EAGLE BANCORP MONTANA, INC.

2022 ANNUAL REPORT

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.

A century later, we have grown to 31 locations 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 more than 100 years.

OUR HISTORY

American Building and Loan operated under this original name for more than 50 years, surviving the turbulence of the early 20th century, including the crash of 1929 and the ensuing Great Depression. In 1972, the business name 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 for the bank. 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, and later, in 1991, American Federal Savings and Loan converted its charter to a federal savings bank and accordingly changed its name to American Federal Savings Bank, the name that would remain for the next 23 years.

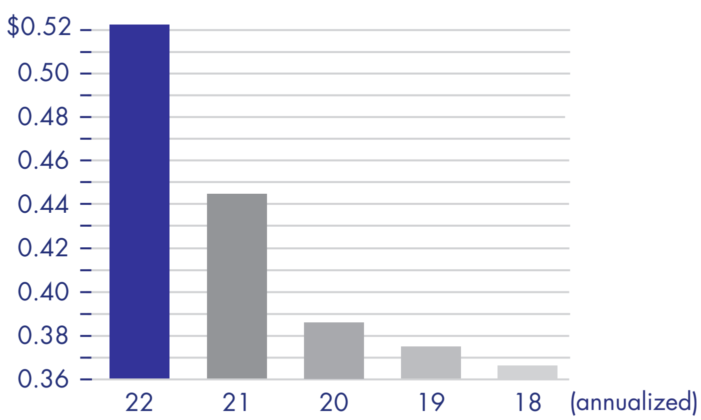
Eagle Bancorp was established in 1999 as the holding company for the bank and began offering shares to the public in 2000. A subsequent public offering in 2010 made it possible for Eagle stock to be traded publicly on the NASDAQ stock exchange. In 2012, American Federal doubled its branch network and further expanded its footprint across Montana through the purchase of seven Montana bank branches 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 charter change 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. In April 2022, the bank completed the acquisition of First Community Bancorp Inc., further expanding into Roosevelt County, and adding branches in Rosebud and Valley Counties. 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.

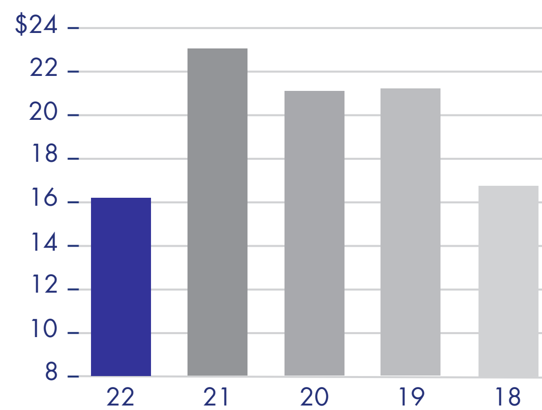
FINANCIAL HIGHLIGHTS

(DOLLARS IN THOUSANDS)	2022 YEAR ENDED	2021 YEAR ENDED	2020 YEAR ENDED	2019 YEAR ENDED	2018 YEAR ENDED
SELECTED FINANCIAL CONDITION DATA:					
Total Assets	$1,948,384	$1,435,926	$1,257,634	$1,054,260	$853,903
Net Loans	1,339,678	920,639	829,503	770,635	610,333
Total Securities	349,495	271,262	162,946	126,875	142,165
Total Deposits	1,635,272	1,222,549	1,033,083	808,993	626,611
Total Shareholders' Equity	158,416	156,729	152,938	121,659	94,806
SELECTED OPERATING DATA:					
Net Interest Income	63,312	46,540	43,170	38,785	29,741
Loan Loss Provision	2,001	861	3,130	2,627	980
Noninterest Income	21,941	46,183	47,366	23,841	12,122
Noninterest Expense	69,404	72,580	58,966	46,031	34,987
NET INCOME	$10,701	$14,419	$21,206	$10,872	$4,982

