	Weighted Average Yield
(Dollars in Thousands)																
Securities available-for-sale:																
U.S. government obligations	\$ -	0.00%	\$ -	0.00%	\$ 1,684	1.62%	\$ 561	3.07%	\$ 2,245	3.07%	\$ 2,245	3.07%	\$ 2,245	3.07%	\$ 2,245	1.98%
U.S. treasury obligations	-	0.00%	5,657	2.76%	-	0.00%	-	0.00%	5,657	0.00%	5,657	0.00%	5,657	0.00%	5,657	2.76%
Municipal obligations	1,978	2.08%	4,427	2.75%	13,563	2.77%	79,120	4.98%	99,088	3.03%	99,088	3.03%	99,088	3.03%	99,088	3.02%
Corporate obligations	-	0.00%	7,418	1.72%	3,245	4.98%	-	-	10,663	0.00%	10,663	0.00%	10,663	0.00%	10,663	2.71%
Mortgage-backed securities	-	0.00%	-	0.00%	310	1.85%	7,360	1.52%	7,669	1.52%	7,669	1.52%	7,669	1.52%	7,669	1.54%
Collateralized mortgage obligations	580	2.58%	7,164	2.88%	3,915	0.54%	19,530	1.14%	31,189	1.14%	31,189	1.14%	31,189	1.14%	31,189	1.49%
Asset-backed securities	-	0.00%	-	0.00%	-	0.00%	6,435	1.20%	6,435	1.20%	6,435	1.20%	6,435	1.20%	6,435	1.20%
Total securities available-for-sale	\$ 2,558	2.20%	\$ 24,666	1.85%	\$ 22,717	2.60%	\$ 113,006	2.50%	\$ 162,946	2.50%	\$ 162,946	2.50%	\$ 162,946	2.50%	\$ 162,946	2.54%

Lending Activities

The following table includes the composition of the Bank's loan portfolio by loan category:

	December 31,									
	2020		2019		2018		2017		2016	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Real estate loans:										
Residential 1-4 family ⁽¹⁾	\$ 110,802	13.14%	\$ 119,296	15.28%	\$ 116,939	18.92%	\$ 109,911	21.37%	\$ 113,262	24.24%
Residential 1-4 family construction	46,290	5.49%	38,602	4.95%	27,168	4.40%	25,306	4.92%	20,540	4.40%
Total residential 1-4 family	157,092	18.63%	157,898	20.23%	144,107	23.32%	135,217	26.29%	133,802	28.64%
Commercial real estate	316,668	37.56%	331,062	42.41%	256,784	41.54%	194,805	37.88%	166,932	35.73%
Commercial construction and development	65,281	7.74%	52,670	6.75%	41,739	6.75%	38,351	7.46%	41,810	8.95%
Farmland	65,918	7.82%	50,293	6.44%	29,915	4.84%	11,627	2.26%	6,185	1.32%
Total commercial real estate	447,867	53.12%	434,025	55.60%	328,438	53.13%	244,783	47.60%	214,927	46.00%
Total real estate loans	604,959	71.75%	591,923	75.83%	472,545	76.45%	380,000	73.89%	348,729	74.64%
Other loans:										
Home equity	56,563	6.71%	56,414	7.23%	52,159	8.44%	52,672	10.24%	49,018	10.49%
Consumer	20,168	2.39%	18,882	2.42%	16,565	2.68%	15,712	3.06%	14,800	3.16%
Commercial	109,209	12.95%	72,797	9.33%	59,053	9.56%	63,300	12.31%	52,795	11.30%
Agricultural	52,242	6.20%	40,522	5.19%	17,709	2.87%	2,563	0.50%	1,911	0.41%
Total commercial loans	161,451	19.15%	113,319	14.52%	76,762	12.43%	65,863	12.81%	54,706	11.71%
Total other loans	238,182	28.25%	188,615	24.17%	145,486	23.55%	134,247	26.11%	118,524	25.36%
Total loans	843,141	100.00%	780,538	100.00%	618,031	100.00%	514,247	100.00%	467,253	100.00%
Deferred loan fees	(2,038)		(1,303)		(1,098)		(1,093)		(1,092)	
Allowance for loan losses	(11,600)		(8,600)		(6,600)		(5,750)		(4,770)	
Total loans, net	\$ 829,503		\$ 770,635		\$ 610,333		\$ 507,404		\$ 461,391	

⁽¹⁾ Excludes loans held-for-sale

Loans receivable, net increased \$58.86 million to \$829.50 million at December 31, 2020 due in part to the WHC acquisition. The WHC acquisition included \$43.42 million of acquired loans. Excluding acquired loans, loans receivable, net increased by \$15.44 million. Including acquired loans, total commercial loans increased \$48.13 million, total commercial real estate loans increased \$13.84 million, consumer loans increased \$1.29 million, home equity loans increased \$149,000 and total residential 1-4 family loans decreased \$800,000.

Total loan originations were \$1.29 billion for the year ended December 31, 2020 Total residential 1-4 family originations were \$971.02 million, which includes \$904.27 million of originations of loans held-for-sale. Total commercial originations were \$140.96 million, which includes \$45.71 million of SBA PPP loans. Total commercial real estate originations were \$134.93 million. Home equity loan originations totaled \$30.22 million. Consumer loan originations totaled \$11.86 million. Loans held-for-sale increased by \$29.01 million, to \$54.62 million at December 31, 2020 from \$25.61 million at December 31, 2019.

Loan Maturities. The following table sets forth the estimated maturity of the loan portfolio of the Bank at December 31, 2020. Balances exclude deferred loan fees and allowance for loan losses. Scheduled principal repayments of loans do not necessarily reflect the actual life of such assets. The average life of a loan is typically substantially less than its contractual terms because of prepayments. In addition, due on sale clauses on loans generally give the Bank the right to declare loans immediately due and payable in the event, among other things, the borrower sells the real property, subject to the mortgage, and the loan is not paid off. All mortgage loans are shown to be maturing based on the date of the last payment required by the loan agreement, except as noted.

Loans having no stated maturity, those without a scheduled payment, demand loans and matured loans, are shown as due within six months.

	One Year or Less	One to Five Years	After 5 Years	Total
Total residential 1-4 family ⁽¹⁾	\$ 38,882	\$ 3,991	\$ 114,219	\$ 157,092
Total commercial real estate	40,831	22,758	384,278	447,867
Home equity	4,033	17,002	35,528	56,563
Consumer	1,196	13,401	5,571	20,168
Total Commercial	46,941	73,554	40,956	161,451
Total loans ⁽¹⁾	<u>\$ 131,883</u>	<u>\$ 130,706</u>	<u>\$ 580,552</u>	<u>\$ 843,141</u>

⁽¹⁾ Excludes loans held-for-sale

The following table includes loans by fixed or adjustable rates at December 31, 2020:

	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Due after December 31, 2020:			
Total residential 1 to 4 family ⁽¹⁾	\$ 67,301	\$ 50,910	\$ 118,211
Total commercial real estate	37,147	369,888	407,035
Home equity	47,251	5,279	52,530
Consumer	17,568	1,403	18,971
Total commercial	6,393	108,118	114,511
Total due after December 31, 2020 ⁽¹⁾	<u>175,660</u>	<u>535,598</u>	<u>711,258</u>
Due in less than one year	29,165	102,718	131,883
Total loans ⁽¹⁾	<u>\$ 204,825</u>	<u>\$ 638,316</u>	<u>\$ 843,141</u>
Percent of total	24.29%	75.71%	100.00%

⁽¹⁾ Excludes loans held-for-sale

Nonperforming Assets. Generally, our collection procedures provide that when a loan is 15 or more days delinquent, the borrower is sent a past due notice. If the loan becomes 30 days delinquent, the borrower is sent a written delinquency notice requiring payment. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower, including face to face meetings and counseling to resolve the delinquency. All collection actions are undertaken with the objective of compliance with the Fair Debt Collection Act.

For mortgage loans and home equity loans, if the borrower is unable to cure the delinquency or reach a payment agreement, we will institute foreclosure actions. If a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure, or by deed in lieu of foreclosure, is classified as real estate owned until such time as it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. Subsequent write-downs are recorded as a charge to operations. As of December 31, 2020 and 2019, the Bank had \$25,000 and \$26,000, respectively, of real estate owned and other repossessed property.

The State of Montana placed a freeze on foreclosures on March 28, 2020. Subsequently it released the freeze effective May 24, 2020 with the exception of continued protections for those individuals deemed vulnerable to the coronavirus. The Federal foreclosure moratorium that began March 18, 2020 was recently extended to June 30, 2021. However, the Bank has had minimal impact due to foreclosures affected by these freezes.

Loans are reviewed on a quarterly basis and are placed on nonaccrual status when they are 90 days or more delinquent. Loans may be placed on nonaccrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured. At December 31, 2020, the Bank had \$6.27 million (\$5.92 million net of specific reserves for loan losses) of loans that were nonperforming and held on nonaccrual status. At December 31, 2019, the Bank had \$3.64 million (\$3.57 million net of specific reserves for loan losses) of loans that were nonperforming and held on nonaccrual status.

The following table provides information regarding the Bank's delinquent loans:

	December 31, 2020					
	30-89 Days			90 Days and Greater		
	Number	Amount	Percentage of Total	Number	Amount	Percentage of Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Loan type:						
Real estate loans:						
Residential 1-4 family	5	\$ 693	25.22%	1	\$ 34	8.67%
Residential 1-4 family construction	2	853	31.05%	1	170	43.37%
Commercial real estate	2	274	9.97%	-	-	0.00%
Farmland	5	179	6.51%	-	-	0.00%
Other loans:						
Home equity	3	53	1.93%	-	-	0.00%
Consumer	42	72	2.62%	-	-	0.00%
Commercial	6	553	20.12%	1	6	1.53%
Agricultural	3	71	2.58%	1	182	46.43%
Total	68	\$ 2,748	100.00%	4	\$ 392	100.00%

The following table sets forth information regarding nonperforming assets:

	December 31,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands)				
Nonaccrual loans					
Real estate loans:					
Residential 1-4 family	\$ 684	\$ 618	\$ 253	\$ 475	\$ 221
Residential 1-4 family construction	337	337	634	-	-
Commercial real estate	631	583	432	-	-
Commercial construction and development	36	50	13	-	-
Farmland	2,245	323	-	-	-
Other loans:					
Home equity	94	78	469	242	297
Consumer	151	156	127	153	96
Commercial	537	750	308	107	-
Agricultural	1,542	499	32	-	-
Accruing loans delinquent 90 days or more					
Real estate loans:					
Residential 1-4 family	34	4	130	-	456
Residential 1-4 family construction	170	-	-	-	-
Commercial real estate	-	-	1,347	-	4
Other loans:					
Home equity	-	-	-	-	35
Commercial	6	-	-	-	-
Agricultural	182	1,805	-	-	-
Restructured loans					
Real estate loans:					
Commercial real estate	1,633	-	-	-	-
Commercial construction and development	14	-	-	-	-
Farmland	-	153	-	-	-
Other loans:					
Home equity	17	20	22	-	43
Commercial	-	74	-	-	-
Agricultural	160	-	-	-	-
Total nonperforming loans	<u>8,473</u>	<u>5,450</u>	<u>3,767</u>	<u>977</u>	<u>1,152</u>
Real estate owned and other repossessed property, net	<u>25</u>	<u>26</u>	<u>107</u>	<u>525</u>	<u>825</u>
Total nonperforming assets	<u>\$ 8,498</u>	<u>\$ 5,476</u>	<u>\$ 3,874</u>	<u>\$ 1,502</u>	<u>\$ 1,977</u>
Total nonperforming loans to total loans	1.00%	0.70%	0.61%	0.19%	0.25%
Total nonperforming loans to total assets	0.67%	0.52%	0.44%	0.14%	0.17%
Total allowance for loan loss to nonperforming loans	136.91%	157.80%	175.21%	588.54%	414.06%
Total nonperforming assets to total assets	0.68%	0.52%	0.45%	0.21%	0.29%

Nonaccrual loans as of December 31, 2020 and 2019 include \$1.28 million and \$1.05 million, respectively of acquired loans that deteriorated subsequent to the acquisition date.

During the year ended December 31, 2020, the Bank sold five real estate owned and other repossessed assets resulting in a net loss of \$9,000. There were no write-down on real estate owned and other repossessed assets during the year ended December 31, 2020. During the year ended December 31, 2019, the Bank sold three real estate owned and other repossessed assets resulting in a net loss of \$18,000. There was one write-down on real estate owned and other repossessed assets for a loss of \$66,000 during the year ended December 31, 2019. During the year ended December 31, 2020 and 2019, an insignificant amount of interest was recorded on loans previously accounted for on a nonaccrual basis.

Management, in compliance with regulatory guidelines, conducts an internal loan review program, whereby loans are placed or classified in categories depending upon the level of risk of nonpayment or loss. These categories are special mention, substandard, doubtful or loss. When a loan is classified as substandard or doubtful, management is required to evaluate the loan for impairment and establish an allowance for loan loss if deemed necessary. When management classifies a loan as a loss asset, an allowance equal up to 100.0% of the loan balance is required to be established or the loan is required to be charged-off. The allowance for loan losses is composed of an allowance for both inherent risk associated with lending activities and specific problem assets.

Management's evaluation of classification of assets and adequacy of the allowance for loan losses is reviewed by the Board on a regular basis and by regulatory agencies as part of their examination process. We also utilize a third party review as part of our loan classification process. In addition, on an annual basis or more often if needed, the Company formally reviews the ratings of all commercial real estate, real estate construction, and commercial business loans that have a principal balance of \$750,000 or more.

The following table reflects our classified assets:

	December 31, 2020				
	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)				
Real estate loans:					
Residential 1-4 family	\$ -	\$ 857	\$ 199	\$ -	\$ 1,056
Residential 1-4 family construction	-	337	-	-	337
Commercial real estate	2,568	2,344	-	-	4,912
Commercial construction and development	14	36	-	-	50
Farmland	136	2,164	53	-	2,353
Other loans:					
Home equity	274	112	-	-	386
Consumer	-	151	-	-	151
Commercial	829	570	-	-	1,399
Agricultural	355	1,395	121	-	1,871
Total loans	4,176	7,966	373	-	12,515
Real estate owned/repossessed property, net					25
					<u>\$ 12,540</u>

	December 31, 2019				
	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)				
Real estate loans:					
Residential 1-4 family	\$ -	\$ 1,180	\$ -	\$ -	\$ 1,180
Residential 1-4 family construction	-	337	-	-	337
Commercial real estate	-	2,312	-	-	2,312
Commercial construction and development	-	50	-	-	50
Farmland	108	168	58	-	334
Other loans:					
Home equity	78	297	-	-	375
Consumer	-	188	-	-	188
Commercial	159	707	63	-	929
Agricultural	138	570	467	-	1,175
Total loans	483	5,809	588	-	6,880
Real estate owned/repossessed property, net					26
					<u>\$ 6,906</u>

Allowance for Loan Losses and Real Estate Owned. The Bank segregates its loan portfolio for loan losses into the following broad categories: residential 1-4 family, commercial real estate, home equity, consumer and commercial. The Bank provides for a general allowance for losses inherent in the portfolio in the categories referenced above. General loss percentages which are calculated based on historical analyses and other factors such as volume and severity of delinquencies, local and national economy, underwriting standards and other factors. This portion of the allowance is calculated for inherent losses which probably exist as of the evaluation date even though they might not have been identified by the more objective processes used. This is due to the risk of error and/or inherent imprecision in the process. This portion of the allowance is subjective in nature and requires judgments based on qualitative factors which do not lend themselves to exact mathematical calculations such as: trends in delinquencies and nonaccruals; trends in volume; terms and portfolio mix; new credit products; changes in lending policies and procedures; and changes in the outlook for the local, regional and national economy.

At least quarterly, the management of the Bank evaluates the need to establish an allowance against losses on loans based on estimated losses on specific loans when a finding is made that a loss is estimable and probable. Such evaluation includes a review of all loans for which full collectability may not be reasonably assured and considers, among other matters: the estimated market value of the underlying collateral of problem loans; prior loss experience; economic conditions; and overall portfolio quality. Real estate owned is evaluated annually and recorded at fair value.

Provisions for, or adjustments to, estimated losses are included in earnings in the period they are established. At December 31, 2020, we had \$11.60 million in allowances for loan losses.

While we believe we have established our existing allowance for loan losses in accordance with generally accepted accounting principles, there can be no assurance that bank regulators, in reviewing our loan portfolio, will not request that we significantly increase our allowance for loan losses, or that general economic conditions, a deteriorating real estate market, or other factors will not cause us to significantly increase our allowance for loan losses, therefore negatively affecting our financial condition and earnings.

In originating loans, we recognize that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the security for the loan.

It is our policy to review our loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis.

The following table includes information for allowance for loan losses:

	Years Ended December 31,		
	2020	2019	2018
	(Dollars in Thousands)		
Beginning balance	\$ 8,600	\$ 6,600	\$ 5,750
Provision for loan losses	3,130	2,627	980
Loans charged-off			
Commercial real estate	(18)	(195)	(13)
Home equity	-	(75)	(80)
Consumer	(36)	(78)	(72)
Commercial	(173)	(380)	(24)
Recoveries			
Commercial real estate	12	17	19
Home equity	-	-	1
Consumer	16	26	27
Commercial	69	58	12
Net loans charged-off	<u>(130)</u>	<u>(627)</u>	<u>(130)</u>
Ending balance	<u>\$ 11,600</u>	<u>\$ 8,600</u>	<u>\$ 6,600</u>
Allowance for loan losses to total loans excluding loans held-for-sale	1.38%	1.10%	1.07%
Allowance for loan losses to total nonperforming loans	136.91%	157.80%	175.21%
Net charge-offs to average loans outstanding during the period	0.01%	0.08%	0.02%

The following table presents allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans:

	December 31,								
	2020			2019			2018		
	Percentage of Allowance to Total Amount	Loan Category to Total Loans		Percentage of Allowance to Total Amount	Loan Category to Total Loans		Percentage of Allowance to Total Amount	Loan Category to Total Loans	
	<u>Amount</u>	<u>Allowance</u>	<u>Loans</u>	<u>Amount</u>	<u>Allowance</u>	<u>Loans</u>	<u>Amount</u>	<u>Allowance</u>	<u>Loans</u>
	(Dollars in Thousands)								
Real estate loans:									
Residential 1-4 family	\$ 1,506	12.98%	18.63%	\$ 1,301	15.13%	20.23%	\$ 1,301	19.71%	23.32%
Commercial real estate	6,951	59.92%	53.12%	4,826	56.12%	55.60%	3,593	54.44%	53.13%
Total real estate loans	<u>8,457</u>	<u>72.90%</u>	<u>71.75%</u>	<u>6,127</u>	<u>71.25%</u>	<u>75.83%</u>	<u>4,894</u>	<u>74.15%</u>	<u>76.45%</u>
Other loans:									
Home equity	515	4.44%	6.71%	477	5.55%	7.23%	477	7.23%	8.44%
Consumer	364	3.14%	2.39%	284	3.30%	2.42%	190	2.88%	2.68%
Commercial	2,264	19.52%	19.15%	1,712	19.90%	14.52%	1,039	15.74%	12.43%
Total other loans	<u>3,143</u>	<u>27.10%</u>	<u>28.25%</u>	<u>2,473</u>	<u>28.75%</u>	<u>24.17%</u>	<u>1,706</u>	<u>25.85%</u>	<u>23.55%</u>
Total	<u>\$11,600</u>	<u>100.00%</u>	<u>100.00%</u>	<u>\$ 8,600</u>	<u>100.00%</u>	<u>100.00%</u>	<u>\$ 6,600</u>	<u>100.00%</u>	<u>100.00%</u>

Deposits and Other Sources of Funds

Deposits. Deposits are the Company's primary source of funds. Core deposits are deposits that are more stable and somewhat less sensitive to rate changes. They also represent lower cost source of funds than rate sensitive, more volatile accounts such as certificates of deposit. We believe that our core deposits are checking, savings, money market and IRA accounts. Based on our historical experience, we include IRA accounts funded by certificates of deposit as core deposits because they exhibit the principal features of core deposits in that they are stable and generally are not rate sensitive. Core deposits were \$885.97 million or 85.8% of the Bank's total deposits at December 31, 2020 (\$861.28 million or 83.6% excluding IRA certificates of deposit). The presence of a high percentage of core deposits and, in particular, transaction accounts reflects in part our strategy to restructure our liabilities to more closely resemble the lower cost liabilities of a commercial bank. However, a significant portion of our deposits remains in certificate of deposit form. These certificates of deposit, if they mature and are renewed at higher rates, would result in an increase in our cost of funds.