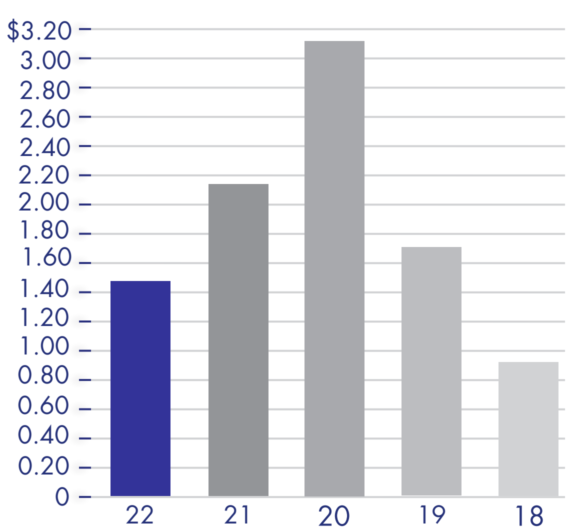
DIVIDENDS - dollars per share



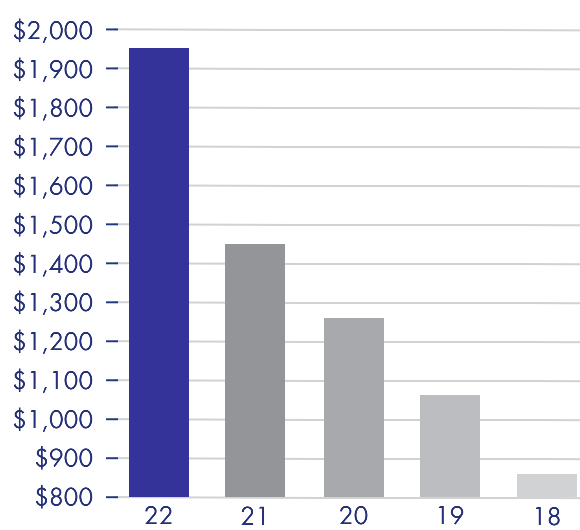
STOCK PRICE - in dollars



EARNINGS PER SHARE - basic in dollars



TOTAL ASSETS - dollars in millions



MARCH 15, 2023

To Our Shareholders, Customers, and Friends:

I am pleased to present our Annual Report to Shareholders for the fiscal year ended December 31, 2022 particularly because this is also my first opportunity as President and CEO to communicate with you regarding our results.

2022 was a year of growth for our Company. We closed our largest ever whole bank acquisition, with the addition of the $370.4 million in assets of First Community Bancorp Inc., enabling us to add both a significant physical presence in northeast Montana and a seasoned team of agricultural lenders. We welcome First Community to our Company including Samuel D. Waters, First Community's CEO, who joined our Board in April 2022.

With First Community and its network of nine branches, Opportunity Bank of Montana now has a meaningful presence in each of Montana's primary agricultural regions while fully implementing our strategy of diversifying our loan portfolio through a significant agricultural lending presence in the state. We made substantial progress toward that goal in 2022 as agricultural production and farmland loans outstanding increased by 112.1% to $240.4 million compared to $113.4 million a year earlier.

For the year, total assets also grew to $1.95 billion, an increase of 35.7%. That places our company very near the important milestone of $2 billion in assets. When that occurs, it will have been achieved using the same consistent approach that has been our hallmark for the past decade — prudent strategic acquisitions and steady organic growth. In 2022 this strategy enabled us to increase total loans over the prior year by 45.1% to $1.35 billion. Deposits also grew substantially, increasing by 33.8% further adding to our strong core deposit base. It is important to note that this was not achieved solely through acquisition, in that total loans grew organically by 24.6% while deposits grew organically by 7.5%. Our deposit growth was likely impacted by the transitory nature of deposit inflows from the government's stimulus including PPP reimbursements. Not surprisingly, deposits began to ebb somewhat due to the eventual deployment of PPP funds and the onset of higher rates. As we moved toward a more normalized structure, our average cost of funds increased to 0.85% from 0.35% in the fourth quarter of 2021.

We performed well with earnings of $10.7 million, and earnings per diluted share of $1.45, which followed record per share earnings of the prior two years. This was achieved despite facing several challenges. The lingering impact of operating during the Covid pandemic was certainly one challenge. Another was working through the seven separate rate tightenings by the Federal Reserve Board to combat inflationary pressures in the nation's economy. These initiatives and the lingering possibility of a recession in 2023 will no doubt impact our approach going forward. The growth in all loan categories contributed to more than 36.0% growth in net interest income before loan loss provision. Another important factor affecting earnings was an increase of 35 basis points in our net interest margin from 3.75% in the fourth quarter of 2021 to 4.10%. Following two record years mortgage originations slowed substantially by the end of 2022 impacted in part by higher rates. As we look forward, we believe we will see moderate loan growth while maintaining our traditionally strong credit culture and asset quality. Also at year-end 2022, we were pleased to note that the level of non-performing assets held steady at 0.40% of assets, a slight decrease from the level of 0.49% a year ago. We did, however, add to our allowance for loan losses over the past year to keep pace with our growing loan portfolio.