The following table includes deposit accounts and associated weighted average interest rates for each category of deposits:

	December 31,								
	2020			2019			2018		
	Percent of Total Amount	Weighted Average Rate		Percent of Total Amount	Weighted Average Rate		Percent of Total Amount	Weighted Average Rate	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
	(Dollars in Thousands)								
Noninterest checking	\$ 318,389	30.82%	0.00%	\$ 200,035	24.72%	0.00%	\$ 142,788	22.79%	0.00%
Interest-bearing									
checking	160,614	15.55%	0.02%	116,397	14.39%	0.03%	105,115	16.78%	0.03%
Savings	179,868	17.41%	0.06%	126,991	15.70%	0.08%	108,234	17.27%	0.05%
Money market accounts	202,407	19.59%	0.24%	132,506	16.38%	0.42%	108,050	17.24%	0.30%
Total	<u>861,278</u>	<u>83.37%</u>	<u>0.07%</u>	<u>575,929</u>	<u>71.19%</u>	<u>0.12%</u>	<u>464,187</u>	<u>74.08%</u>	<u>0.09%</u>
Certificates of deposit									
accounts:									
IRA certificates	24,693	2.39%	0.50%	25,240	3.12%	0.71%	28,198	4.50%	0.60%
Brokered certificates	495	0.05%	1.35%	10,180	1.26%	2.13%	-	0.00%	0.00%
Other certificates	146,617	14.19%	0.71%	197,644	24.43%	1.81%	134,226	21.42%	1.46%
Total certificates of deposit	<u>171,805</u>	<u>16.63%</u>	<u>0.68%</u>	<u>233,064</u>	<u>28.81%</u>	<u>1.70%</u>	<u>162,424</u>	<u>25.92%</u>	<u>1.31%</u>
Total deposits	<u>\$ 1,033,083</u>	<u>100.00%</u>	<u>0.18%</u>	<u>\$ 808,993</u>	<u>100.00%</u>	<u>0.55%</u>	<u>\$ 626,611</u>	<u>100.00%</u>	<u>0.41%</u>

Deposits increased by \$224.09 million, or 27.7%, to \$1.03 billion at December 31, 2020 from \$808.99 million at December 31, 2019. The increase was due in part to the WHC acquisition. Excluding acquired deposits, total deposits increased by \$137.52 million. Including acquired deposits, noninterest checking increased by \$118.35 million, money market increased by \$69.90 million, savings increased by \$52.88 million, and interest-bearing checking increased by \$44.22 million. Certificates of deposit decreased by \$61.26 million. The decrease in time certificates of deposit was impacted by a decrease of \$9.68 million in fixed rate brokered CDs, as well as a decrease in other certificates of \$51.02. The decrease in other certificates was due to the low interest rate environment and impelled some depositors to move funds to non-maturity deposits upon maturity.

The following table shows the amount of certificates of deposit with balances of \$250,000 and greater by time remaining until maturity as of December 31, 2020:

	Balance
	\$250,000
	and Greater
	(In Thousands)
3 months or less	\$ 5,970
Over 3 to 6 months	4,735
Over 6 to 12 months	10,704
Over 12 months	10,031
Total	<u>\$ 31,440</u>

Our depositors are primarily residents of the state of Montana.

Borrowings. Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances from FHLB of Des Moines to supplement our supply of lendable funds and to meet deposit withdrawal requirements. In addition, during the year ended December 31, 2020, the Bank utilized the FRB's Payroll Protection Program Loan Funding ("PPPLF") facility as a partial source of funding for its SBA PPP loans. We also have Federal funds lines of credit with PCBB, PNC, Zions Bank and UBB.

The following table includes information related to FHLB of Des Moines and other borrowings:

	Years Ended December 31,		
	2020	2019	2018
	(Dollars in Thousands)		
FHLB advances:			
Average balance	\$ 61,252	\$ 97,000	\$ 83,979
Maximum balance at any month-end	94,585	123,512	101,357
Balance at period end	17,070	88,350	101,357
Weighted average interest rate during the period	1.84 %	2.41 %	1.85 %
Weighted average interest rate at period end	1.89 %	2.18 %	2.21 %
FRB's PPPLF facility:			
Average balance	\$ 14,675	\$ -	\$ -
Maximum balance at any month-end	24,065	-	-
Balance at period end	-	-	-
Weighted average interest rate during the period	0.35 %	0.00 %	0.00 %
Weighted average interest rate at period end	0.00 %	0.00 %	0.00 %
Other:			
Average balance	\$ 192	\$ 2,307	\$ 3,304
Maximum balance at any month-end	-	6,311	5,380
Balance at period end	-	-	865
Weighted average interest rate during the period	1.15 %	2.11 %	1.91 %
Weighted average interest rate at period end	0.00 %	0.00 %	1.00 %
Total borrowings:			
Average balance	\$ 76,119	\$ 99,307	\$ 87,283
Maximum balance at any month-end	105,820	124,377	102,222
Balance at period end	17,070	88,350	102,222
Weighted average interest rate during the period	1.55 %	2.40 %	1.85 %
Weighted average interest rate at period end	1.89 %	2.18 %	2.20 %

Advances from FHLB and other borrowings decreased by \$71.28 million to \$17.07 million at December 31, 2020 compared to \$88.35 million at December 31, 2019. The decrease is due to slower than expected loan growth coupled with increased liquidity resulting from the WHC acquisition and growth in non-maturity deposits fueled by PPP funding and economic stimulus.

Other Long-Term Debt. The following table summarizes other long-term debt activity:

	December 31, 2020		December 31, 2019	
	Net Amount	Percent of Total	Net Amount	Percent of Total
	(Dollars in Thousands)			
Senior notes fixed at 5.75%, due 2022	\$ 9,952	33.41%	\$ 9,908	39.72%
Subordinated debentures fixed at 6.75%, due 2025	-	0.00%	9,878	39.61%
Subordinated debentures fixed at 5.5% to floating, due 2030	14,684	49.29%	-	0.00%
Subordinated debentures variable, due 2035	5,155	17.30%	5,155	20.67%
Total other long-term debt, net	<u>\$ 29,791</u>	<u>100.00%</u>	<u>\$ 24,941</u>	<u>100.00%</u>

Total other long-term debt increased by \$4.85 million to \$29.79 million at December 31, 2020 from \$24.94 million at December 31, 2019 primarily due to the issuance in June 2020 of \$15.00 million in subordinated notes due 2030, partially offset by the redemption in July 2020 of \$10.00 million, 6.75% subordinated notes due 2025.

Shareholders' Equity

Total shareholders' equity increased by \$31.28 million or 25.7%, to \$152.94 million at December 31, 2020 from \$121.66 million at December 31, 2019. This was primarily due to net income of \$21.21 million. The increase was also due to stock issued in connection with the WHC acquisition of \$8.47 million and other comprehensive income of \$4.52 million. These increases were slightly offset by dividends paid of \$2.62 million and treasury stock purchased for \$987,000 .

Analysis of Net Interest Income

The Bank's earnings have historically depended primarily upon net interest income, which is the difference between interest income earned on loans and investments and interest paid on deposits and any borrowed funds. It is the single largest component of Eagle's operating income. Net interest income is affected by (i) the difference between rates of interest earned on loans and investments and rates paid on interest-bearing deposits and borrowings (the "interest rate spread") and (ii) the relative amounts of loans and investments and interest-bearing deposits and borrowings.

The following table includes average balances for statement of financial position items, as well as, interest and dividends and average yields related to the average balances. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income or expense.

	Year Ended December 31, 2020			Year Ended December 31, 2019			Year Ended December 31, 2018		
	Average Daily Balance	Interest and Dividends	Yield/ Cost ⁽⁴⁾	Average Daily Balance	Interest and Dividends	Yield/ Cost ⁽⁴⁾	Average Daily Balance	Interest and Dividends	Yield/ Cost ⁽⁴⁾
(Dollars in Thousands)									
Assets:									
Interest-earning assets:									
Investment securities	\$ 166,577	\$ 3,742	2.24%	\$ 135,904	\$ 3,672	2.70%	\$ 151,018	\$ 4,068	2.69%
FHLB and FRB stock	6,534	370	5.65%	7,363	408	5.54%	6,272	322	5.13%
Loans receivable ⁽¹⁾	874,669	45,381	5.17%	764,075	42,344	5.54%	590,059	30,400	5.15%
Other earning assets	44,771	161	0.36%	5,030	87	1.73%	2,778	53	1.91%
Total interest-earning assets	1,092,551	49,654	4.54%	912,372	46,511	5.10%	750,127	34,843	4.64%
Noninterest-earning assets	127,339			97,645			79,059		
Total assets	<u>\$ 1,219,890</u>			<u>\$ 1,010,017</u>			<u>\$ 829,186</u>		
Liabilities and equity:									
Interest-bearing liabilities:									
Deposit accounts:									
Checking	\$ 151,745	\$ 58	0.04%	\$ 116,424	\$ 44	0.04%	\$ 106,845	\$ 36	0.03%
Savings	154,224	145	0.09%	119,674	85	0.07%	103,519	53	0.05%
Money market	169,531	473	0.28%	124,785	449	0.36%	107,236	229	0.21%
Certificates of deposit	213,696	2,938	1.37%	212,370	3,315	1.56%	163,750	1,738	1.06%
Advances from FHLB and other borrowings including long-term debt	104,712	2,870	2.73%	123,497	3,833	3.10%	111,264	3,046	2.74%
Total interest-bearing liabilities	793,908	6,484	0.81%	696,750	7,726	1.11%	592,614	5,102	0.86%
Noninterest checking	265,304			184,654			135,831		
Other noninterest-bearing liabilities	19,518			12,819			9,214		
Total liabilities	1,078,730			894,223			737,659		
Total equity	141,160			115,794			91,527		
Total liabilities and equity	<u>\$ 1,219,890</u>			<u>\$ 1,010,017</u>			<u>\$ 829,186</u>		
Net interest income/interest rate spread ⁽²⁾		<u>\$ 43,170</u>	<u>3.73%</u>		<u>\$ 38,785</u>	<u>3.99%</u>		<u>\$ 29,741</u>	<u>3.78%</u>
Net interest margin ⁽³⁾			<u>3.94%</u>			<u>4.25%</u>			<u>3.96%</u>
Total interest-earning assets to interest-bearing liabilities			<u>137.62%</u>			<u>130.95%</u>			<u>126.58%</u>

⁽¹⁾ Includes loans held-for-sale.

⁽²⁾ Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

⁽³⁾ Net interest margin represents income before the provision for loan losses divided by average interest-earning assets.

⁽⁴⁾ For purposes of this table, tax exempt income is not calculated on a tax equivalent basis.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume multiplied by the old rate; (2) changes in rate, which are changes in rate multiplied by the old volume; and (3) changes not solely attributable to rate or volume, which have been allocated proportionately to the change due to volume and the change due to rate.

	<u>Year Ended December 31, 2020</u>			<u>Year Ended December 31, 2019</u>		
	<u>Volume</u>	<u>Due to Rate</u>	<u>Net</u>	<u>Volume</u>	<u>Due to Rate</u>	<u>Net</u>
			(In Thousands)			
Interest-earning assets:						
Investment securities	\$ 829	\$ (759)	\$ 70	\$ (407)	\$ 11	\$ (396)
FHLB and FRB stock	(46)	8	(38)	56	30	86
Loans receivable ⁽¹⁾	6,129	(3,092)	3,037	8,965	2,979	11,944
Other earning assets	687	(613)	74	43	(9)	34
Total interest-earning assets	<u>7,599</u>	<u>(4,456)</u>	<u>3,143</u>	<u>8,657</u>	<u>3,011</u>	<u>11,668</u>
Interest-bearing liabilities:						
Checking, savings and money market accounts	199	(101)	98	49	211	260
Certificates of deposit	21	(398)	(377)	517	1,060	1,577
Advances from FHLB and other borrowings including long-term debt	(583)	(380)	(963)	335	452	787
Total interest-bearing liabilities	<u>(363)</u>	<u>(879)</u>	<u>(1,242)</u>	<u>901</u>	<u>1,723</u>	<u>2,624</u>
Change in net interest income	<u>\$ 7,962</u>	<u>\$ (3,577)</u>	<u>\$ 4,385</u>	<u>\$ 7,756</u>	<u>\$ 1,288</u>	<u>\$ 9,044</u>

⁽¹⁾ Includes loans held-for-sale.

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 2020 and 2019

Net Income

Eagle's net income for the year ended December 31, 2020 was \$21.21 million compared to \$10.87 million for the year ended December 31, 2019. The increase of \$10.34 million was due to an increase of \$25.23 million in noninterest income and an increase in net interest income after loan loss provision of \$3.88 million, partially offset by an increase in noninterest expense of \$14.64 million and an increase in provision for income taxes of \$4.13 million. Basic and diluted earnings per share were \$3.12 and \$3.11, respectively, for the year ended December 31, 2020. Basic and diluted earnings per share were both \$1.69 for the prior period.

Net Interest Income

Net interest income increased to \$43.17 million for the year ended December 31, 2020, from \$38.79 million for the year ended December 31, 2019. This increase of \$4.38 million, or 11.3%, was the result of an increase in interest and dividend income of \$3.14 million and a decrease in interest expense of \$1.25 million.

Interest and Dividend Income

Total interest and dividend income was \$49.65 million for the year ended December 31, 2020, compared to \$46.51 million for the year ended December 31, 2019, an increase of \$3.14 million, or 6.8%. Interest and fees on loans increased to \$45.38 million for the year ended December 31, 2020 from \$42.34 million for the same period ended December 31, 2019. This increase of \$3.04 million, or 7.2%, was due to an increase in the average balance of loans, partially offset by a decrease in the average yield of loans for the year ended December 31, 2020. Net fee income of \$1.03 million earned on PPP loans for the year ended December 31, 2020, along with the 1.0% contractual rate on PPP loans contributed to the downward push on loan yield. Average balances for loans receivable, including loans held for sale, for the year ended December 31, 2020 were \$874.67 million, compared to \$764.08 million for the prior year period. This represents an increase of \$110.59 million, or 14.5% and was impacted by the WHC acquisition, as well as organic growth. The average interest rate earned on loans

receivable decreased by 37 basis points, from 5.54% to 5.17%. Interest accretion on purchased loans was \$1.55 million for the year ended December 31, 2020 which resulted in a 14 basis point increase in net interest margin compared to \$1.88 million for the year ended December 31, 2019 which resulted in an 21 basis point increase in net interest margin. Interest and dividends on investment securities available-for-sale increased slightly by \$70,000 or 1.9% for the year ended December 31, 2020 compared to the same period last year. Average balances on investments increased to \$166.58 million for the year ended December 31, 2020, from \$135.90 million for the year ended December 31, 2019. The increase in average investments is primarily due to the WHC acquisition. However, average interest rates earned on investments decreased to 2.24% for the year ended December 31, 2020 from 2.70% for the year ended December 31, 2019.

Interest Expense

Total interest expense decreased for the year ended December 31, 2020 to \$6.48 million from \$7.73 million for the year ended December 31, 2019, a decrease of \$1.25 million, or 16.2%. The decrease was due to a decrease in interest expense on total borrowings, as well as a decrease in interest expense on deposits. The average borrowing balance decreased from \$123.50 million for the year ended December 31, 2019 to \$104.71 million for the year ended December 31, 2020 due to increased liquidity levels. The average rate paid on total borrowings also decreased from 3.10% for the year ended December 31, 2019, to 2.73% for the year ended December 31, 2020. The average balance for total deposits was \$954.50 million for the year ended December 31, 2020 compared to \$757.91 million for the same period in the prior year. This increase was impacted by the WHC acquisition and also increased nonmaturing deposits due to PPP funding and economic stimulus. However, the overall average rate on total deposits was 0.38% for the year ended December 31, 2020 compared to 0.51% for the same period in the prior year.

Loan Loss Provision

Loan loss provisions are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by the Bank to provide for probable loan losses based on prior loss experience, volume and type of lending we conduct and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans if warranted. While management believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. Using this methodology, the Bank recorded \$1.73 million in loan loss provisions for the year ended December 31, 2020. Additionally, management considered the potential impact of COVID-19 during 2020. Due to the economic slowdown, an increase in the related economic factors was included in the allowance for loan losses analysis and the loan loss reserves was increased by approximately \$1.40 million. Therefore, the total loan loss provision for the year ended December 31, 2020 was \$3.13 million. Loan loss provisions were \$2.63 million for the year ended December 31, 2019. Management believes the level of total allowances is adequate to cover estimated losses inherent in the portfolio. Total nonperforming loans, including restructured loans, net, was \$8.47 million at December 31, 2020 compared to \$5.45 million at December 31, 2019. The Bank has \$25,000 in other real estate owned and other repossessed assets at December 31, 2020 compared to \$26,000 at December 31, 2019.

Noninterest Income

Noninterest income increased to \$49.07 million for the year ended December 31, 2020, from \$23.84 million for the year ended December 31, 2019, an increase of \$25.23 million. The increase is largely due to increases in net gain on sale of loans which increased to \$36.39 million for the year ended December 31, 2020 from \$16.68 million for the year ended December 31, 2019. During the year ended December 31, 2020, \$874.72 million residential mortgage loans were sold compared to \$480.05 million in the same period in the prior year. In addition, gross margin on sale of mortgage loans for the year ended December 31, 2020 was 4.16% compared to 3.47% for the year ended December 31, 2019.

Noninterest Expense

Noninterest expense was \$60.67 million for the year ended December 31, 2020 compared to \$46.03 million for the year ended December 31, 2019. The increase of \$14.64 million, or 31.8%, is largely due to increased salaries and employee benefits expenses of \$11.21 million. The increase in salaries expense is due in part to higher commission-based compensation related to mortgage loan growth and additional staff related to compliance with mortgage rules. Mortgage compensation and benefits increased \$5.69 million for the year ended December 31, 2020 compared to the year ended December 31, 2019. Salaries and employee benefits expense was also impacted by the addition of staff partly due to the WHC acquisition. Other noninterest expense includes \$792,000 of impairment of servicing rights incurred during the year ended December 31, 2020.

Provision for Income Taxes

Provision for income taxes was \$7.23 million for the year ended December 31, 2020, compared to \$3.10 million for the year ended December 31, 2019 due to increased income before provision for income taxes. The effective tax rate was 25.4% for the year ended December 31, 2020 compared to 22.2% for the prior year.

Liquidity and Capital Resources

Liquidity

The Bank is required to maintain minimum levels of liquid assets as defined by the Montana Division of Banking and FRB regulations. The liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for “basic surplus” and “basic surplus with FHLB” as internally defined. In general, the “basic surplus” is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. “Basic surplus with FHLB” adds to “basic surplus” the additional borrowing capacity the Bank has with the FHLB of Des Moines. The Bank exceeded those minimum ratios as of December 31, 2020 and 2019.