In addition to the challenges, 2022 was also a transitional year for Montana. As noted in past reports, Montana, with its vast land area and relatively low population presents unique challenges for banks such as Opportunity seeking to implement a growth strategy. Montana notwithstanding its size ranks only 43rd in terms of population. However, there are trends, several of which emerged this year, suggesting that this traditional imbalance may be changing. Montana has, for example, been buoyed by significant growth in population ranking sixth of all states in percentage growth from 2021 to 2022. Last year, Montana's population grew by 1.5% and total population now exceeds 1.1 million. The growth rate trailed only Florida, Idaho, South Carolina, Texas, and South Dakota. In addition, Montana's new residents have tended to be wealthier and often are able to bring their jobs with them as remote work is embraced. The influx of new residents could provide some insulation in an economic downturn. We note that The Bureau of Business and Economic Research at the University of Montana projects growth in nonfarm earnings will decrease to approximately -0.4% in 2023 but rebound to 1.1% in 2024.

The population influx has placed some pressure on real estate values and spurred increased construction. There are many explanations for this trend including comparatively favorable home prices and the allure of the "Big Sky lifestyle" fueled in part by the popularity of the television series, *Yellowstone*. Also, Montana's favorable unemployment rate of 2.8% remains well below the national average. For these reasons, including our Company's strong geographic presence represented by our 31-branch structure, we are well positioned to take advantage of these significant tail winds as the "new Montana" continues to evolve. In the face of these changes our foundational values and our focus on customers, communities and employees will leave us well positioned.

Any discussion of our foundational values would be incomplete if we did not note the retirement at the end of 2022 of our longtime CEO and President, Peter J. Johnson. During Pete's 41 years with our Company including 15 years as CEO our Company grew substantially, becoming one of the largest Montana-based banks. During his tenure, the Company made five acquisitions, increased the number of branches to 31 from five, and diversified the loan portfolio with a robust agricultural presence. Pete led the company with foresight and good judgment. On behalf of the Board of Directors and our employees, I thank Pete for his leadership. On a personal level, I truly appreciated his support and guidance as we prepared for the change in leadership.

Finally, I want to share a personal highlight. In 2022 I had the opportunity to travel Montana and visit in person our 31 locations and meet with our 430 employees. This journey totaled over 2,000 miles and I found it to be tremendously rewarding. Meeting with our great people and witnessing firsthand their energy, their commitment to putting our customers first and hearing their ideas for how we can do even better was an experience I shall not soon forget. It reaffirmed our core belief that our employees' dedication to customers and communities is essential to our success. I am grateful and thank each of you.

As we close the book on our 100th year, I sincerely appreciate the continuing trust and loyalty that you, our shareholders, have shown. We are working diligently to earn your continued confidence, and we thank you for the privilege of serving you!

Very Sincerely,

Laura F. Clark

Laura F. Clark
President/CEO

EXECUTIVE TEAM

LAURA F. CLARK
President
Chief Executive Officer

RACHEL R. AMDAHL
Senior Vice President
Chief Operations Officer

ALANA M. BINDE
Senior Vice President
Chief Human Resource Officer

LINDA M. CHILTON
Senior Vice President
Chief Retail Officer

DALE F. FIELD
Senior Vice President
Chief Credit Officer

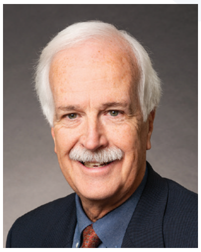
CHANTELLE R. NASH, J.D.
Senior Vice President
Chief Risk Officer
Chief Administrative Officer
Corporate Secretary

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

P. DARRYL RENSMON
Senior Vice President
Chief Operating Officer

MIRANDA J. SPAULDING
Senior Vice President
Chief Financial Officer

BOARD OF DIRECTORS



RICK F. HAYS
Board Chair
Retired
Helena

THOMAS J. MCCARVEL
Vice Chair
Retired
Helena

SHAVON R. CAPE
Co-Founder
JWT Restaurant Group, LLC
Bozeman

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

COREY JENSEN
Retired
Billings

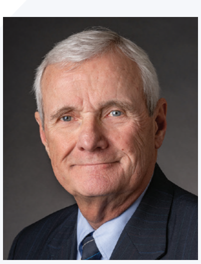
PETER J. JOHNSON
Retired
Helena

BENJAMIN G. RUDDY
Vice President
Agricultural Division Manager
Opportunity Bank of Montana
Great Falls

MAUREEN J. RUDE
Retired
Helena

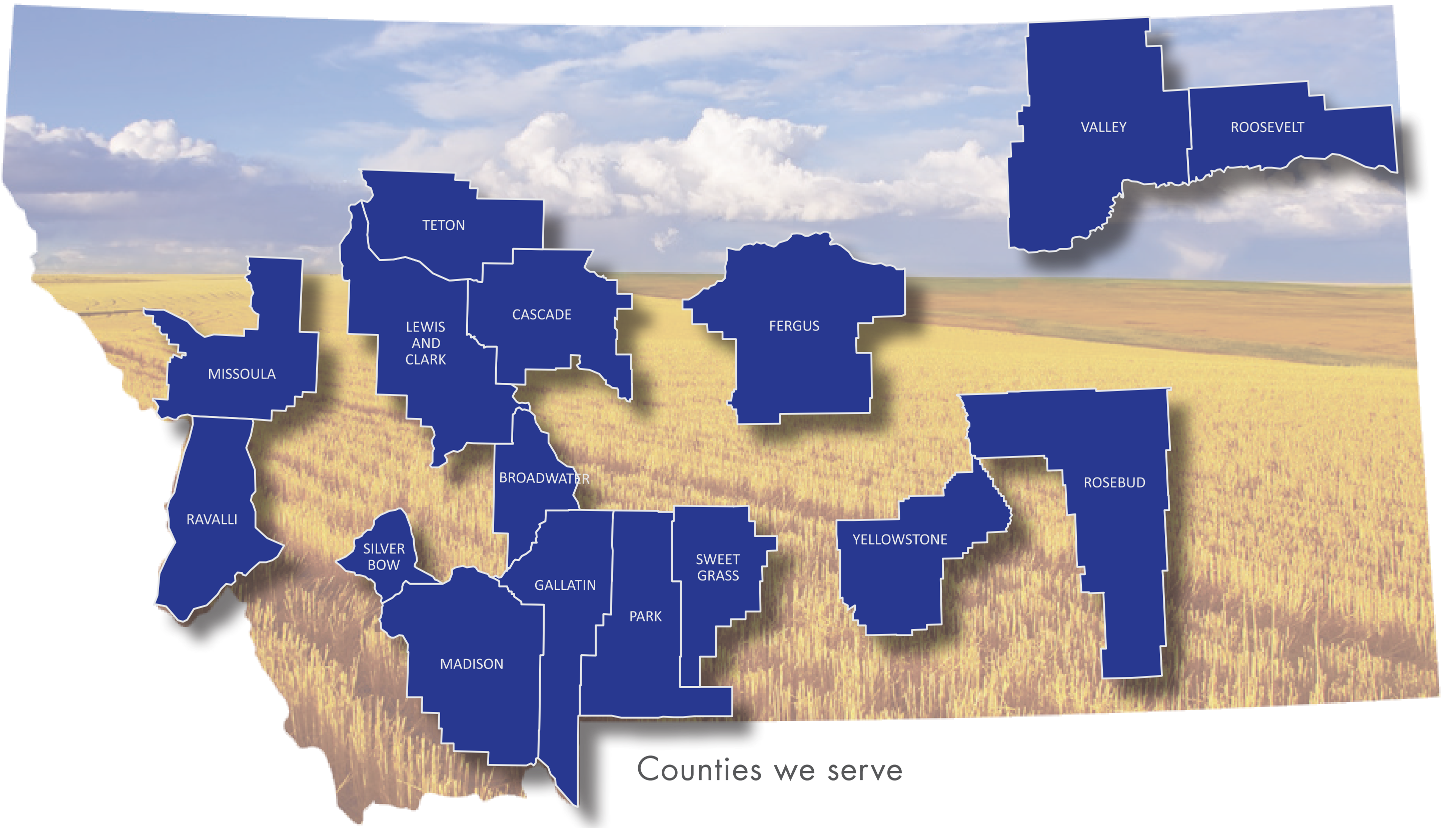
CYNTHIA A. UTTERBACK CPA
Principal
Pinion
Helena