The Bank’s primary sources of funds are deposits, repayment of loans and mortgage-backed securities, maturities of investments, funds provided from operations, advances from the FHLB of Des Moines and other borrowings. Scheduled repayments of loans and mortgage-backed securities and maturities of investment securities are generally predictable. However, other sources of funds, such as deposit flows and loan prepayments, can be greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses liquidity resources principally to fund existing and future loan commitments. It also uses them to fund maturing certificates of deposit, demand deposit withdrawals and to invest in other loans and investments, maintain liquidity, and meet operating expenses.

Liquidity may be adversely affected by unexpected deposit outflows, higher interest rates paid by competitors, and similar matters. Management monitors projected liquidity needs and determines the level desirable based in part on Eagle’s commitments to make loans and management’s assessment of Eagle’s ability to generate funds.

Despite significant liquidity events, liquidity levels throughout the year ended December 31, 2020 remained stable. Elevated cash levels from deposit growth sparked by PPP funds deposited, tax refunds, economic stimulus money and flight to quality was only partially offset by the increase in PPP loans. Subsequent to the end of the first quarter of 2020, and in coordination with the roll out of the PPP, Eagle was approved for short-term funding through the FRB Discount Window. The discount window has not been utilized; however, Eagle has utilized the FRB’s PPPLF facility as a partial source for its SBA PPP loans. As of December 31, 2020, Eagle had repaid all PPPLF borrowings. The Company closed a \$15.00 million subordinated debt offering in June of 2020, adding to borrowings. In July, \$10.00 million in callable subordinated debt was paid off, reducing overall borrowings.

Comparison of Cash Flow for Years Ended December 31, 2020 and 2019

Net cash provided by the Company’s operating activities, which is primarily comprised of cash transactions affecting net income, was \$2.12 million for the year ended December 31, 2020 compared to \$366,000 for the prior year. Net cash provided by operating activities was slightly higher for the year ended December 31, 2020 primarily due to changes in net income and loans held-for-sale activity, which was offset by an increase in gain on sale of loans.

Net cash used in the Company’s investing activities, which is primarily comprised of cash transactions from investment securities and activity in the loan portfolio, was \$22.04 million for the year ended December 31, 2020 compared to \$59.70 million for the year ended December 31, 2019. Net cash used in investing activities for the year ended December 31, 2020 was due in part to loan originations being higher than loan pay-off and principal payments during the year. Loan origination and principal collection, net was \$24.29 million for the year ended December 31, 2020. In addition, purchases of premises and equipment, net was \$20.64 million. Available-for-sale securities purchases were \$47.72 million during the year ended December 31, 2020. These uses of cash were more than offset by available-for-sale securities sales and maturities, principal payments and calls of \$64.44 million. Net cash used in investing activities for the year ended December 31, 2019 was largely impacted by loan originations being higher than loan pay-off and principal payments during the year. Loan origination and principal collection, net was \$79.89 million for the year ended December 31, 2019. There was \$51.46 million in available-for-sale securities purchases during the year ended December 31, 2019. These uses of cash were more than offset by available-for-sale securities sales and maturities, principal payments and calls of \$71.63 million.

Net cash provided by the Company's financing activities was \$64.80 million for the year ended December 31, 2020 compared to \$73.05 million for the year ended December 31, 2019. Net cash provided by financing activities for the year ended December 31, 2020 was impacted by a net increase in deposits of \$137.52 million. This was partially offset by net payments on FHLB and other borrowings of \$73.78 million. Net cash provided by financing activities for the year ended December 31, 2019 was primarily due to a net increase in deposits of \$89.68 million. This was partially offset by net payment on FHLB and other borrowings of \$13.01 million.

Capital Resources

At December 31, 2020, the Bank's internally determined measurement of sensitivity to interest rate movements as measured by a 200 basis point rise in interest rates scenario, increased the economic value of equity ("EVE") by 15.0% compared to an increase of 10.6% at December 31, 2019. The Bank is within the guidelines set forth by the Board of Directors for interest rate sensitivity.

The Bank's Tier I leverage ratio, as measured under State of Montana and FRB rules, increased from 11.08% as of December 31, 2019 to 11.72% as of December 31, 2020. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

As of December 31, 2020, the Bank's regulatory capital was in excess of all applicable regulatory requirements and the Bank is deemed "well capitalized" pursuant to State of Montana and FRB rules. At December 31, 2020, the Bank's total capital, Tier 1 capital, common equity Tier 1 capital and Tier 1 leverage ratios amounted to 16.71%, 15.46%, 15.46% and 11.72%, respectively, compared to regulatory requirements of 10.50%, 8.50%, 7.00% and 4.00%, respectively.

Impact of Inflation and Changing Prices

Our consolidated financial statements and the accompanying notes, which are found in Item 8, have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Interest rates have a greater impact on our performance than do the general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Interest Rate Risk

Interest rate risk is the potential for loss of future earnings resulting from adverse changes in the level of interest rates. Interest rate risk results from several factors and could have a significant impact on the Company's net interest income, which is the Company's primary source of net income. Net interest income is affected by changes in interest rates, the relationship between rates on interest-bearing assets and liabilities, the impact of interest fluctuations on asset prepayments and the mix of interest-bearing assets and liabilities.

Although interest rate risk is inherent in the banking industry, banks are expected to have sound risk management practices in place to measure, monitor and control interest rate exposures. The objective of interest rate risk management is to contain the risks associated with interest rate fluctuations. The process involves identification and management of the sensitivity of net interest income to changing interest rates.

The ongoing monitoring and management of this risk is an important component of the Company's asset/liability committee, which is governed by policies established by the Company's Board that are reviewed and approved annually. The Board delegates responsibility for carrying out the asset/liability management policies to the Bank's asset/liability committee. In this capacity, the asset/liability committee develops guidelines and strategies impacting the Company's asset/liability management related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends. The Company's goal of its asset and liability management practices is to maintain or increase the level of net interest income within an acceptable level of interest rate risk. Our asset and liability policy and strategies are expected to continue as described so long as competitive and regulatory conditions in the financial institution industry and market interest rates continue as they have in recent years.

The Bank has established acceptable levels of interest rate risk as follows for an instantaneous and permanent shock in rates: Projected net interest income over the next twelve months (i.e. year-1) and the subsequent twelve months (i.e. year-2) will not be reduced by more than 15.0% given an immediate increase in interest rates of up to 200 basis points or by more than 10.0% given an immediate decrease in interest rates of up to 100 basis points.

The following table includes the Banks's net interest income sensitivity analysis.

Changes in Market Interest Rates (Basis Points)	Rate Sensitivity		Policy Limits
	As of December 31, 2020		
	Year 1	Year 2	
+200	6.3%	11.1%	-15.0%
-100	-1.6%	-4.0%	-10.0%

The following table discloses how the Bank's economic value of equity ("EVE") would react to interest rate changes.

Changes in Market Interest Rates (Basis Points)	EVE as a % Change from 0 Shock	
	As of December 31, 2020	Board Policy
	Projected EVE	Limit
		Must be no greater than:
+400	24.5%	-40.0%
+300	20.2%	-35.0%
+200	15.0%	-30.0%
+100	8.7%	-20.0%
0	0.0%	0.0%
-100	-15.2%	-20.0%

Off-Balance Sheet Arrangements

As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make.

Commitments are summarized as follows:

	December 31,	
	2020	2019
	(In Thousands)	
Commitments to extend credit	\$ 173,866	\$ 142,785
Letters of credit	2,647	3,098

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item has been omitted based on Eagle's status as a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Eagle's audited consolidated financial statements, notes thereto, and auditor's reports are found immediately following Part III of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”) of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended, as of December 31, 2020, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of December 31, 2020, our disclosure controls and procedures were effective.

Management Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management conducted an assessment of the effectiveness of our internal control over financial reporting. This assessment was based upon the criteria for effective internal control over financial reporting established in the 2013 Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company’s internal control over financial reporting involves a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes the controls themselves, as well as monitoring of the controls and internal auditing practices and actions to correct deficiencies identified. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2020. Based on this assessment, management concluded that, as of December 31, 2020, the Company’s internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended December 31, 2020 that have materially affected, or were reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

Except as provided below, the information required by Items 10, 11, 12, 13 and 14 is hereby incorporated by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the close of our year ended December 31, 2020.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information about our directors may be found under the caption “Proposal I – Election of Directors” in our Proxy Statement for the 2021 Annual Meeting of Stockholders (the “Proxy Statement”). The information in the Proxy Statement set forth under the captions of “Board Attendance and Committees,” “Board Leadership Structure,” “The Board’s Role in Risk Oversight,” “Code of Ethics” and “Delinquent Section 16(a) Reports,” is incorporated herein by reference.

Information about our executive officers may be found under the caption "Executive Officers" in our Proxy Statement and is incorporated herein by reference.

Code of Ethics

We have a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and our Board. Our Code of Ethics and Conflict of Interest Policy is available on our website at www.opportunitybank.com. We will disclose on our website any amendments to or waivers from any provision of our Code of Ethics and Conflict of Interest Policy that applies to any of the directors or executive officers.

ITEM 11. EXECUTIVE COMPENSATION.

The information in the Proxy Statement set forth under the captions of “Directors’ Compensation” and “Executive Compensation” is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information in the Proxy Statement set forth under the caption of “Beneficial Ownership of Common Stock” is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information in the Proxy Statement set forth under the captions of “Transactions with Certain Related Persons” and “Board Independence” is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information in the Proxy Statement set forth under the caption of “Proposal 2 – Ratification of Appointment of Independent Auditors” is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a) (1) The following documents are filed as part of this report: The audited Consolidated Statements of Financial Condition of Eagle Bancorp Montana, Inc. and subsidiaries as of December 31, 2020 and 2019 and the related Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Shareholder Equity and Consolidated Statements of Cash Flows for the years then ended, together with the related notes and independent auditor’s report.
- (2) Schedules omitted as they are not applicable.
- (3) Exhibits.

Exhibits 10.1 through 10.12 and 10.16 through 10.21 are management contracts or compensatory plans or arrangements.

- 2.1 Agreement and Plan of Merger, dated as of September 5, 2017, by and among Eagle Bancorp Montana, Inc., Opportunity Bank of Montana, TwinCo, Inc. and Ruby Valley Bank (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on September 6, 2017)*
- 2.2 Agreement and Plan of Merger, dated as of August 21, 2018, by and among Eagle Bancorp Montana, Inc., Opportunity Bank of Montana, Big Muddy Bancorp, Inc. and The State Bank of Townsend (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on August 21, 2018)*
- 2.3 Agreement and Plan of Merger, dated as of August 8, 2019, by and among Eagle Bancorp Montana, Inc., Opportunity Bank of Montana, Western Holding Company of Wolf Point and Western Bank of Wolf Point (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on August 9, 2019)*
- 3.1 Amended and Restated Certificate of Incorporation of Eagle Bancorp Montana, Inc. (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on February 23, 2010).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 of our Quarterly Report on Form 10-Q filed on May 9, 2019).
- 3.3 Bylaws of Eagle Bancorp Montana, Inc., amended as of August 20, 2015 (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on August 25, 2015).
- 4.1 Form of Common Stock Certificate of Eagle Bancorp Montana, Inc. (incorporated by reference to Exhibit 4 of our Registration Statement on Form S-1 filed on December 17, 2009).
- 4.2 Form of 6.75% Subordinated Note due 2025 (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on June 19, 2015).
- 4.3 Form of 5.75% Subordinated Note due 2022 (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on February 13, 2017).
- 4.4 Description of Eagle Bancorp Montana, Inc.'s Securities Registered under Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.4 of our Annual Report on Form 10-K filed on March 11, 2020).
- 10.1 Employment Contract, effective as of April 27, 2015, among Peter J. Johnson, Eagle Bancorp Montana, Inc. and Opportunity Bank of Montana (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on April 29, 2015).
- 10.2 Form of Change in Control Agreement entered into between Eagle Bancorp Montana, Inc. and its executive officers (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on August 24, 2015).
- 10.3 Amended Salary Continuation Agreement, dated April 27, 2015, between Peter J. Johnson and Opportunity Bank of Montana (incorporated by reference to Exhibit 10.7 of our Current Report on Form 8-K filed on August 24, 2015).
- 10.4 Amendment to Salary Continuation Agreement between Opportunity Bank of Montana and Peter J. Johnson (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on October 11, 2018).
- 10.5 Salary Continuation Agreement, dated November 1, 2014, between Laura F. Clark and Opportunity Bank of Montana (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q filed on May 9, 2019).
- 10.6 Amendment to Salary Continuation Agreement between Opportunity Bank of Montana and Laura F. Clark (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on October 11, 2018).

- 10.7 Amendment to Salary Continuation Agreement between Opportunity Bank of Montana and Laura F. Clark (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on September 22, 2020).
- 10.8 Salary Continuation Agreement, dated November 16, 2006, between Rachel R. Amdahl and American Federal Savings Bank (incorporated by reference to Exhibit 10.18 of our Amendment No. 1 to Registration Statement on Form S-1 filed on February 1, 2010).
- 10.9 American Federal Savings Bank Split-Dollar Plan, effective October 21, 2004 (incorporated by reference to Exhibit 10.19 of our Amendment No. 1 to Registration Statement on Form S-1 filed on February 1, 2010).
- 10.10 Summary of American Federal Savings Bank Bonus Plan (incorporated by reference to Exhibit 10.20 of our Amendment No. 2 to Registration Statement on Form S-1 filed on February 16, 2010).
- 10.11 2011 Stock Incentive Plan for Directors, Officers and Employees (incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-8 (File No. 333-182360) filed with the SEC on June 27, 2012).
- 10.12 Amendment No. 1 to the Eagle Bancorp Montana, Inc. 2011 Stock Incentive Plan for Directors, Officers, and Employees (incorporated by reference to Exhibit 10.13 of our Annual Report on Form 10-K filed on March 15, 2016).
- 10.13 Amendment No. 2 to the Eagle Bancorp Montana, Inc. 2011 Stock Incentive Plan for Directors, Officers and Employees (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on April 21, 2017).
- 10.14 Amendment No. 3 to the Eagle Bancorp Montana, Inc. 2011 Stock Incentive Plan for Directors, Officers and Employees (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q filed on May 11, 2020).
- 10.15 Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on June 19, 2015).
- 10.16 Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on February 13, 2017).
- 10.17 Form of Subordinated Note Purchase Agreement dated June 10, 2020, by and among Eagle Bancorp Montana, Inc. and the Purchasers (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on June 10, 2020).
- 10.18 Form of Eagle Bancorp Montana, Inc. Indemnification Agreement (incorporated by reference to Exhibit 10.15 of our Annual Report on Form 10-K filed on March 12, 2019).
- 10.19 Salary Continuation Agreement between Opportunity Bank of Montana and Patrick D. Rensmon (incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on October 11, 2018).
- 10.20 Salary Continuation Agreement between Opportunity Bank of Montana and Mark O'Neill (incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q filed on November 14, 2018).
- 10.21 Salary Continuation Agreement between Opportunity Bank of Montana and Dale Field (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q filed on May 9, 2019).
- 10.22 Amendment to Salary Continuation Agreement between Opportunity Bank of Montana and Dale Field (incorporated by reference to Exhibit 10.5 of our Quarterly Report on Form 10-Q filed on November 14, 2018).
- 10.23 Salary Continuation Agreement between Opportunity Bank of Montana and Chantelle Nash (incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q filed on May 9, 2019).

- 10.24 Amendment to Salary Continuation Agreement between Opportunity Bank of Montana and Chantelle Nash (incorporated by reference to Exhibit 10.6 of our Quarterly Report on Form 10-Q filed on November 14, 2018).
- 10.25 Salary Continuation Agreement between Opportunity Bank of Montana and Linda Chilton (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q filed on November 5, 2020).
- 10.26 2020 Non-Employee Director Award Plan (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q filed on May 11, 2020).
- 21.1 Subsidiaries of Registrant.
- 23.1 Consent of Moss Adams LLP.
- 31.1 Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Laura F. Clark, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Peter J. Johnson, Chief Executive Officer and Laura F. Clark, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* The schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Eagle Bancorp Montana agrees to furnish supplementally a copy of such schedules, or any section thereof, to the SEC upon request.

(b) See item 15(a)(3) above.

(c) See Item 15(a)(1) and 15(a)(2) above.

101.INS Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)

101.SCH Inline XBRL Taxonomy Extension Schema Document

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EAGLE BANCORP MONTANA, INC.

/s/ Peter J. Johnson

Peter J. Johnson
President and Chief Executive Officer
March 10, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
<u>/s/ Peter J. Johnson</u> Peter J. Johnson	President and Chief Executive Officer Director (Principal Executive Officer)	<u>March 10, 2021</u>
<u>/s/ Laura F. Clark</u> Laura F. Clark	Executive Vice President and Chief Financial Officer/Chief Operating Officer (Principal Financial Officer and Principal Accounting Officer)	<u>March 10, 2021</u>
<u>/s/ Rick F. Hays</u> Rick F. Hays	Chairman	<u>March 10, 2021</u>
<u>/s/ Thomas J. McCarvel</u> Thomas J. McCarvel	Vice Chairman	<u>March 10, 2021</u>
<u>/s/ Maureen J. Rude</u> Maureen J. Rude	Director	<u>March 10, 2021</u>
<u>/s/ Shavon R. Cape</u> Shavon R. Cape	Director	<u>March 10, 2021</u>
<u>/s/ Tanya J. Chemodurow</u> Tanya J. Chemodurow	Director	<u>March 10, 2021</u>
<u>/s/ Kenneth M. Walsh</u> Kenneth M. Walsh	Director	<u>March 10, 2021</u>
<u>/s/ Corey Jensen</u> Corey Jensen	Director	<u>March 10, 2021</u>
<u>/s/ Benjamin G. Ruddy</u> Benjamin G. Ruddy	Director	<u>March 10, 2021</u>
<u>/s/ Cynthia A. Utterback</u> Cynthia A. Utterback	Director	<u>March 10, 2021</u>

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Peter J. Johnson, Chief Executive Officer of Eagle Bancorp Montana, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Eagle Bancorp Montana, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2021

/s/ Peter J. Johnson
Peter J. Johnson
Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS
ADOPTED PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Laura F. Clark, Chief Financial Officer of Eagle Bancorp Montana, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Eagle Bancorp Montana, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2021

/s/ Laura F. Clark
Laura F. Clark
Chief Financial Officer
Principal Accounting Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Eagle Bancorp Montana, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Peter J. Johnson, Chief Executive Officer of the Company, and Laura F. Clark, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned’s knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Peter J. Johnson
Peter J. Johnson
Chief Executive Officer
(Principal Executive Officer)
March 10, 2021

/s/ Laura F. Clark
Laura F. Clark
Chief Financial Officer and Principal Accounting Officer
(Principal Financial Officer)
March 10, 2021



EAGLE BANCORP
MONTANA, INC.

AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
and
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
DECEMBER 31, 2020 AND 2019

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Eagle Bancorp Montana, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Eagle Bancorp Montana, Inc. and Subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses

As described in Notes 1 and 4 to the consolidated financial statements, the Company’s allowance for loan losses balance was \$11.6 million at December 31, 2020. The allowance for loan losses is maintained to provide for inherent losses based upon management’s periodic review of the collectability 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 revisions as more information becomes available. The allowance consists of specific and general components. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors, as well as uncertainties that could affect management's estimate of probable losses.

We identified management's estimation of qualitative factors, which are used in the allowance for loan losses calculation, as a critical audit matter. The Company uses qualitative factors to estimate losses related to factors that are not captured in the historical loss rates. These factors are based on management's evaluation of available internal and external data, which involves significant management judgement. Auditing management's judgments regarding the determination of qualitative factors applied to the allowance for loan losses involves a high degree of subjectivity.

The primary procedures we performed to address this critical audit matter included:

- Obtaining management's analysis and supporting documentation related to the qualitative factors, and testing whether the qualitative factors used in the calculation of the allowance for loan losses are supported by the analysis provided by management.
- Testing the mathematical accuracy of the allowance for loan losses calculation, including completeness and accuracy of the data used in the calculation, sources of data and application of the qualitative factors within the calculation.
- Testing the appropriateness of the methodology and assumptions used in the calculation of the allowance for loan losses, including whether the qualitative factors were reliable and relevant, and whether alternative assumptions should have been used.
- Developed an independent expectation of the general reserve of the allowance for loan losses using a combination of internal and external data and compared the expected balance to the Company's general reserve including qualitative factors.

Moss Adams LLP

Everett, Washington
March 10, 2021

We have served as the Company's auditor since 2019.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in Thousands, Except for Per Share Data)

	December 31,	
	2020	2019
ASSETS:		
Cash and due from banks	\$ 14,455	\$ 18,094
Interest-bearing deposits in banks	47,733	4,284
Federal funds sold	7,614	2,540
Total cash and cash equivalents	69,802	24,918
Securities available-for-sale	162,946	126,875
Federal Home Loan Bank ("FHLB") stock	2,060	4,683
Federal Reserve Bank ("FRB") stock	2,974	2,526
Mortgage loans held-for-sale, at fair value	54,615	25,612
Loans receivable, net of allowance for loan losses of \$11,600 and \$8,600 at December 31, 2020 and 2019, respectively	829,503	770,635
Accrued interest and dividends receivable	5,765	4,577
Mortgage servicing rights, net	10,105	8,739
Premises and equipment, net	58,762	40,082
Cash surrender value of life insurance, net	27,753	23,608
Goodwill	20,798	15,836
Core deposit intangible, net	2,343	2,786
Other assets	10,208	3,383
Total assets	\$ 1,257,634	\$ 1,054,260
LIABILITIES:		
Deposit accounts:		
Noninterest-bearing	\$ 318,389	\$ 200,035
Interest-bearing	714,694	608,958
Total deposits	1,033,083	808,993
Accrued expenses and other liabilities	24,295	9,825
Deferred tax liability, net	457	492
FHLB advances and other borrowings	17,070	88,350
Other long-term debt:		
Principal amount	30,155	25,155
Unamortized debt issuance costs	(364)	(214)
Total other long-term debt, net	29,791	24,941
Total liabilities	1,104,696	932,601
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock (par value \$0.01 per share; 1,000,000 shares authorized; no shares issued or outstanding)	-	-
Common stock (\$0.01 par value; 20,000,000 shares authorized; 7,110,833 and 6,714,983 shares issued; 6,775,447 and 6,423,033 shares outstanding at December 31, 2020 and 2019, respectively)	71	67
Additional paid-in capital	77,602	68,826
Unallocated common stock held by Employee Stock Ownership Plan ("ESOP")	(145)	(311)
Treasury stock, at cost	(4,423)	(3,643)
Retained earnings	73,982	55,391
Accumulated other comprehensive income, net of tax	5,851	1,329
Total shareholders' equity	152,938	121,659
Total liabilities and shareholders' equity	\$ 1,257,634	\$ 1,054,260

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands, Except for Per Share Data)

	Years Ended December 31,	
	2020	2019
INTEREST AND DIVIDEND INCOME:		
Interest and fees on loans	\$ 45,381	\$ 42,344
Securities available-for-sale	3,742	3,672
FHLB and FRB dividends	370	408
Other interest income	161	87
Total interest and dividend income	<u>49,654</u>	<u>46,511</u>
INTEREST EXPENSE:		
Deposits	3,614	3,893
FHLB advances and other borrowings	1,183	2,387
Other long-term debt	1,687	1,446
Total interest expense	<u>6,484</u>	<u>7,726</u>
NET INTEREST INCOME	43,170	38,785
Loan loss provision	<u>3,130</u>	<u>2,627</u>
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	40,040	36,158
NONINTEREST INCOME:		
Service charges on deposit accounts	1,096	1,219
Net gain on sale of mortgage loans	36,391	16,675
Mortgage banking, net	5,660	2,321
Interchange and ATM fees	1,538	1,327
Appreciation in cash surrender value of life insurance	645	720
Net gain on sale of available-for-sale securities	733	69
Net gain on sale/disposal of premises and equipment	4	486
Other noninterest income	3,000	1,024
Total noninterest income	<u>49,067</u>	<u>23,841</u>
NONINTEREST EXPENSE:		
Salaries and employee benefits	38,836	27,633
Occupancy and equipment expense	5,019	4,422
Data processing	4,722	3,722
Advertising	911	1,028
Amortization	659	812
Loan costs	1,880	805
Federal Deposit Insurance Corporation ("FDIC") insurance premiums	222	81
Postage	363	289
Professional and examination fees	1,335	1,052
Acquisition costs	157	2,198
Other noninterest expense	6,563	3,989
Total noninterest expense	<u>60,667</u>	<u>46,031</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	28,440	13,968
Provision for income taxes	<u>7,234</u>	<u>3,096</u>
NET INCOME	<u>\$ 21,206</u>	<u>\$ 10,872</u>
BASIC EARNINGS PER SHARE	<u>\$ 3.12</u>	<u>\$ 1.69</u>
DILUTED EARNINGS PER SHARE	<u>\$ 3.11</u>	<u>\$ 1.69</u>

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)

	Years Ended December 31,	
	2020	2019
NET INCOME	\$ 21,206	\$ 10,872
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):		
Change in fair value of investment securities available-for-sale	6,871	3,689
Reclassification for net realized gains on investment securities available-for-sale	(733)	(69)
Change in fair value of loans held-for-sale	-	296
Reclassification for net realized gains on loans held-for-sale	-	(605)
Total other comprehensive income	6,138	3,311
Income tax (provision) benefit related to:		
Investment securities	(1,616)	(953)
Loans held-for-sale	-	82
Total income tax provision	(1,616)	(871)
COMPREHENSIVE INCOME	\$ 25,728	\$ 13,312

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands, Except for Per Share Data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Unallocated ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	\$ -	\$ 67	\$ 68,826	\$ (311)	\$ (3,643)	\$ 55,391	\$ 1,329	\$ 121,659
Net income	-	-	-	-	-	21,206	-	21,206
Other comprehensive income	-	-	-	-	-	-	4,522	4,522
Dividends paid	-	-	-	-	-	(2,615)	-	(2,615)
Stock issued in connection with Western Holding Company of Wolf Point acquisition	-	4	8,463	-	-	-	-	8,467
Stock compensation expense	-	-	380	-	-	-	-	380
Treasury stock reissued for compensation (19,340 shares at \$10.72 average cost per share)	-	-	(207)	-	207	-	-	-
ESOP shares allocated (16,616 shares)	-	-	140	166	-	-	-	306
Treasury stock purchased (62,776 shares at \$15.73 average cost per share)	-	-	-	-	(987)	-	-	(987)
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 71</u>	<u>\$ 77,602</u>	<u>\$ (145)</u>	<u>\$ (4,423)</u>	<u>\$ 73,982</u>	<u>\$ 5,851</u>	<u>\$ 152,938</u>
Balance at January 1, 2019	\$ -	\$ 57	\$ 52,051	\$ (477)	\$ (2,640)	\$ 46,926	\$ (1,111)	\$ 94,806
Net income	-	-	-	-	-	10,872	-	10,872
Other comprehensive income	-	-	-	-	-	-	2,440	2,440
Dividends paid	-	-	-	-	-	(2,407)	-	(2,407)
Stock issued in connection with Big Muddy Bancorp, Inc. acquisition	-	10	16,425	-	-	-	-	16,435
Stock compensation expense	-	-	429	-	-	-	-	429
Treasury stock reissued for compensation (19,340 shares at \$10.75 average cost per share)	-	-	(207)	-	207	-	-	-
ESOP shares allocated (16,616 shares)	-	-	128	166	-	-	-	294
Treasury stock purchased (70,000 shares at \$17.29 average cost per share)	-	-	-	-	(1,210)	-	-	(1,210)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 68,826</u>	<u>\$ (311)</u>	<u>\$ (3,643)</u>	<u>\$ 55,391</u>	<u>\$ 1,329</u>	<u>\$ 121,659</u>

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 21,206	\$ 10,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	3,130	2,627
Write-down on real estate owned and other repossessed assets	-	66
Impairment of servicing rights	792	-
Depreciation	2,443	1,786
Net amortization of investment securities premiums and discounts	967	866
Amortization of mortgage servicing rights	3,520	1,637
Amortization of core deposit intangible and tax credits	659	812
Amortization of right-of-use assets	472	474
Compensation expense related to restricted stock awards	380	429
ESOP compensation expense for allocated shares	306	294
Deferred income tax (benefit) provision	(1,186)	739
Net gain on sale of loans	(36,391)	(16,675)
Originations of loans held-for-sale	(904,274)	(498,604)
Proceeds from sales of loans held-for-sale	911,662	496,675
Net gain on sale of available-for-sale securities	(733)	(69)
Net loss on sale of real estate owned and other repossessed assets	9	18
Net gain on sale/disposal of premises and equipment	(4)	(486)
Net appreciation in cash surrender value of life insurance	(645)	(720)
Net change in:		
Accrued interest and dividends receivable	(180)	158
Other assets	(6,537)	(1,037)
Accrued expenses and other liabilities	6,522	504
Net cash provided by operating activities	2,118	366
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	28,410	58,027
Maturities, principal payments and calls	36,025	13,646
Purchases	(47,724)	(51,464)
FHLB stock redeemed	2,838	592
FRB stock purchased	(373)	(493)
Net cash received from acquisitions	5,044	6,901
Loan origination and principal collection, net	(24,289)	(79,888)
Proceeds from bank owned life insurance	-	519
Purchases of bank owned life insurance	(1,369)	-
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	28	352
Proceeds from sale of premises and equipment	13	2,650
Purchases of premises and equipment, net	(20,638)	(10,543)
Net cash used in investing activities	(22,035)	(59,701)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	137,518	89,676
Net short-term payments from FHLB and other borrowings	(45,000)	(13,184)
Long-term advances from FHLB and other borrowings	10,000	33,000
Payments on long-term FHLB and other borrowings	(38,780)	(32,823)
Proceeds from issuance of subordinated debentures	15,000	-
Repayment of subordinated debentures	(10,000)	-
Payments for debt issuance costs	(335)	-
Purchase of treasury stock	(987)	(1,210)
Dividends paid	(2,615)	(2,407)
Net cash provided by financing activities	64,801	73,052
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,884	13,717
CASH AND CASH EQUIVALENTS, beginning of period	24,918	11,201
CASH AND CASH EQUIVALENTS, end of period	\$ 69,802	\$ 24,918

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in Thousands)

	Years Ended December 31,	
	2020	2019
	(In Thousands)	
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 6,680	\$ 6,968
Cash paid during the year for income taxes	6,871	2,777
Acquisitions:		
Assets acquired, excluding cash	92,087	100,614
Liabilities assumed	93,626	94,666
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Increase in fair value of securities available-for-sale	\$ 6,138	\$ 3,620
Trade date payable securities	3,168	-
Mortgage servicing rights recognized	5,678	3,276
Right-of-use assets obtained in exchange for lease liabilities	226	2,374
Loans transferred to real estate and other assets acquired in foreclosure	37	132
Stock issued in connection with acquisitions	8,467	16,435

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies

Organization

Eagle Bancorp Montana, Inc. (“Eagle” or the “Company”), is a Delaware corporation that holds 100% of the capital stock of Opportunity Bank of Montana (“OBMT” or the “Bank”), formerly American Federal Savings Bank (“AFSB”). The Bank was founded in 1922 as a Montana chartered building and loan association and has conducted operations and maintained its administrative office in Helena, Montana since that time. In 1975, the Bank adopted a federal thrift charter and in October 2014 converted to a Montana chartered commercial bank and became a member bank in the Federal Reserve System.

Eagle Bancorp Statutory Trust I (the “Trust”) was established in September 2005 and is owned 100% by Eagle.

AFSB NMTC Investment Fund, LLC was established in November 2012 and was owned 100% by the Bank. The Bank had equity investments in Certified Development Entities which received allocation of New Market Tax Credits (“NMTC”). Administered by the Community Development Financial Institutions Fund of the U.S. Department of Treasury, the NMTC program is aimed at stimulating economic, community development and job creation in low-income communities. The federal income tax credits received were claimed over an estimated seven-year credit allowance period. The AFSB NMTC Investment Fund, LLC entity was divested in November 2019, after completion of the seven-year period.

In September 2017, the Company entered into an Agreement and Plan of Merger with TwinCo, Inc. (“TwinCo”), a Montana corporation, and TwinCo’s wholly-owned subsidiary, Ruby Valley Bank, a Montana chartered commercial bank to acquire 100% of TwinCo’s equity voting interests. On January 31, 2018, TwinCo merged with and into Eagle, with Eagle continuing as the surviving corporation. Ruby Valley Bank operated two branches in Madison County, Montana.

In August 2018, the Company entered into an Agreement and Plan of Merger with Big Muddy Bancorp, Inc. (“BMB”), a Montana corporation and BMB’s wholly-owned subsidiary, The State Bank of Townsend (“SBOT”), a Montana chartered commercial bank to acquire 100% of BMB’s equity voting interests. On January 1, 2019, BMB merged with and into Eagle, with Eagle continuing as the surviving corporation. SBOT operated four branches in Townsend, Dutton, Denton and Choteau, Montana.

In August 2019, the Company entered into an Agreement and Plan of Merger (“Merger Agreement”) with Western Holding Company of Wolf Point (“WHC”), a Montana corporation, and WHC’s wholly-owned subsidiary, Western Bank of Wolf Point, a Montana chartered commercial bank (“WB”). The Merger Agreement provided that, upon the terms and subject to the conditions set forth in the Merger Agreement, WHC would merge with and into Eagle, with Eagle continuing as the surviving corporation. The merger closed on January 1, 2020. WB operated one branch in Wolf Point, Montana. In addition, Western Financial Services, Inc. (“WFS”) was acquired through the WHC merger. WFS facilitates deferred payment contracts for Bank customers that produce agricultural products.

The Bank is headquartered in Helena, Montana, and has additional branches in Big Timber, Billings, Bozeman, Butte, Choteau, Denton, Dutton, Great Falls, Hamilton, Livingston, Missoula, Sheridan, Townsend, Twin Bridges and Wolf Point, Montana. The Bank’s principal business is accepting deposits and, together with funds generated from operations and borrowings, investing in various types of loans and securities.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Basis of Financial Statement Presentation and Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In preparing consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, the fair value of financial instruments, the valuation of goodwill and deferred tax assets and liabilities. In connection with the determination of the specific reserves on collateral dependent loans and valuation of mortgage servicing rights, management obtains independent appraisals and valuations.

Principles of Consolidation

The consolidated financial statements include Eagle, the Bank, the Trust, AFSB NMTC Investment Fund, LLC and WFS. All significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Certain prior period amounts were reclassified to conform to the presentation for 2020. These reclassifications had no impact on net income or total shareholders’ equity.

Subsequent Events

The Company has evaluated events and transactions subsequent to December 31, 2020 for recognition and/or disclosure.

Significant Group Concentrations of Credit Risk

Most of the Company’s business activity is with customers located within Montana. Note 3: Investment Securities discusses the types of securities that the Company invests in. Note 4: Loans discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the statements of financial condition captions “cash and due from banks” and “interest-bearing deposits in banks” all of which mature within ninety days.

Effective March 26, 2020, the Federal Reserve Bank (“FRB”) reduced reserve requirement ratios to zero percent to help support lending to households and businesses. The Bank was required to maintain cash reserves with FRB of \$1,297,000 at December 31, 2019. The Bank was in compliance with these reserve requirements at December 31, 2019.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Investment Securities

The Company can designate debt and equity securities as held-to-maturity, available-for-sale or trading. At December 31, 2020 and 2019 all securities were designated as available-for-sale.

Held-to-Maturity – Debt investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts.

Available-for-Sale – Investment securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, need for liquidity and changes in the availability of and the yield of alternative investments, are classified as available-for-sale. These assets are carried at fair value. Unrealized gains and losses, net of tax, are reported as other comprehensive income. Gains and losses on the sale of available-for-sale securities are recorded on the trade date and determined using the specific identification method. In general, premiums are amortized and discounts are accreted over the period remaining to maturity, except for premiums on callable bonds which are amortized to the earliest call date.

Trading – Investments that are purchased with the intent of selling them within a short period of time.

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least quarterly, and more frequently when economic or market concerns warrant such evaluation. The Company considers, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Declines in the fair value of individual securities below their cost that are other than temporary are recognized by write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses.

Federal Home Loan Bank Stock

The Company’s investment in Federal Home Loan Bank (“FHLB”) of Des Moines stock is a restricted investment carried at cost (\$100 per share par value), which approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on total assets and a specific percentage of its outstanding FHLB advances. The Company had 20,601 and 46,827 FHLB shares at December 31, 2020 and 2019, respectively. Dividends are paid quarterly and are subject to FHLB board approval. Management evaluates FHLB stock for impairment as needed.

Federal Reserve Bank Stock

The Company’s investment in FRB stock is a restricted investment carried at cost, which approximates its fair value. Although the par value of the stock is \$100 per share, banks pay only \$50 per share at the time of purchase, with the understanding that the other half of the subscription amount is subject to call at any time. As a member of the Federal Reserve System, the Company is required to maintain a minimum level of investment in FRB stock based on a specific percentage of its capital and surplus. The Company had 59,472 and 50,512 FRB shares at December 31, 2020 and 2019, respectively. Dividends are received semi-annually at a fixed rate of 6.00% on the total number of shares.

Mortgage Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at fair value. Mortgage loans held-for-sale are sold with mortgage servicing rights either released or retained by the Bank. Fair value for loans held-for-sale is determined by commitments from investors or current secondary market prices for loans with similar coupons and maturities.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Loans

The Bank originates mortgage, commercial, agricultural and consumer loans primarily to customers located in Montana. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances net of any unearned income, allowance for loan losses, and unamortized deferred fees or costs on originated loans and unamortized premiums or unaccreted discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs are deferred and amortized over the contractual life of the loan, and recorded as an adjustment to the yield, using the interest method.

Nonaccrual and Past Due Loans – Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Bank considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Bank's collateral position. Regulatory provisions would typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect 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. Impairment is measured on a loan by loan basis for commercial, agricultural and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Residential 1-4 Family Loans – The Bank originates 1-4 family residential mortgage loans collateralized by owner-occupied and non-owner-occupied real estate. Repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. Loans collateralized by 1-4 family residential real estate generally have been originated in amounts up to 80.00% of appraised values before requiring private mortgage insurance. The underwriting analysis includes credit verification, appraisals and a review of the financial condition of the borrower. The Company will either hold these loans in its portfolio or sell them on the secondary market, depending upon market conditions and the type and term of the loan originations. Generally, all 30-year fixed rate loans are sold in the secondary market.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Loans – continued

Commercial Real Estate Loans – The Bank makes commercial real estate loans, land loans (both developed and undeveloped) and loans on multi-family dwellings. Commercial real estate loans are collateralized by owner-occupied and non-owner-occupied real estate. Payments on loans secured by such properties are often dependent on the successful operation or management of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. When underwriting these loans, the Bank seeks to minimize these risks in a variety of ways, including giving careful consideration to the property’s operating history, future operating projections, current and projected occupancy, location and physical condition. The underwriting analysis also includes credit verification, analysis of global cash flow, appraisals and a review of the financial condition of the borrower.

Construction Loans – The Bank makes loans to finance the construction of residential properties. The majority of the Bank’s residential construction loans are made to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. The Bank also originates commercial construction and development loans. Construction loans involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If the Company is forced to foreclose on a project prior to completion, there is no assurance that the Company will be able to recover the entire unpaid portion of the loan. In addition, the Company may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminable period of time. While the Bank has underwriting procedures designed to identify what it believes to be acceptable levels of risks in construction lending, no assurance can be given that these procedures will prevent losses from the risks described above.

Agricultural Loans – The Bank makes agricultural operating loans as well as long term agricultural real estate loans. Agricultural operating loans are generally secured with equipment, cattle, crops or other non-real property and at times the underlying real property. Agricultural real estate loans are secured with farm and ranch real estate. Payments on both types of agricultural loans are dependent on successful operation of the farm and/or ranch. Repayment is also affected by agricultural conditions that may include adverse weather conditions such as, drought, hail, flooding and severe winters. Also impacting the borrower’s ability to repay are commodity prices associated with the agricultural operation. When underwriting these loans, the Bank seeks to minimize these risks in a variety of ways, including giving careful consideration to the farm or ranch’s operating history, future operating projections, current and projected commodity prices and crop insurance. The underwriting analysis also includes credit verification, analysis of global cash flow, appraisals and a review of the financial condition of the borrower.

Home Equity Loans – The Bank originates home equity loans that are secured by the borrowers’ primary residence. These loans are typically subject to a prior lien, which may or may not be held by the Bank. Although these loans are secured by real estate, they carry a greater risk than first lien 1-4 family residential mortgages because of the existence of a prior lien on the property as well as the flexibility the borrower has with respect to the proceeds. The Bank attempts to minimize this risk by maintaining conservative underwriting policies on these types of loans. Generally, home equity loans are made for up to 85.00% of the appraised value of the underlying real estate collateral, less the amount of any existing prior liens on the property securing the loan.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Loans – continued

Consumer Loans – Consumer loans made by the Bank include automobile loans, recreational vehicle loans, boat loans, personal loans, credit lines, loans secured by deposit accounts and other personal loans. Risk is minimized due to relatively small loan amounts that are spread across many individual borrowers.

Commercial Loans – A broad array of commercial lending products are made available to businesses for working capital (including inventory and accounts receivable), purchases of equipment and machinery and business. Bank's commercial loans are underwritten on the basis of the borrower's ability to service such debt as reflected by cash flow projections. Commercial loans are generally collateralized by business assets, accounts receivable and inventory, certificates of deposit, securities, guarantees or other collateral. The Bank also generally obtains personal guarantees from the principals of the business. Working capital loans are primarily collateralized by short-term assets, whereas term loans are primarily collateralized by long-term assets. As a result, commercial loans involve additional complexities, variables and risks and require more thorough underwriting and servicing than other types of loans. Payroll Protection Program ("PPP") loans typically have a 24-month term, are unsecured and are fully guaranteed by the Small Business Administration ("SBA"). Borrowers may apply for forgiveness from the SBA and upon approval the loan will be paid off.

Allowance for Loan Losses

The Bank mitigates the risks inherent in lending by focusing on businesses and individuals with demonstrated payment history, historically favorable profitability trends and stable cash flows. In addition to these primary sources of repayment, the Bank considers tangible collateral and personal guarantees as secondary sources of repayment. Lending officers are provided with detailed underwriting policies covering all lending activities in which the Bank is engaged and require all lenders to obtain appropriate approvals for the extension of credit. The Bank also maintains documentation requirements and extensive credit quality assurance practices in order to identify credit portfolio weaknesses as early as possible so any exposures that are discovered may be reduced.

A reporting system supplements the loan review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

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 uncollectability of a loan balance is probable. 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 collectability 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 revisions as more information becomes available.

The allowance consists of specific and general components. For such loans that are classified as impaired, a specific allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors, as well as uncertainties that could affect management's estimate of probable losses.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Troubled Debt Restructured Loans

A troubled debt restructured (“TDR”) loan is a loan in which the Bank grants a concession to the borrower that it would not otherwise consider, for reasons related to a borrower's financial difficulties. The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market rates; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites or a combination of these modification methods. TDR's are included in impaired loans. The provisions of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") included an election to not apply the guidance on accounting for TDR's to loan modifications, such as extensions or deferrals related to COVID-19 made between March 1, 2020 and the earlier of (i) December 31, 2020 or (ii) 60 days after the end of the COVID-19 national emergency, of which certain provision have been extended through March 31, 2021. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Company has elected to adopt these provisions of the CARES Act.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on a market price valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that the fair value is less than the capitalized amount for the tranches. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported as assets and are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Premises and Equipment

Land is carried at cost. Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from 3 to 40 years. The costs of maintenance and repairs are expensed as incurred, while major expenditures for renewals and betterments are capitalized.

The Company leases certain premises from third parties under various operating lease agreements. Effective January 1, 2019, operating leases are included in premises and equipment, net and other liabilities on the consolidated statements of financial position. Lease expense for lease payments is recognized on a straight-line basis over the life of the lease. Right-of-use assets and corresponding lease liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. If an implicit rate is not available in the lease, the Company uses an incremental borrowing rate to determine the present value of lease payments. Leases with a lease term of 12 months or less are not recorded on the consolidated statements of financial condition.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Cash Surrender Value of Bank Owned Life Insurance

Bank Owned Life Insurance (“BOLI”) policies are reflected on the consolidated statements of financial condition at cash surrender value, net of other charges or amounts due that are probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in noninterest income on the consolidated statements of income and are not subject to income taxes.

Real Estate and Other Repossessed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure, establishing a new carrying value. All write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Real estate and other repossessed properties was \$25,000 and \$26,000 at December 31, 2020 and 2019, respectively.

Revenue Recognition

The majority of our revenue-generating transactions are not subject to Accounting Standards Codification (“ASC”) Topic 606, including revenue generated from financial instruments, such as our loans, guarantees, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. ASC Topic 606 is applicable to noninterest revenue streams such as wealth management income, service charges on deposit accounts and interchange and other fees. Descriptions of our revenue-generating activities that are within the scope of ASC Topic 606 and are recorded in noninterest income on the consolidated statements of income are discussed below:

Wealth Management Income – We previously offered wealth management products and services through our wealth management division and financial consultants located in several of our markets. The Company discontinued its wealth management services during July of 2019. Revenue from wealth management represented fees due from wealth management customers as consideration for managing the customers’ assets. The Company’s performance obligation for these transactional-based services was generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Wealth management income was \$0 and \$258,000 for the years ended December 31, 2020 and 2019, respectively.

Service Charges on Deposit Accounts – Revenue from service charges consists of service charges and fees on deposit accounts under depository agreements with customers to provide access to deposited funds and, when applicable, pay interest on deposits. Service charges on deposit accounts may be transactional or non-transactional in nature. Transactional service charges occur in the form of a service or penalty and are charged upon the occurrence of an event (e.g., overdraft fees, ATM fees, wire transfer fees). Transactional service charges are recognized as services are delivered to and consumed by the customer, or as penalty fees are charged. Non-transactional service charges are charges that are based on a broader service, such as account maintenance fees and dormancy fees, and are recognized on a monthly basis. Service Charges on Deposit Accounts were \$1,096,000 and \$1,219,000 for the years ended December 31, 2020 and 2019, respectively.

Interchange and ATM Fees – Revenue from debit card fees includes interchange fee income from debit cards processed through card association networks. Interchange fees represent a portion of a transaction amount that the Company and other involved parties retain to compensate themselves for giving the cardholder immediate access to funds. Interchange rates are generally set by the card association networks and are based on purchase volumes and other factors. The Company records interchange fees as services are provided. Interchange and ATM fees were \$1,538,000 and \$1,327,000 for the years ended December 31, 2020 and 2019, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Income Taxes

The Company adopted authoritative guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The Company's income tax expense consists of the following components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes income tax related penalties and interest, if any, in the provision for income taxes in the consolidated statements of income. Based on management's analysis, the Company did not have any uncertain tax positions as of December 31, 2020 or 2019. The Company files tax returns in the U.S. federal jurisdiction and the State of Montana. There are currently no income tax examinations underway for these jurisdictions. The Company's income tax returns are subject to examination by relevant taxing authorities as follows: U.S. Federal income tax returns for tax years 2016 and forward; Montana income tax returns for tax years 2016 and forward.

Employee Stock Ownership Plan

Compensation expense recognized for the Company's Employee Stock Ownership Plan ("ESOP") equals the fair value of shares that have been allocated or committed to be released for allocation to participants during the year. Any difference between the fair value of the shares at the time and the ESOP's original acquisition cost is charged or credited to shareholders' equity (additional paid-in capital). The cost of ESOP shares that have not yet been allocated or committed to be released is deducted from shareholders' equity.

Treasury Stock

Treasury stock is accounted for on the cost method.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs were \$911,000 and \$1,028,000 for the years ended December 31, 2020 and 2019, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Stock-Based Compensation

Compensation cost is recognized for restricted stock awards, based on the fair value of the awards at the grant date. Compensation cost is recognized over the required service period, generally defined as the vesting period. Shares of restricted stock granted through the 2011 Stock Incentive Plan, as amended, vest in equal installments over five years beginning one year from the grant date. Shares of restricted stock granted through the 2020 Non-Employee Director Award Plan vest one year from the grant date.

Earnings Per Share

Basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes items recorded directly to equity, such as unrealized holding gains and losses on securities available-for-sale.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivatives

The Company's derivatives are primarily the result of its mortgage banking activities and are in the form of interest rate lock commitments ("IRLCs), To-Be-Announced ("TBA") mortgage-backed securities and bulk mandatory forward loan sale commitments. The derivatives are accounted for as free-standing or economic derivatives and are measured at fair value. The derivatives are recognized as either assets or liabilities on the consolidated statements of financial condition and the changes in the fair value of the derivatives are recorded in noninterest income on the consolidated statements of income within mortgage banking.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. See Note 19. Fair value of Financial Instruments for more information.

Transfers of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or 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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Goodwill and Other Intangible Assets

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of net identifiable assets acquired. Subsequent to initial recognition, the Company tests goodwill for impairment annually, or more often if events or circumstances, such as adverse changes in the business climate indicate there may be impairment. Due to a triggering event in the first quarter of 2020, a qualitative assessment of goodwill determined there was no goodwill impairment. Subsequently, due to a change in the annual impairment testing date, goodwill was tested for impairment as of June 30, 2020 and October 31, 2020 and did not result in impairment. In addition, there was no goodwill impairment as of December 31, 2019.

Goodwill recorded for the WHC acquisition during the first quarter of 2020 was \$4,962,000. Goodwill recorded for the BMB acquisition during the first quarter of 2019 was \$3,586,000. Final valuation adjustments recorded during the year ended December 31, 2019 were \$126,000 and impacted goodwill. The final goodwill recorded related to the acquisition was \$3,712,000. Goodwill related to acquisitions prior to 2019 totaled \$12,124,000. Other identifiable intangible assets recorded by the Company represent the future benefit associated with the acquisition of the core deposits. Core deposit intangible assets are being amortized over 10 years utilizing methods that approximate the expected attrition of the deposits. The amortization expense is included in the noninterest expense section of the consolidated statements of income.

Segment Reporting

While management monitors the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the operations are considered by management to be aggregated in one reportable operating segment.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard requires organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also requires qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and was adopted by the Company in the first quarter of 2019. The adoption of the standard did not have a significant impact on our consolidated financial statements. The Company's operating leases expire on various dates through 2028 and primarily relate to branch locations. As a result of adopting the lease standard on January 1, 2019, the Company recorded right-of-use assets of \$2,374,000 and corresponding lease liabilities. The right-of-use assets are included in premises and equipment, net and the lease liabilities are included in accrued expenses and other liabilities on the consolidated statement of financial condition.

In March 2017, the FASB issued ASU No. 2017-08, Receivables–Nonrefundable Fees and Other Costs (Subtopic 310-20) to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Currently, entities generally amortize the premium as a yield adjustment over the contractual life of the security. The guidance does not change the accounting for callable debt securities held at a discount. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The adoption of this standard in the first quarter of 2019 did not have a significant impact on our consolidated financial statements, as we typically do not invest in these types of securities.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Summary of Significant Accounting Policies – continued

Recently Adopted Accounting Pronouncements – continued

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820) to remove disclosure requirements that no longer are considered cost beneficial, modify/clarify specific requirements of certain disclosures and add disclosure requirements identified as relevant. The amendment became effective for the Company on January 1, 2020 and did not have a significant impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

In September 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

In October 2019, the FASB amended the effective date of the standard. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach).

The Company believes the amendments in this update will have an impact on the Company’s consolidated financial statements and is continuing to evaluate the significance of that impact, even though the adoption date has been deferred. In that regard, we have established a working group under the direction of our Chief Credit Officer and Controller. The group is composed of individuals from the finance and credit administration areas of the Company. We are currently developing an implementation plan, including assessment of processes, segmentation of the loan portfolio and identifying and adding data fields necessary for analysis. The adoption of this standard is likely to result in an increase in the allowance for loan losses as a result of changing from an “incurred loss” model to an “expected loss” model. While we currently cannot reasonably estimate the impact of adopting this standard, we expect the impact will be influenced by the composition, characteristics and quality of our loan and securities portfolios, as well as the general economic conditions and forecasts as of the adoption date.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350) to amend and simplify current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. The guidance will be effective for the Company on January 1, 2023 and adoption of the standard is being evaluated to assess the impact on the Company’s consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848) which provides temporary optional expedients to ease the financial reporting burdens of the expected market transition from London Interbank Offered Rate (“LIBOR”) to an alternative reference rate such as SOFR. The guidance was effective upon issuance and generally can be applied through December 31, 2022. The Company is currently evaluating this guidance to determine the date of adoption and the potential impact.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: Mergers and Acquisitions

Effective January 1, 2020, Eagle completed its previously announced merger with WHC. At the effective time of the merger, WHC merged with and into Eagle, with Eagle continuing as the surviving corporation. The acquisition closed after receipt of approvals from regulatory authorities, approval of WHC shareholders and the satisfaction of other closing conditions. The total consideration paid was \$14,967,000 and included cash consideration of \$6,500,000 and common stock issued of \$8,467,000.

Effective January 1, 2019, Eagle completed its merger with BMB. BMB merged with and into Eagle, with Eagle continuing as the surviving corporation. The acquisition closed after receipt of approvals from regulatory authorities, approval of BMB shareholders and the satisfaction of other closing conditions. The total consideration paid was \$16,436,000 and included cash consideration of \$1,000 and common stock issued of \$16,435,000.

These transactions were accounted for under the acquisition method of accounting.

All of the assets acquired and liabilities assumed were recognized at their acquisition-date fair value, while transaction costs and restructuring costs associated with the business combination were expensed as incurred. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. The excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill. The goodwill recorded is not deductible for federal income tax purposes.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: Mergers and Acquisitions – continued

The following table summarizes the fair values of the assets acquired and liabilities assumed, consideration paid and the resulting goodwill.

	WHC January 1, 2020	BMB January 1, 2019
	<u>(In Thousands, Except Share Data)</u>	
Assets acquired:		
Cash and cash equivalents	\$ 11,544	\$ 6,902
Securities available-for-sale	43,710	2,096
Loans receivable	43,424	89,204
Premises and equipment	740	2,246
Cash surrender value of life insurance	2,131	2,862
Other real estate owned	-	223
Core deposit intangible	208	1,988
Other assets	1,874	1,995
Total assets acquired	<u>\$ 103,631</u>	<u>\$ 107,516</u>
Liabilities assumed:		
Deposits	\$ 86,572	\$ 92,706
Accrued expenses and other liabilities	4,554	1,960
Other borrowings	2,500	-
Total liabilities assumed	<u>\$ 93,626</u>	<u>\$ 94,666</u>
Net assets acquired	\$ 10,005	\$ 12,850
Consideration paid:		
Cash	\$ 6,500	\$ 1
Common stock issued (395,850 shares WHC and 996,041 shares BMB)	8,467	16,435
Total consideration paid	<u>\$ 14,967</u>	<u>\$ 16,436</u>
Goodwill resulting from acquisition	<u>\$ 4,962</u>	<u>\$ 3,586</u>

Goodwill recorded for the WHC acquisition during the first quarter of 2020 was \$4,962,000. Goodwill recorded for the BMB acquisition during the first quarter of 2019 was \$3,586,000. Certain estimates that existed at January 1, 2019 were realized and a final true up of \$126,000 was recorded to goodwill during the fourth quarter of 2019. The final goodwill recorded related to the BMB acquisition was \$3,712,000.

WHC investments were written up \$425,000 to fair value on the date of acquisition based on market prices obtained from an independent third party. BMB investment fair value adjustments were considered insignificant.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: Mergers and Acquisitions – continued

For acquisitions, the fair value analysis of the loan portfolios resulted in a valuation adjustment for each loan based on an amortization schedule of expected cash flow. Individual amortization schedules were used for each loan over a certain amount and those with specifically identified loss exposure. The remainder of the loans were grouped by type and risk rating into loan pools (based on loans type, fixed or variable interest rate, revolving or term payments and risk rating). Yield inputs for the amortization schedules included contractual interest rates, estimated prepayment speeds, liquidity adjustments and market yields. Credit inputs for the amortization schedules included probability of payment default, loss given default rates and individually identified loss exposure.

The total accretable discount on WHC acquired loans was \$1,166,000 as of January 1, 2020. During the year ended December 31, 2020, accretion of the loan discount was \$560,000. The remaining accretable loan discount was \$606,000 as of December 31, 2020.

The total accretable discount on BMB acquired loans was \$2,813,000 as of January 1, 2019. During the year ended December 31, 2019, accretion of the loan discount was \$1,480,000. During the year ended December 31, 2020, accretion of the loan discount was \$594,000. In addition, \$213,000 was written off related to an acquired impaired loan. The remaining accretable loan discount was \$526,000 as of December 31, 2020.

One impaired loan was acquired through the WHC acquisition with an insignificant balance as of January 1, 2020. Four impaired loans were acquired through the BMB acquisition with a net balance of \$556,000 as of January 1, 2019. The remaining balance of the acquired impaired loans as of December 31, 2020 was \$98,000.

Fair value adjustments of \$590,000 and 276,000 were recorded for WHC and BMB, respectively, related to premises and equipment. The Company used independent third party appraisals in the determination of the fair value of acquired assets.

Core deposit intangible assets of \$208,000 were recorded for WHC and are being amortized using an accelerated method over the estimated useful lives of the related deposits of 10 years from the date of acquisition. Core deposit intangible assets of \$1,988,000 were recorded for BMB and are being amortized using an accelerated method over the estimated useful lives of the related deposits of 10 years.

For acquisitions, the core deposit intangible value is a function of the difference between the cost of the acquired core deposits and the alternative cost of funds. These cash flow streams were discounted to present value. The fair value of other deposit accounts acquired were valued by estimating future cash flows to be received or paid from individual or homogenous groups of assets and liabilities and then discounting those cash flows to a present value using rates of return that were available in financial markets for similar financial instruments on or near the acquisition date.

Direct costs related to the acquisitions were expensed as incurred. The Company recorded acquisition costs related to WHC of \$157,000 and \$818,000 during the years ended December 31, 2020 and 2019, respectively. The Company recorded acquisition costs related to BMB of \$1,380,000 during the year ended December 31, 2019. Acquisition costs included legal and professional fees and data processing expenses incurred related to the acquisitions.

Operations of acquired entities have been included in the consolidated financial statements since date of acquisition. The Company does not consider them as separate reporting segments and does not track the amount of revenues and net income attributable since acquisition. As such, it is impracticable to determine such amounts for the period from acquisition through December 31, 2020.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: Mergers and Acquisitions – continued

The accompanying consolidated statements of income include the results of operations of WHC since the January 1, 2020 acquisition date. The following table presents unaudited pro forma results of operations for the year ended December 31, 2019 as if the acquisition had occurred on January 1, 2019. This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments and amortization of the core deposit intangible asset. The pro forma information does not necessarily reflect the results of operations that would have occurred had the Company purchased and assumed the assets and liabilities of WHC on January 1, 2019. Cost savings are also not reflected in the unaudited pro forma amounts for the year ended December 31, 2019.

	Year Ended December 31, 2019 (Dollars in Thousands, Except Per Share Data)
Pro forma net income ⁽¹⁾	
Net interest income after loan loss provision	\$ 39,019
Noninterest income	24,996
Noninterest expense	48,788
Income before income taxes	15,227
Income tax provision	3,045
Net income	\$ 12,182
Pro forma earnings per share ⁽¹⁾	
Basic earnings per share	\$ 1.90
Diluted earnings per share	\$ 1.89
Weighted average shares outstanding, basic	6,419,654
Weighted average shares outstanding, diluted	6,437,604

⁽¹⁾ Significant assumptions utilized include the acquisition cost noted above and a 20.00% effective tax rate.

NOTE 3: Investment Securities

The Company's investment policy requires that the Company purchase only high-grade investment securities. Most municipal obligations are categorized as "A" or better by a nationally recognized statistical rating organization. These ratings are achieved because the securities are backed by the full faith and credit of the municipality and also supported by third-party credit insurance policies.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: Investment Securities – continued

Mortgage-backed securities (“MBSs”) and collateralized mortgage obligations (“CMOs”) are issued by government sponsored corporations, including Federal Home Loan Mortgage Corporation, Fannie Mae and the Guaranteed National Mortgage Association. Asset-backed securities (“ABSs”) are financial securities collateralized by a pool of assets, such as loans, leases, credit card debt, royalties or receivables.

The amortized cost and fair values of securities, together with unrealized gains and losses, were as follows:

	December 31, 2020			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized Gains	Unrealized Losses	Value
	(In Thousands)			
Available-for-sale:				
U.S. government obligations	\$ 2,214	\$ 31	\$ -	\$ 2,245
U.S. treasury obligations	5,153	504	-	5,657
Municipal obligations	92,914	6,175	(1)	99,088
Corporate obligations	10,579	91	(7)	10,663
Mortgage-backed securities	7,513	161	(5)	7,669
Collateralized mortgage obligations	30,339	852	(2)	31,189
Asset-backed securities	6,293	142	-	6,435
Total	\$ 155,005	\$ 7,956	\$ (15)	\$ 162,946
	December 31, 2019			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized Gains	Unrealized Losses	Value
	(In Thousands)			
Available-for-sale:				
U.S. government obligations	\$ 686	\$ 9	\$ -	695
U.S. treasury obligations	12,632	270	-	12,902
Municipal obligations	50,699	1,616	(93)	52,222
Corporate obligations	8,356	40	(8)	8,388
Mortgage-backed securities	9,460	56	(21)	9,495
Collateralized mortgage obligations	33,129	297	(92)	33,334
Asset-backed securities	10,110	-	(271)	9,839
Total	\$ 125,072	\$ 2,288	\$ (485)	\$ 126,875

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: Investment Securities – continued

Proceeds from sales of available-for-sale securities and the associated gross realized gains and losses were as follows:

	Years Ended December 31,	
	2020	2019
	(In Thousands)	
Proceeds from sale of available-for-sale securities	\$ 28,410	\$ 58,027
Gross realized gain on sale of available-for-sale securities	\$ 1,068	\$ 576
Gross realized loss on sale of available-for-sale securities	(335)	(507)
Net realized gain on sale of available-for-sale securities	\$ 733	\$ 69

The amortized cost and fair value of securities 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.

	December 31, 2020	
	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$ 1,971	\$ 1,978
Due from one to five years	16,784	17,502
Due from five to ten years	17,800	18,492
Due after ten years	80,598	86,116
	117,153	124,088
Mortgage-backed securities	7,513	7,669
Collateralized mortgage obligations	30,339	31,189
Total	\$ 155,005	\$ 162,946

At December 31, 2020 and 2019, securities with a fair value of \$19,716,000 and \$18,897,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: Investment Securities – continued

The Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months were as follows:

	December 31, 2020			
	Less than 12 Months		12 Months or Longer	
	Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)			
Municipal obligations	282	(1)	-	-
Corporate obligations	4,243	(7)	-	-
Mortgage-backed securities and collateralized mortgage obligations	3,180	(2)	1,501	(5)
Asset-backed securities	-	-	-	-
Total	<u>\$ 7,705</u>	<u>\$ (10)</u>	<u>\$ 1,501</u>	<u>\$ (5)</u>
	December 31, 2019			
	Less than 12 months		12 months or Longer	
	Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)			
Municipal obligations	11,142	(93)	-	-
Corporate obligations	-	-	992	(8)
Mortgage-backed securities and collateralized mortgage obligations	9,868	(35)	7,968	(78)
Asset-backed securities	940	(33)	8,900	(238)
Total	<u>\$ 21,950</u>	<u>\$ (161)</u>	<u>\$ 17,860</u>	<u>\$ (324)</u>

Unrealized losses associated with investments are believed to be caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities and not due to concerns regarding the underlying credit of the issuers or the underlying collateral. The Company does not intend to sell the securities, and it is not likely to be required to sell these securities prior to maturity. Based on the Company's evaluation of these securities, no other-than-temporary impairment was recorded for the year ended December 31, 2020, or 2019. As of December 31, 2020 and December 31, 2019, there were, respectively, 8 and 28 securities in unrealized loss positions that were considered to be temporarily impaired and therefore an impairment charge has not been recorded.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans

Loans receivable consisted of the following:

	December 31,	
	2020	2019
	(In Thousands)	
Real estate loans:		
Residential 1-4 family	\$ 157,092	\$ 157,898
Commercial real estate	447,867	434,025
Other loans:		
Home equity	56,563	56,414
Consumer	20,168	18,882
Commercial	161,451	113,319
Total	843,141	780,538
Deferred loan fees, net	(2,038)	(1,303)
Allowance for loan losses	(11,600)	(8,600)
Total loans, net	\$ 829,503	\$ 770,635

Within the commercial real estate loan category above, \$11,084,000 and \$13,602,000 was guaranteed by the United States Department of Agriculture Rural Development at December 31, 2020 and 2019, respectively. Also within the loan categories above, \$6,533,000 and \$5,701,000 was guaranteed by the United States Department of Agriculture Farm Service Agency at December 31, 2020 and 2019, respectively. In addition, within the commercial category above, \$29,581,000 was guaranteed by the SBA under their PPP at December 31, 2020. Deferred loan fees, net includes \$613,000 of remaining deferred fees related to the PPP at December 31, 2020.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans – continued

Allowance for loan losses activity was as follows:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Consumer	Commercial	Total
	(In Thousands)					
<i>Allowance for loan losses:</i>						
Balance, January 1, 2020	\$ 1,301	\$ 4,826	\$ 477	\$ 284	\$ 1,712	\$ 8,600
Charge-offs	-	(18)	-	(36)	(173)	(227)
Recoveries	-	12	-	16	69	97
Provision	205	2,131	38	100	656	3,130
Balance, December 31, 2020	<u>\$ 1,506</u>	<u>\$ 6,951</u>	<u>\$ 515</u>	<u>\$ 364</u>	<u>\$ 2,264</u>	<u>\$ 11,600</u>
Balance, December 31, 2020 allocated to loans individually evaluated for impairment						
	<u>\$ 296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 350</u>
Balance, December 31, 2020 allocated to loans collectively evaluated for impairment						
	<u>\$ 1,210</u>	<u>\$ 6,951</u>	<u>\$ 515</u>	<u>\$ 364</u>	<u>\$ 2,210</u>	<u>\$ 11,250</u>
<i>Loans receivable:</i>						
Balance, December 31, 2020	<u>\$ 157,092</u>	<u>\$ 447,867</u>	<u>\$ 56,563</u>	<u>\$ 20,168</u>	<u>\$ 161,451</u>	<u>\$ 843,141</u>
Balance, December 31, 2020 of loans individually evaluated for impairment						
	<u>\$ 1,541</u>	<u>\$ 4,559</u>	<u>\$ 111</u>	<u>\$ 151</u>	<u>\$ 2,239</u>	<u>\$ 8,601</u>
Balance, December 31, 2020 of loans collectively evaluated for impairment						
	<u>\$ 155,551</u>	<u>\$ 443,308</u>	<u>\$ 56,452</u>	<u>\$ 20,017</u>	<u>\$ 159,212</u>	<u>\$ 835,540</u>
	Residential 1-4 Family	Commercial Real Estate	Home Equity	Consumer	Commercial	Total
	(In Thousands)					
<i>Allowance for loan losses:</i>						
Balance, January 1, 2019	\$ 1,301	\$ 3,593	\$ 477	\$ 190	\$ 1,039	\$ 6,600
Charge-offs	-	(195)	(75)	(78)	(380)	(728)
Recoveries	-	17	-	26	58	101
Provision	-	1,411	75	146	995	2,627
Balance, December 31, 2019	<u>\$ 1,301</u>	<u>\$ 4,826</u>	<u>\$ 477</u>	<u>\$ 284</u>	<u>\$ 1,712</u>	<u>\$ 8,600</u>
Balance, December 31, 2019 allocated to loans individually evaluated for impairment						
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74</u>	<u>\$ 74</u>
Balance, December 31, 2019 allocated to loans collectively evaluated for impairment						
	<u>\$ 1,301</u>	<u>\$ 4,826</u>	<u>\$ 477</u>	<u>\$ 284</u>	<u>\$ 1,638</u>	<u>\$ 8,526</u>
<i>Loans receivable:</i>						
Balance, December 31, 2019	<u>\$ 157,898</u>	<u>\$ 434,025</u>	<u>\$ 56,414</u>	<u>\$ 18,882</u>	<u>\$ 113,319</u>	<u>\$ 780,538</u>
Balance, December 31, 2019 of loans individually evaluated for impairment						
	<u>\$ 955</u>	<u>\$ 1,109</u>	<u>\$ 98</u>	<u>\$ 156</u>	<u>\$ 1,323</u>	<u>\$ 3,641</u>
Balance, December 31, 2019 of loans collectively evaluated for impairment						
	<u>\$ 156,943</u>	<u>\$ 432,916</u>	<u>\$ 56,316</u>	<u>\$ 18,726</u>	<u>\$ 111,996</u>	<u>\$ 776,897</u>

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans – continued

The Company utilizes an 8-point internal loan rating system, largely based on regulatory classifications, as follows:

Loans Rated Pass – these are loans in categories 1 – 5 that are considered to be protected by the current net worth and paying capacity of the obligor, or by the value of the asset or the underlying collateral.

Loans Rated Special Mention – these loans in category 6 have potential weaknesses and are watched closely by management. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset at some future date.

Loans Rated Substandard – these loans in category 7 are inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Loans Rated Doubtful – these loans in category 8 have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans Rated Loss – these loans are considered uncollectible and are not part of the 8-point rating system. They are of such small value that their continuance as assets without establishment of a specific reserve is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but, rather, that it is not practical or desirable to defer writing off a basically worthless asset even though practical recovery may be affected in the future.

On an annual basis, or more often if needed, the Company formally reviews the ratings of all commercial real estate, real estate construction and commercial business loans that have a principal balance of \$750,000 or more. Quarterly, the Company reviews the rating of any consumer loan, broadly defined, that is delinquent 90 days or more. Likewise, quarterly, the Company reviews the rating of any commercial loan, broadly defined, that is delinquent 60 days or more. Annually, the Company engages an independent third-party to review a significant portion of loans within these segments. The loan review process compliments and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as, the Company's policies and procedures.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans – continued

Internal classification of the loan portfolio was as follows:

	December 31, 2020						
	Pass	Special		Substandard	Doubtful	Loss	Total
		Mention	Mention				
(In Thousands)							
Real estate loans:							
Residential 1-4 family	\$ 109,746	\$ -	\$ 857	\$ 199	\$ -	\$ 110,802	
Residential 1-4 family construction	45,953	-	337	-	-	46,290	
Commercial real estate	311,756	2,568	2,344	-	-	316,668	
Commercial construction and development	65,231	14	36	-	-	65,281	
Farmland	63,565	136	2,164	53	-	65,918	
Other loans:							
Home equity	56,177	274	112	-	-	56,563	
Consumer	20,017	-	151	-	-	20,168	
Commercial	107,810	829	570	-	-	109,209	
Agricultural	50,371	355	1,395	121	-	52,242	
Total	<u>\$ 830,626</u>	<u>\$ 4,176</u>	<u>\$ 7,966</u>	<u>\$ 373</u>	<u>\$ -</u>	<u>\$ 843,141</u>	
December 31, 2019							
	Pass	Special		Substandard	Doubtful	Loss	Total
		Mention	Mention				
(In Thousands)							
Real estate loans:							
Residential 1-4 family	\$ 118,116	\$ -	\$ 1,180	\$ -	\$ -	\$ 119,296	
Residential 1-4 family construction	38,265	-	337	-	-	38,602	
Commercial real estate	328,750	-	2,312	-	-	331,062	
Commercial construction and development	52,620	-	50	-	-	52,670	
Farmland	49,959	108	168	58	-	50,293	
Other loans:							
Home equity	56,039	78	297	-	-	56,414	
Consumer	18,694	-	188	-	-	18,882	
Commercial	71,868	159	707	63	-	72,797	
Agricultural	39,347	138	570	467	-	40,522	
Total	<u>\$ 773,658</u>	<u>\$ 483</u>	<u>\$ 5,809</u>	<u>\$ 588</u>	<u>\$ -</u>	<u>\$ 780,538</u>	

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans – continued

The following tables include information regarding delinquencies within the loan portfolio.

	December 31, 2020					
	Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total	Nonaccrual Loans	Current Loans	Total Loans
	(In Thousands)					
Real estate loans:						
Residential 1-4 family	\$ 693	\$ 34	\$ 727	\$ 684	\$ 109,391	\$ 110,802
Residential 1-4 family construction	853	170	1,023	337	44,930	46,290
Commercial real estate	274	-	274	631	315,763	316,668
Commercial construction and development	-	-	-	36	65,245	65,281
Farmland	179	-	179	2,245	63,494	65,918
Other loans:						
Home equity	53	-	53	111	56,399	56,563
Consumer	72	-	72	151	19,945	20,168
Commercial	553	6	559	537	108,113	109,209
Agricultural	71	182	253	1,542	50,447	52,242
Total	\$ 2,748	\$ 392	\$ 3,140	\$ 6,274	\$ 833,727	\$ 843,141

	December 31, 2019					
	Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total	Nonaccrual Loans	Current Loans	Total Loans
	(In Thousands)					
Real estate loans:						
Residential 1-4 family	\$ 702	\$ 4	\$ 706	\$ 618	\$ 117,972	\$ 119,296
Residential 1-4 family construction	260	-	260	337	38,005	38,602
Commercial real estate	793	-	793	583	329,686	331,062
Commercial construction and development	72	-	72	50	52,548	52,670
Farmland	1,039	-	1,039	476	48,778	50,293
Other loans:						
Home equity	420	-	420	98	55,896	56,414
Consumer	128	-	128	156	18,598	18,882
Commercial	484	-	484	824	71,489	72,797
Agricultural	702	1,805	2,507	499	37,516	40,522
Total	\$ 4,600	\$ 1,809	\$ 6,409	\$ 3,641	\$ 770,488	\$ 780,538

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans – continued

The following tables include information regarding impaired loans.

	December 31, 2020			
	Recorded Investment	Unpaid		Average Recorded Investment
		Principal Balance	Related Allowance	
	(In Thousands)			
Real estate loans:				
Residential 1-4 family	\$ 1,204	\$ 1,267	\$ 296	\$ 911
Residential 1-4 family construction	337	387	-	337
Commercial real estate	2,264	2,328	-	1,423
Commercial construction and development	50	50	-	50
Farmland	2,245	2,262	-	1,360
Other loans:				
Home equity	111	136	-	105
Consumer	151	171	-	154
Commercial	537	664	-	681
Agricultural	1,702	2,268	54	1,100
Total	\$ 8,601	\$ 9,533	\$ 350	\$ 6,121
	December 31, 2019			
	Recorded Investment	Unpaid		Average Recorded Investment
		Principal Balance	Related Allowance	
	(In Thousands)			
Real estate loans:				
Residential 1-4 family	\$ 618	\$ 657	\$ -	\$ 435
Residential 1-4 family construction	337	387	-	485
Commercial real estate	583	766	-	507
Commercial construction and development	50	225	-	32
Farmland	476	513	-	238
Other loans:				-
Home equity	98	115	-	295
Consumer	156	169	-	142
Commercial	824	887	74	566
Agricultural	499	756	-	266
Total	\$ 3,641	\$ 4,475	\$ 74	\$ 2,966

Interest income recognized on impaired loans for the years ended December 31, 2020 and 2019 is considered insignificant. Interest payments received on a cash basis related to impaired loans was \$327,000 and \$394,000 for the year ended December 31, 2020 and 2019, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans – continued

As of December 31, 2020 and 2019, TDR loans totaled \$1,824,000 and \$246,000, respectively.

During the year ended December 31, 2020, there were three new TDR loans. The recorded investments at time of restructure were \$94,000 for a commercial construction and development loan, \$1,633,000 for a commercial real estate loan and \$160,000 for an agricultural loan. No charge-offs were incurred and the loans continue to be on accrual status.

During the year ended December 31, 2019, there were two new TDR loans. The recorded investments at time of restructure were \$76,000 for a commercial loan and \$153,000 for a farmland loan. During the year ended December 31, 2020, the remaining recorded investment for the commercial loan of \$67,000 was charged off. The farmland loan was paid off during the year ended December 31, 2020.

There was one loan modified as a TDR that defaulted during the year ended December 31, 2020 where the default occurred within 12 months of restructuring. This resulted in the charge-off of \$67,000 mentioned above. A default for purposes of this disclosure is a TDR loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral.

As of December 31, 2020, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in troubled debt restructures.

The company has offered borrowers accommodations due to the impact from COVID-19, including 90-day deferrals, interest only payments and forbearances, which are not considered TDR's as they met the criteria established in the CARES Act. In addition, during year ended December 31, 2020, the Montana Board of Investments ("MBOI") offered 12-months of interest payment assistance to 32 qualified borrowers. As of December 31, 2020, loan modifications for 40 borrowers with modified loans under the provisions of the CARES Act represented \$28,994,000 in loans.

Loans are granted to directors and officers of the Company in the ordinary course of business. Such loans are made in accordance with policies established for all loans of the Company, except that directors, officers and employees may be eligible to receive discounts on loan origination costs.

Loans receivable (including loans sold and serviced for others) from related parties, including directors and executive officers were as follows:

		(In Thousands)
Balance, January 1, 2019	\$	3,126
Principal additions		1,477
Principal payments		(1,604)
Balance, December 31, 2019	\$	2,999
Principal additions		402
Principal payments		(1,038)
Balance, December 31, 2020	\$	<u>2,363</u>

	December 31,	
	2020	2019
	(In Thousands)	
Loans serviced, for the benefit of others, for directors, executive officers and their related parties	\$ 1,891	\$ 2,087

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: Loans – continued

	Years Ended December 31,	
	2020	2019
	(In Thousands)	
Interest income from loans owned for directors, executive officers and their related parties	\$ 22	\$ 65

NOTE 5: Mortgage Servicing Rights

The Company is servicing mortgage loans for the benefit of others which are not included in the consolidated statements of financial condition and have unpaid principal balances of \$1,473,971,000 and \$1,169,869,000 at December 31, 2020 and 2019, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Mortgage loan servicing fees were \$3,212,000 and \$2,620,000 for the years ended December 31, 2020 and 2019, respectively. These fees, net of amortization, are included in mortgage banking, net which is a component of noninterest income on the consolidated statements of income.

Custodial balances maintained in connection with the foregoing loan servicing, and included in noninterest checking deposits, were \$15,853,000 and \$8,402,000 at December 31, 2020 and 2019, respectively.

The following table is a summary of activity in mortgage servicing rights:

	Years Ended December 31,	
	2020	2019
	(In Thousands)	
Mortgage servicing rights:		
Beginning balance	\$ 8,739	\$ 7,100
Mortgage servicing rights capitalized	5,678	3,276
Amortization of mortgage servicing rights	(3,520)	(1,637)
Ending balance	\$ 10,897	\$ 8,739
Valuation allowance:		
Beginning balance	-	-
Impairment of mortgage servicing rights	(792)	-
Ending balance	(792)	-
Mortgage servicing rights, net	10,105	\$ 8,739

An impairment expense on mortgage servicing rights assets of \$792,000 was recorded for the year ended December 31, 2020 as a result of faster than expected prepayment speed assumptions. Impairment of servicing rights is included in other noninterest expense on the consolidated statements of income.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: Mortgage Servicing Rights – continued

The fair values of these rights were \$10,105,000 and \$9,835,000 at December 31, 2020 and 2019, respectively. The fair value of servicing rights was determined at loan level, depending on the interest rate and term of the specific loan, using the following valuation assumptions:

	December 31,	
	2020	2019
Key assumptions:		
Discount rate	12%	12%
Prepayment speed range	221-328%	110 - 246%
Weighted average prepayment speed	281%	171%

NOTE 6: Premises and Equipment

The cost and accumulated depreciation of premises and equipment was as follows:

	December 31,	
	2020	2019
	(In Thousands)	
Land	\$ 10,357	\$ 8,118
Buildings and improvements	46,854	34,917
Furniture and equipment	11,351	10,026
Construction in progress	6,260	424
	<u>74,822</u>	<u>53,485</u>
Accumulated depreciation	(17,715)	(15,303)
Premises and equipment, net	<u>\$ 57,107</u>	<u>\$ 38,182</u>

Buildings and improvements increased for the year ended December 31, 2020 mainly due to buildings purchased in Bozeman and Missoula. Depreciation expense was \$2,443,000 and \$1,786,000 for the years ended December 31, 2020 and 2019, respectively.

The Company leases six full-service branch locations and one administrative office location, under various operating lease agreements. Leases with a lease term of 12 months at commencement are not recorded on the statements of financial position. The Company's leases have maturities ranging from 2021 to 2028, some of which include lessee options to extend the leases for up to 10 years.

Right-of-use assets and corresponding lease liabilities of \$2,374,000 were recorded as a result of adopting the lease standard on January 1, 2019. Typically, the Company's leases do not contain a discount rate implicit in the lease contract. To determine the lease liability for individual leases, the Company uses the FHLB of Des Moines' fixed advance rate which corresponds with the lease term at lease commencement date. For all leases that existed at the adoption date, the FHLB of Des Moines' fixed advance rate corresponding with the remaining lease term as of December 31, 2018 was used.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: Premises and Equipment – continued

The following table summarizes the Company's leases:

	December 31, 2020
	(In Thousands)
Right-of-use assets, net of amortization	\$ 1,655
Lease liabilities	1,685
Weighted average remaining lease term (years)	6.14
Weighted average discount rate	3.02%

The components of lease cost, which were included in occupancy and equipment expense on the consolidated statements of income, were as follows:

	December 31, 2020
	(In Thousands)
Operating lease cost	\$ 555
Short-term lease cost	69
Total lease cost	\$ 624

The following table presents the maturities of lease liabilities at December 31, 2020 for future periods:

	(In Thousands)
2021	\$ 462
2022	280
2023	207
2024	212
2025	212
Thereafter	488
Total lease payments	\$ 1,861
Less imputed interest	(176)
Present value of lease liabilities	\$ 1,685

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: Goodwill and Other Intangible Assets

Goodwill and core deposit intangible assets were recorded as part of acquisitions. Goodwill totaled \$20,798,000 and \$15,836,000 at December 31, 2020 and 2019, respectively.

The components of core deposit intangible assets were as follows:

	December 31,	
	2020	2019
	(In Thousands)	
Core deposit intangible	\$ 4,836	\$ 4,628
Accumulated amortization	(2,493)	(1,842)
Core deposit intangible, net	\$ 2,343	\$ 2,786

Core deposit intangible assets are amortized on an accelerated basis over their estimated life of 10 years. Amortization expense related to intangible assets was \$652,000 and \$698,000 for the years ended December 31, 2020 and 2019. The estimated aggregate future amortization expense for core deposit intangible assets remaining as of December 31, 2020 was as follows:

Years ending December 31:	(In Thousands)
2021	\$ 564
2022	476
2023	390
2024	320
2025	251
Thereafter	342
Total	\$ 2,343

NOTE 8: Deposits

Deposits are summarized as follows:

	December 31,			
	2020		2019	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(Dollars in Thousands)			
Noninterest checking	\$ 318,389	0.00 %	\$ 200,035	0.00 %
Interest-bearing checking	160,614	0.02 %	116,397	0.03 %
Savings	179,868	0.06 %	126,991	0.08 %
Money market	202,407	0.24 %	132,506	0.42 %
Time certificates of deposits	171,805	0.68 %	233,064	1.70 %
Total	\$ 1,033,083	0.18 %	\$ 808,993	0.55 %

Time certificates of deposits include \$495,000 and \$10,180,000 related to fixed rate brokered CDs at December 31, 2020 and 2019, respectively. In addition, time certificates of deposits include \$0 and \$16,000,000 related to fixed rate brokered certificates through the Certificate of Deposit Account Registry Service ("CDARS") at December 31, 2020 and 2019, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: Deposits – continued

At December 31, 2020 and 2019, the Company held \$326,532,000 and \$201,398,000, respectively, in deposit accounts that met or exceeded the Federal Deposit Insurance Corporation (“FDIC”) requirements of \$250,000 and greater.

Time certificates of deposits with balances of \$250,000 and greater were \$31,440,000 and \$49,636,000 at December 31, 2020 and 2019, respectively.

At December 31, 2020, the scheduled maturities of time deposits were as follows:

Years ending December 31:	(In Thousands)
2021	\$ 123,725
2022	35,232
2023	6,921
2024	3,992
2025	1,629
Thereafter	306
Total	<u>\$ 171,805</u>

Interest expense on deposits was as follows:

	Years Ended December 31,	
	2020	2019
	(In Thousands)	
Checking	\$ 58	\$ 44
Savings	87	85
Money market	473	448
Time certificates of deposits	2,996	3,316
Total	<u>\$ 3,614</u>	<u>\$ 3,893</u>

At December 31, 2020 and 2019, the Company reclassified \$159,000 and \$420,000, respectively, in overdrawn deposits as loans.

Related party deposits, including directors’ and executive officers’ deposit accounts at December 31, 2020 and 2019 were \$4,152,000 and \$4,757,000, respectively.

NOTE 9: Advances from the Federal Home Loan Bank and Other Borrowings

At December 31, 2020, advances from the FHLB of Des Moines and other borrowings mature as follows:

Years ending December 31:	(In Thousands)
2021	\$ 12,070
2022	5,000
2023	-
2024	-
2025	-
Thereafter	-
Total	<u>\$ 17,070</u>

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: Advances from the Federal Home Loan Bank and Other Borrowings – continued

Federal Home Loan Bank Advances

FHLB advances include both fixed and amortizing advances. Fixed advances are due at maturity. Advances are subject to prepayment penalties. Interest rates on these advances are fixed. Advances are collateralized by a blanket pledge of the Bank's loan portfolio. The Company's investment in FHLB stock is also pledged as collateral on these advances. The total FHLB funding available to the Company at December 31, 2020, was 45.00% of total Bank assets as determined by FHLB, or approximately \$559,332,000. The balance of advances was \$17,070,000 and \$88,350,000 at December 31, 2020 and 2019, respectively. The Bank also has a contingent letter of credit with FHLB for \$1,090,000 and \$570,000 at December 31, 2020 and 2019, respectively.

Other Borrowings

During the year ended December 31, 2020, the Bank utilized the FRB's Payroll Protection Program Loan Funding ("PPPLF") facility as a partial source of funding for its SBA PPP loans. However, the outstanding balance was fully repaid as of December 31, 2020.

At December 31, 2018, the Bank's previous subsidiary, AFSB NMTC Investment Fund, LLC had an \$865,000 borrowing related to New Markets Tax Credits. The borrowing was interest only at 1.00% through November 2019. The Bank divested its interest in AFSB NMTC Investment Fund, LLC in November 2019 and the loan was assumed by the new owner.

Federal Funds Purchased

The Bank has \$85,000,000 in Federal funds lines of credit with unaffiliated institutions, including Pacific Coast Bankers Bank ("PCBB"), PNC Financial Services Group, Inc. ("PNC"), United Bankers' Bank ("UBB") and Zions Bank. The balance of these lines of credit was \$0 as of December 31, 2020 and 2019, respectively.

All Borrowings Outstanding

For all borrowings outstanding the weighted average interest rate for advances at December 31, 2020 and 2019 was 1.89% and 2.18%, respectively. The average amount outstanding was \$76,119,000 and \$99,307,000 for 2020 and 2019, respectively. The maximum amount outstanding at any month-end was 105,820,000 and \$124,377,000 for 2020 and 2019, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: Other Long-Term Debt

Other long-term debt consisted of the following:

	December 31,			
	2020		2019	
	Unamortized Debt		Unamortized Debt	
	Principal Amount	Issuance Costs	Principal Amount	Issuance Costs
(In Thousands)				
Senior notes fixed at 5.75%, due 2022	\$ 10,000	\$ (48)	\$ 10,000	\$ (92)
Subordinated debentures fixed at 6.75%, due 2025	-	-	10,000	(122)
Subordinated debentures fixed at 5.50% to floating, due 2030	15,000	(316)	-	-
Subordinated debentures variable at 3-Month Libor plus 1.42%, due 2035	5,155	-	5,155	-
Total other long-term debt	\$ 30,155	\$ (364)	\$ 25,155	\$ (214)

In June 2020, the Company completed the issuance of \$15,000,000 in aggregate principal amount of subordinated notes due in 2030 in a private placement transaction to certain qualified institutional accredited investors. The notes will bear interest at an annual fixed rate of 5.50% payable semi-annually. Starting July 1, 2025, interest will accrue at a floating rate per annum equal to a benchmark rate, which is expected to be three-month term Secured Overnight Financing Rate ("SOFR") plus a spread of 509.0 basis points, payable quarterly. The notes are subject to redemption at the option of the Company on or after July 1, 2025. The subordinated debentures qualify as Tier 2 capital for regulatory capital purposes.

In February 2017, the Company completed the issuance, through a private placement, of \$10,000,000 aggregate principal amount of 5.75% fixed senior unsecured notes due in 2022. The interest will be paid semi-annually through maturity date. The notes are not subject to redemption at the option of the Company.

In June 2015, the Company completed the issuance of \$10,000,000 in aggregate principal amount of subordinated notes due in 2025 in a private placement transaction to an institutional accredited investor. The notes had an annual fixed rate of 6.75% and interest was be paid quarterly through redemption. The notes were subject to redemption at the option of the Company on or after June 19, 2020. The notes were redeemed on July 10, 2020. The subordinated debentures qualified as Tier 2 capital for regulatory capital purposes.

In September 2005, the Company completed the private placement of \$5,155,000 in subordinated debentures to the Trust. The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank, N.A. with a liquidation value of \$5,155,000. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on December 15, 2005. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities was fixed at 6.02% until December 2010 then became variable at 3-Month LIBOR plus 1.42%, making the rate 1.66% and 3.33% as of December 31, 2020 and 2019, respectively. Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in December 2035 unless the Company elects and obtains regulatory approval to accelerate the maturity date. The subordinated debentures qualify as Tier 1 capital for regulatory capital purposes.

For 2020 and 2019, interest expense on all other long-term debt was \$1,687,000 and \$1,446,000, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: Commitments and Contingencies

Financial Instruments and Off-Balance-Sheet Activities

All financial instruments held or issued by the Company are held or issued for purposes other than trading. In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit and forward delivery commitments for the sale of whole loans to the secondary market.

In response to marketplace demands, the Bank routinely makes commitments to extend credit for fixed rate and variable rate loans with or without rate lock guarantees. When rate lock guarantees are made to customers, the Bank becomes subject to market risk for changes in interest rates that occur between the rate lock date and the date that a firm commitment to purchase the loan is made by a secondary market investor.

Commitments to extend credit are agreements to lend to a customer as long as the borrower satisfies the Bank's underwriting standards and related provisions of the borrowing agreements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Collateral is required for substantially all loans, and normally consists of real property. The Bank's experience has been that substantially all loan commitments are completed or terminated by the borrower within 3 to 12 months.

Commitments are summarized as follows:

	December 31,	
	2020	2019
	(In Thousands)	
Commitments to extend credit	\$ 173,866	\$ 142,785
Letters of credit	2,647	3,098

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: Commitments and Contingencies – continued

Employment Contracts

The Company has entered into change of control agreements with its Chief Financial Officer/Chief Operating Officer, Chief Lending Officer, Chief Credit Officer, Chief Risk Officer, Chief Operations Officer and Chief Information Officer. The change in control agreements provide a double trigger benefit equal to the sum of the executive's annual salary and bonus for the most recently completed year. The benefits are payable if the executive's employment is terminated without cause within two years after a change in control or if the executive resigns for good reason during the two years after a change in control. The change in control agreements are for two years, renewing automatically for successive one-year periods unless Eagle provides written notice of nonrenewal 90 days before the contract anniversary date. The officer would also receive benefit payments (less co-payment amounts) for continued life, medical, dental and disability insurance coverage substantially identical to coverage maintained by the Bank before employment termination. Continued insurance coverage benefits are payable for the 12-month period following termination or, if sooner, until life, medical, dental and disability insurance coverage is obtained from another employer.

Legal Proceedings

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

NOTE 12: Income Taxes

The components of the Company's income tax provision (benefit) were as follows:

	Years Ended December 31,	
	2020	2019
	(In Thousands)	
Current		
U.S. federal	\$ 6,281	\$ 1,445
Montana	2,139	912
Total current income tax provision	8,420	2,357
Deferred		
U.S. federal	(949)	690
Montana	(237)	49
Total deferred income tax (benefit) provision	(1,186)	739
Total income tax provision	\$ 7,234	\$ 3,096

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: Income Taxes – continued

The nature and components of deferred tax assets and liabilities were as follows:

	December 31,	
	2020	2019
	(In Thousands)	
Deferred tax assets:		
Loans receivable	\$ 3,055	\$ 2,265
Deferred loan fees	649	424
Lease liability	444	500
Deferred compensation	1,366	833
Employee benefits	365	320
Acquisition costs	236	271
Acquisition fair value adjustments	498	595
Other	755	429
Total deferred tax assets	7,368	5,637
Deferred tax liabilities:		
Premises and equipment	786	841
Right-of-use asset	436	500
Federal Home Loan Bank stock	32	7
Mortgage servicing rights	2,661	2,483
Unrealized gains on securities available-for-sale	2,090	474
Goodwill	995	872
Intangibles	603	706
Other	222	246
Total deferred tax liabilities	7,825	6,129
Net deferred tax liability	\$ (457)	\$ (492)

The Company believes, based upon the available evidence, that all deferred tax assets will be realized in the normal course of operations. Accordingly, these assets have not been reduced by a valuation allowance.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: Income Taxes – continued

A reconciliation of the Company's effective income tax provision (benefit) to the statutory federal income tax rate was as follows:

	Years Ended December 31,			
	2020		2019	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(Dollars in Thousands)			
Federal income taxes at the statutory rate	\$ 5,973	21.00%	\$ 2,933	21.00%
State income taxes	1,517	5.33%	943	6.75%
Tax-exempt interest income	(285)	-1.00%	(264)	-1.89%
Income from bank-owned life insurance	(135)	-0.47%	(151)	-1.08%
New Market Tax Credits	-	0.00%	(456)	-3.26%
Other, net	164	0.58%	91	0.64%
Actual tax expense and effective tax rate	<u>\$ 7,234</u>	<u>25.44%</u>	<u>\$ 3,096</u>	<u>22.16%</u>

Federal income tax credits received related to New Market Tax Credits were \$2,964,000 and were claimed over a seven-year credit allowance period starting in November 2012, and completed as of November 2019.

NOTE 13: Accumulated Other Comprehensive Income (Loss)

The following table includes information regarding the activity in accumulated other comprehensive income (loss):

	Unrealized Gains (Losses) on Loans Held-for- Sale	Unrealized Gains (Losses) on Investment Securities Available for Sale	Total
	(In Thousands)		
Balance, January 1, 2020	\$ -	\$ 1,329	\$ 1,329
Other comprehensive income, before reclassifications and income taxes	-	6,871	6,871
Amounts reclassified from accumulated other comprehensive income, before income taxes	-	(733)	(733)
Income tax provision	-	(1,616)	(1,616)
Total other comprehensive income	-	4,522	4,522
Balance, December 31, 2020	<u>\$ -</u>	<u>\$ 5,851</u>	<u>\$ 5,851</u>
Balance, January 1, 2019	\$ 227	\$ (1,338)	\$ (1,111)
Other comprehensive income, before reclassifications and income taxes	296	3,689	3,985
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(605)	(69)	(674)
Income tax benefit (provision)	82	(953)	(871)
Total other comprehensive (loss) income	(227)	2,667	2,440
Balance, December 31, 2019	<u>\$ -</u>	<u>\$ 1,329</u>	<u>\$ 1,329</u>

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: Earnings Per Share

The computations of basic and diluted earnings per share are below.

	Years Ended	
	December 31,	
	2020	2019
	(Dollars in Thousands, Except for Per Share Data)	
Basic weighted average shares outstanding	6,795,503	6,419,654
Dilutive effect of stock compensation	24,803	17,950
Diluted weighted average shares outstanding	<u>6,820,306</u>	<u>6,437,604</u>
Net income available to common shareholders	<u>\$ 21,206</u>	<u>\$ 10,872</u>
Basic earnings per share	<u>\$ 3.12</u>	<u>\$ 1.69</u>
Diluted earnings per share	<u>\$ 3.11</u>	<u>\$ 1.69</u>

There were no anti-dilutive shares at December 31, 2020 or 2019.

NOTE 15: Capital Management and Regulatory Matters

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In 2015, federal banking agencies substantially revised the regulatory risk-based capital rules. Community banking organizations were subject to these amendments, which implemented the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. Basel III capital rules required the Bank to maintain a minimum common equity Tier 1 capital to risk-weighted assets ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum ratio of total capital to risk-weighted assets of 8.0%, and a Tier 1 capital to average assets ratio of 4.0%.

The amended rules also established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios and resulted in the following phased-in minimum ratios: a common equity Tier 1 capital ratio of 7.0%, a Tier 1 capital to risk-weighted assets ratio of 8.5% and a total capital to risk-weighted assets ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: Capital Management and Regulatory Matters – continued

Management believes that, as of December 31, 2020, the Company and the Bank meet all capital adequacy requirements under the Basel III Capital rules.

As of December 31, 2020, the most recent notification from the FRB categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2020 are presented in the table below and include the capital conservation buffer of 2.50%:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
December 31, 2020:						
Total risk-based capital to risk weighted assets						
Consolidated	\$ 156,897	17.04%	\$ 96,665	10.50%	N/A	N/A
Bank	153,204	16.71%	96,279	10.50%	\$ 91,694	10.00%
Tier I capital to risk weighted assets						
Consolidated	130,434	14.17%	78,253	8.50%	N/A	N/A
Bank	141,741	15.46%	77,940	8.50%	73,355	8.00%
Common equity Tier I capital to risk weighted assets						
Consolidated	125,434	13.63%	64,444	7.00%	N/A	N/A
Bank	141,741	15.46%	64,186	7.00%	59,601	6.50%
Tier I capital to adjusted total average assets						
Consolidated	130,434	10.61%	49,183	4.00%	N/A	N/A
Bank	141,741	11.72%	48,370	4.00%	60,462	5.00%

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: Capital Management and Regulatory Matters – continued

The Bank's actual capital amounts and ratios as of December 31, 2019 are presented in the table below and include the capital conservation buffer of 2.50%.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
December 31, 2019:						
Total risk-based capital to risk weighted assets						
Consolidated	\$ 126,711	15.92 %	\$ 83,589	10.50 %	N/A	N/A
Bank	120,313	15.23 %	82,944	10.50 %	\$ 78,994	10.00 %
Tier I capital to risk weighted assets						
Consolidated	108,111	13.58 %	67,667	8.50 %	N/A	N/A
Bank	111,713	14.14 %	67,145	8.50 %	63,195	8.00 %
Common equity Tier I capital to risk weighted assets						
Consolidated	103,111	12.95 %	55,726	7.00 %	N/A	N/A
Bank	111,713	14.14 %	55,296	7.00 %	51,346	6.50 %
Tier 1 capital to adjusted total average assets						
Consolidated	108,111	10.52 %	41,099	4.00 %	N/A	N/A
Bank	111,713	11.08 %	40,332	4.00 %	50,414	5.00 %

Dividend Limitations

Under State of Montana banking regulation, member banks such as the Bank generally may declare annual cash dividends up to an amount equal to the previous two years' net earnings. Dividends in excess of such amount require approval of the Division of Banking. The Bank paid dividends of \$3,600,000 and \$8,000,000 during the years ended December 31, 2020 and 2019, respectively, to Eagle. Eagle paid quarterly dividends of \$0.0950 per share to its shareholders for the first two quarters of 2020 and \$0.0975 for the last two quarters of 2020. Eagle paid quarterly dividends of \$0.0925 per share to its shareholders for the first two quarters of 2019 and \$0.095 for the last two quarters of 2019.

Stock Repurchase Program

On July 23, 2020, Eagle's Board of Directors (the "Board") authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. During the third quarter of 2020, 41,337 shares were purchased under this plan at an average price of \$15.75 per share. However, no shares were purchased during the three months ended December 31, 2020. The plan expires on July 23, 2021.

On July 18, 2019, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchased its shares and the timing of such repurchase depended upon market conditions and other corporate considerations. No shares were purchased under this plan during the year ended December 31, 2019 or the first quarter of 2020. However, during the second quarter of 2020, 1,281 shares were purchased at an average price of \$16.95 per share. In addition, during the third quarter of 2020, 20,158 shares were purchased at an average price of \$15.60 per share. The plan expired on July 18, 2020.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: Capital Management and Regulatory Matters – continued

On July 19, 2018, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchased its shares and the timing of such repurchase depended upon market conditions and other corporate considerations. No shares were purchased under this plan during the year ended December 31, 2018. However, during the first quarter of 2019, 42,000 shares were purchased at an average price of \$17.43 per share. In addition, 28,000 shares were purchased during the second quarter of 2019 at an average price of \$17.09 per share. The plan expired on July 19, 2019.

Liquidation Rights

Eagle Bancorp Montana, Inc. holds a liquidation account for the benefit of certain depositors of the Bank who remain depositors of the Bank at the time of liquidation. The liquidation account is designed to provide payments to these depositors of their liquidation interests in the event of a liquidation of Eagle and the Bank, or the Bank alone. In the unlikely event that Eagle and the Bank were to liquidate in the future, all claims of creditors, including those of depositors, would be paid first, followed by distribution to depositors as of November 30, 2008 (who continue to be the Bank's depositors) of the liquidation account maintained by Eagle. Also, in a complete liquidation of both entities, or of just the Bank, when Eagle has insufficient assets to fund the liquidation account distribution due to depositors and the Bank has positive net worth, the Bank would immediately pay amounts necessary to fund Eagle's remaining obligations under the liquidation account. If Eagle is completely liquidated or sold apart from a sale or liquidation of the Bank, then the rights of such depositors in the liquidation account maintained by Eagle would be surrendered and treated as a liquidation account in the Bank, the "bank liquidation account" and these depositors shall have an equivalent interest in the bank liquidation account and the same rights and terms as the liquidation account.

After two years from the date of the 2010 conversion and upon the written request of the FDIC, Eagle will eliminate or transfer the liquidation account and the interests in such account to the Bank and the liquidation account would become the liquidation account of the Bank and not subject in any manner or amount to Eagle's creditors. Also, under the rules and regulations of the FDIC, no post-conversion merger, consolidation, or similar combination or transaction with another depository institution in which Eagle or the Bank is not the surviving institution would be considered a liquidation and, in such a transaction, the liquidation account would be assumed by the surviving institution.

NOTE 16: Related Party Transactions

In the normal course of lending, the Bank provided a commercial line of credit to an affiliated entity that is partially owned by one of the Company's directors. The commercial line of credit had a balance of \$0 as of December 31, 2020 and 2019, respectively. In addition, also in the normal course of lending, the Bank provided a commercial real estate loan to a separate affiliated entity that is partially owned by the same director. The commercial real estate loan had a balance of \$248,000 and \$272,000 as of December 31, 2020 and 2019, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: Benefit Plans

Profit Sharing Plan

The Company provides a noncontributory profit sharing plan for eligible employees who have completed one year of service. The amount of the Company's annual contribution is determined by the Board. Profit sharing expense was \$1,032,000 and \$825,000 for the years ended December 31, 2020 and 2019, respectively.

The Company's profit sharing plan includes a 401(k) feature. At the discretion of the Board, the Company may match up to 50.00% of participants' contributions up to a maximum of 4.00% of participants' salaries. For the years ended December 31, 2020 and 2019, the Company's match totaled \$482,000 and \$397,000, respectively.

Deferred Compensation Plans

The Company has entered into deferred compensation contracts with current key employees. The contracts provide fixed benefits payable in equal annual installments upon retirement. The Company purchased life insurance contracts that may be used to fund the payments. The charge to expense is based on the present value computations of anticipated liabilities. For the years ended December 31, 2020 and 2019, the total expense was \$699,000 and \$395,000, respectively. The Company recorded a liability for the deferred compensation plan of \$4,751,000 and \$2,858,000 at December 31, 2020 and 2019, respectively, which are included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Employee Stock Ownership Plan

The Company has established an ESOP for eligible employees who meet certain age and service requirements. In April 2010, the ESOP borrowed \$1,971,420 from Eagle Bancorp Montana, Inc. and used the funds to purchase 197,142 shares of common stock, at \$10 per share. The Bank makes annual contributions to the ESOP sufficient to satisfy the debt service requirements of the loan that has a twelve-year term and bears interest at 8.00%. The ESOP uses these contributions, and any dividends received by the ESOP on unallocated shares, to make principal and interest payments on the loan to the Company.

Shares purchased by the ESOP are held in a suspense account by the plan trustee until allocated to participant accounts. Shares released from the suspense account are allocated to participants on the basis of their relative compensation in the year of allocation. Participants become vested in the allocated shares over a period not to exceed seven years. Any forfeited shares are allocated to other participants in the same proportion as contributions.

As shares are committed to be released, the Company reports compensation expense equal to the average daily market prices of the shares. The compensation expense is accrued throughout the year. Dividends on allocated ESOP shares are recorded as a reduction to retained earnings; dividends on unallocated shares are recorded as a reduction of dividends paid.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: Employee Benefits – continued

Employee Stock Ownership Plan – continued

Total ESOP expenses of \$294,000 and \$276,000 were recognized for the years ended December 31, 2020 and 2019, respectively.

The following table shows the components of the ESOP shares:

	December 31,	
	2020	2019
Allocated shares	223,153	215,867
Unallocated shares	14,362	30,978
Total ESOP shares	237,515	246,845
Fair value of unallocated shares (in thousands)	\$ 304,762	\$ 663,000

Stock Incentive Plans

The Company adopted the stock incentive plan on November 1, 2011. This plan provides for different types of awards including stock options, restricted stock and performance shares. Under this plan, awards of Eagle's common stock may be made to eligible directors, officers and employees. This plan was amended during 2015, 2017 and 2020 and increased the maximum number of shares of restricted stock for issuance under this plan to 293,571. The number of shares of restricted stock available to award under this plan was 61,823 as of December 31, 2020.

The following table shows the activity of the restricted stock awards granted under this plan:

	Number of Shares
Unvested awards as of January 1, 2019	60,160
Awards granted	4,000
Awards vested	(19,340)
Awards forfeited	(880)
Unvested awards as of December 31, 2019	43,940
Awards granted	35,737
Awards vested	(19,340)
Awards forfeited	(2,000)
Unvested awards as of December 31, 2020	58,337

At December 31, 2020, the Company has unrecognized expense of approximately \$1,075,000 for this plan, which it expects to recognize ratably through November 2025. This plan also includes shares of stock which may be issued for awards of stock options totaling 246,427. However, no stock options have been awarded under this plan.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: Employee Benefits – continued

The Company established a nonemployee director award plan effective April 23, 2020. Under this plan, awards of Eagle's common stock may be made to eligible directors. The maximum number of shares of restricted stock for issuance under this plan is 13,000. During the year ended December 31, 2020, 2,024 shares were granted under this plan and the number of shares of restricted stock available to award under this plan was 10,976 as of December 31, 2020. At December 31, 2020, the Company has unrecognized expense of approximately \$34,000 for this plan, which it expects to recognize ratably through November 2021.

The Company recognized total compensation expense of \$380,000 and \$429,000 for these plans during the years ended December 31, 2020 and 2019, respectively.

NOTE 18: Derivatives and Hedging Activities

The Company enters into commitments to originate and sell mortgage loans. The Bank uses derivatives to hedge the risk of changes in fair values of interest rate lock commitments and mortgage loans held-for-sale. An optimal amount of mortgage loans are sold directly into bulk commitments with investors at the time an interest rate is locked, other loans are sold on an individual best efforts basis at the time an interest rate is locked, and the remaining balance of locked loans are hedged using TBA mortgage-backed securities or bulk mandatory forward loan sale commitments.

Derivatives are accounted for as free-standing or economic derivatives and are measured at fair value. Derivatives are recorded as either other assets or other liabilities on the consolidated statements of condition.

Derivatives are summarized as follows:

	December 31, 2020			December 31, 2019		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
	(In Thousands)					
Interest rate lock commitments	\$ 227,977	\$ 6,017	\$ -	\$ 48,303	\$ 554	\$ -
Forward TBA mortgage-backed securities	180,000	-	1,056	67,000	-	201

Changes in the fair value of the derivatives are recorded in mortgage banking, net within noninterest income on the consolidated statements of income. A net gain of \$4,607,000 and \$353,000 was recorded for the year ended December 31, 2020 and 2019, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Assets and liabilities that are measured at fair value are grouped in three levels within the fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

The fair value hierarchy is as follows:

- Level 1 Inputs – Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data.
- Level 3 Inputs – Valuations are based on unobservable inputs that may include significant management judgment and estimation.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: Fair Value of Financial Instruments – continued

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy at the reporting date, is set forth below.

Available-for-Sale Securities – Securities classified as available-for-sale are reported at fair value utilizing Level 1 (nationally recognized securities exchanges) and Level 2 inputs. For Level 2 securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include but is not limited to dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions.

Loans Held-for-Sale – These loans are reported at fair value. Fair value is determined based on expected proceeds based on committed sales contracts and commitments of similar loans if not already committed and are considered to be Level 2.

Derivative Instruments – The fair value of the interest rate lock commitments, forward TBA mortgage-backed securities and mandatory forward commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. Interest rate lock commitments are considered to be Level 3 and the forward TBA mortgage-backed securities and mandatory forward commitments are considered to be Level 2.

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral or using a discounted cash flow if the loan is not collateral dependent. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

Real Estate and Other Repossessed Assets – Fair values are determined at the time the loan is foreclosed upon and the asset is transferred from loans. The value is based primarily on third party appraisals, less costs to sell and are considered Level 3 inputs for determining fair value. Repossessed assets are reviewed and evaluated periodically for additional impairment and adjusted accordingly.

Mortgage Servicing Rights – The fair value of mortgage servicing rights are estimated using present value of expected cash flows based on a third party model that incorporated industry assumptions and is adjusted for factors such as prepayment speeds and are considered level 3 inputs.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: Fair Value of Financial Instruments – continued

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair
	Inputs	Inputs	Inputs	Value
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government obligations	\$ -	\$ 2,245	\$ -	\$ 2,245
U.S. treasury obligations	5,657	-	-	5,657
Municipal obligations	-	99,088	-	99,088
Corporate obligations	-	10,663	-	10,663
Mortgage-backed securities	-	7,669	-	7,669
Collateralized mortgage obligations	-	31,189	-	31,189
Asset-backed securities	-	6,435	-	6,435
Loans held-for-sale	-	54,615	-	54,615
Interest rate lock commitments	-	-	6,017	6,017
Financial liabilities:				
Forward TBA mortgage-backed securities	-	1,056	-	1,056

	December 31, 2019			
	Level 1	Level 2	Level 3	Total Fair
	Inputs	Inputs	Inputs	Value
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government obligations	\$ -	\$ 695	\$ -	\$ 695
U.S. treasury obligations	12,902	-	-	12,902
Municipal obligations	-	52,222	-	52,222
Corporate obligations	-	8,388	-	8,388
Mortgage-backed securities	-	9,495	-	9,495
Collateralized mortgage obligations	-	33,334	-	33,334
Asset-backed securities	-	9,839	-	9,839
Loans held-for-sale	-	25,612	-	25,612
Interest rate lock commitments	-	-	554	554
Financial liabilities:				
Forward TBA mortgage-backed securities	-	201	-	201

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: Fair Value of Financial Instruments – continued

Certain financial assets may be measured at fair value on a nonrecurring basis. These assets are subject to fair value adjustments that result from the application of lower of cost or fair value accounting or write-downs of individual assets, such as impaired loans that are collateral dependent, real estate and other repossessed assets and mortgage servicing rights.

The following tables summarize financial assets measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting periods presented:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair
	Inputs	Inputs	Inputs	Value
	(In Thousands)			
Impaired loans	\$ -	\$ -	\$ 728	\$ 728
Real estate and other repossessed assets	-	-	-	-
Mortgage servicing rights	-	-	10,105	10,105

	December 31, 2019			
	Level 1	Level 2	Level 3	Total Fair
	Inputs	Inputs	Inputs	Value
	(In Thousands)			
Impaired loans	\$ -	\$ -	\$ 491	\$ 491
Real estate and other repossessed assets	-	-	25	25
Mortgage servicing rights	-	-	-	-

The following table represents the Banks's Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those assets and liabilities, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	Fair value of Underlying collateral	Discount applied to the obtained appraisal	10 - 30%
Real estate and other repossessed assets	Fair value of collateral	Discount applied to the obtained appraisal	10 - 30%
Mortgage servicing rights	Discounted cash flows	Discount rate	10 - 15%
Interest rate lock commitments	Internal pricing model	Prepayment speeds Pull-through expectations	100 - 350% 80 - 90%

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: Fair Value of Financial Instruments – continued

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the year ended December 31, 2020.

	Interest Rate Lock Commitments (In Thousands)
Balance, January 1, 2020	\$ 554
Purchases and issuances	26,128
Sales and settlements	(20,665)
Balance, December 31, 2020	\$ 6,017
 Net change in unrealized gains relating to items held at end of period	 \$ 5,463

The tables below summarize the estimated fair values of financial instruments of the Company, whether or not recognized at fair value on the consolidated statements of condition. The tables are followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

	December 31, 2020				
	Level 1	Level 2	Level 3	Total	Carrying
	Inputs	Inputs	Inputs	Fair Value	Amount
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	\$ 69,802	\$ -	\$ -	\$ 69,802	\$ 69,802
FHLB stock	2,060	-	-	2,060	2,060
FRB stock	2,974	-	-	2,974	2,974
Loans receivable, gross	-	-	847,579	847,579	841,103
Accrued interest and dividends receivable	5,765	-	-	5,765	5,765
Mortgage servicing rights	-	-	10,105	10,105	10,105
Financial liabilities:					
Non-maturing interest-bearing deposits	-	542,889	-	542,889	542,889
Noninterest-bearing deposits	318,389	-	-	318,389	318,389
Time certificates of deposit	-	-	172,561	172,561	171,805
Accrued expenses and other liabilities	23,239	-	-	23,239	23,239
FHLB advances and other borrowings	-	-	17,217	17,217	17,070
Other long-term debt	-	-	29,414	29,414	30,155
	December 31, 2019				
	Level 1	Level 2	Level 3	Total	Carrying
	Inputs	Inputs	Inputs	Fair Value	Amount
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	\$ 24,918	\$ -	\$ -	\$ 24,918	\$ 24,918
FHLB stock	4,683	-	-	4,683	4,683
FRB stock	2,526	-	-	2,526	2,526
Loans receivable, gross	-	-	778,923	778,923	779,235
Accrued interest and dividends receivable	4,577	-	-	4,577	4,577
Mortgage servicing rights	-	-	9,835	9,835	8,739
Financial liabilities:					
Non-maturing interest-bearing deposits	-	375,894	-	375,894	375,894
Noninterest-bearing deposits	200,035	-	-	200,035	200,035
Time certificates of deposit	-	-	233,041	233,041	233,064
Accrued expenses and other liabilities	9,624	-	-	9,624	9,624
FHLB advances and other borrowings	-	-	88,447	88,447	88,350
Other long-term debt	-	-	24,661	24,661	25,155

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20: Condensed Parent Company Financial Statements

Included below are the condensed financial statements of the Parent Company, Eagle Bancorp Montana, Inc.:

	December 31,	
	2020	2019
	(In Thousands)	
Assets:		
Cash and cash equivalents	\$ 5,775	\$ 8,916
Securities available-for-sale	5,149	5,152
Investment in Eagle Bancorp Statutory Trust I	155	155
Investment in Subsidiaries	169,190	130,165
Other assets	3,126	2,473
Total assets	\$ 183,395	\$ 146,861
Liabilities and Shareholders' Equity:		
Accounts payable and accrued expenses	\$ 666	\$ 261
Other long-term debt	29,791	24,941
Shareholders' equity	152,938	121,659
Total liabilities and shareholders' equity	\$ 183,395	\$ 146,861

	Years Ended	
	December 31,	
	2020	2019
	(In Thousands)	
Interest income	\$ 152	\$ 273
Interest expense	(1,690)	(1,452)
Noninterest income	-	(6)
Noninterest expense	(1,116)	(2,582)
Loss before income taxes	(2,654)	(3,767)
Income tax benefit	(659)	(1,065)
Loss before equity in undistributed earnings of Subsidiaries	(1,995)	(2,702)
Equity in undistributed earnings of Subsidiaries	23,201	13,574
Net income	\$ 21,206	\$ 10,872

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20: Condensed Parent Company Financial Statements – continued

	Years Ended December 31,	
	2020	2019
	(In Thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 21,206	\$ 10,872
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of Subsidiaries	(23,201)	(13,574)
Other adjustments, net	(25)	(578)
Net cash used in operating activities	(2,020)	(3,280)
Cash Flows from Investing Activities:		
Cash contributions from Opportunity Bank of Montana	3,600	8,000
Cash paid for acquisitions, net of cash received	(6,500)	-
Activity in available-for-sale securities:		
Sales	-	5,291
Maturities, principal payments and calls	10,250	620
Purchases	(10,199)	-
Net cash (used in) provided by investing activities	(2,849)	13,911
Cash Flows from Financing Activities:		
Proceeds from issuance of subordinated debentures	15,000	-
Repayment of subordinated debentures	(10,000)	-
Payments for debt issuance costs	(335)	-
ESOP payments and dividends	285	317
Payments to purchase treasury stock	(987)	(1,210)
Treasury shares reissued for compensation	380	369
Dividends paid	(2,615)	(2,407)
Net cash provided by (used in) financing activities	1,728	(2,931)
Net (Decrease) Increase in Cash and Cash Equivalents	(3,141)	7,700
Cash and Cash Equivalents, beginning of period	8,916	1,216
Cash and Cash Equivalents, end of period	\$ 5,775	\$ 8,916

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SHAREHOLDER INFORMATION

STOCK LISTING

Symbol: EBMT
NASDAQ Global

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