KENNETH M. WALSH
Retired
Twin Bridges



SAMUEL D. WATERS
Business Development Officer
Opportunity Bank of Montana
Glasgow

OUR GROWING FOOTPRINT ACROSS MONTANA



Counties we serve

LOCATIONS

ASHLAND
300 Main St
Ashland MT

BIG TIMBER
101 McLeod St
Big Timber MT

BILLINGS
1112 Shiloh Crossing Blvd
Billings MT

1639 Main St
Billings MT

1005 N 27th St
Billings MT

BOZEMAN
5 W Mendenhall St
Bozeman MT

1455 W Oak St
Bozeman MT

4150 Valley Commons Dr
Bozeman MT

BUTTE
3401 Harrison Ave
Butte MT

CHOTEAU
27 1st St NW
Choteau MT

CULBERTSON
205 Broadway Ave
Culbertson MT

DENTON
423 Broadway Ave
Denton MT

DUTTON
101 Main St W
Dutton MT

FROID
109 Main St
Froid MT

GLASGOW
540 2nd Ave S
Glasgow MT

GREAT FALLS
501 River Dr S
Great Falls MT

HAMILTON
711 S 1st St
Hamilton MT

HELENA
Headquarters
1400 Prospect Ave
Helena MT

28 Neill Ave
Helena MT

2090 Cromwell Dixon Ln
Helena MT

7517 Roughsawn Dr
Helena MT

HINSDALE
203 Montana St
Hinsdale MT

LIVINGSTON
123 S Main St
Livingston MT

MISSOULA
200 N Higgins Ave
Missoula MT

1821 South Ave W
Missoula MT

SHERIDAN
103 N Main St
Sheridan MT

THREE FORKS
120 S Montana St
Three Forks MT

TOWNSEND
400 Broadway St
Townsend MT

TWIN BRIDGES
107 S Main St
Twin Bridges MT

WINIFRED
205 Main St #2
Winifred MT

WOLF POINT
111 3rd Ave S
Wolf Point MT

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, 2022

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	27-1449820
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

1400 Prospect Avenue, Helena, MT 59601
(Address of principal executive offices) (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 ☐	Accelerated filer ☐
Non-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. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10d-1(b). ☐

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, 2022 was $145,646,000. The outstanding number of shares of common stock of Eagle as of February 28, 2023 was 8,006,033.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement relating to its 2023 annual meeting of stockholders ("2023 Proxy Statement") are incorporated by reference into Part III of this Form 10-K. The 2023 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 NOTE REGARDING 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 potential adverse effects of the ongoing novel coronavirus, or COVID-19, pandemic, or other unusual and infrequently occurring events and any governmental or societal responses thereto;
- 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 traditional and non-traditional financial services businesses;
- 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;
- the payment of dividends on our common stock is subject to regulatory supervision as well as the discretion of our Board of Directors, our performance and other factors;
- 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;
- ownership dilution risk associated with potential mergers and acquisitions in which our stock may be issued as consideration for an acquired company;
- 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 and our dependence on the technology of outside service providers;
- 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 and auditing standard setters;
- our ability to appropriately address any environmental, social, governmental and sustainability concerns that may arise from our business activities.

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. We caution that the foregoing list of risk factors is not exclusive and not to place undue reliance on forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Overview

Eagle Bancorp Montana, Inc. (“Eagle” or the “Company”), a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956 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 31 full-service branches and 44 automated teller machines located in our market areas and we participate in the Money Pass® ATM network. The Bank also operated certain branches under the brand names Dutton State Bank, Farmers State Bank of Denton and The State Bank of Townsend. Effective January 3, 2022, these branches were rebranded and are now only operating as Opportunity Bank of Montana.

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

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 April 2022, the Company acquired First Community Bancorp, Inc. ("FCB"), a Montana corporation, and FCB's wholly-owned subsidiary, First Community Bank, a Montana chartered commercial bank. In the transaction, Eagle acquired nine retail bank branches and two loan production offices in Montana. The total consideration paid was $38.58 million and included cash consideration of $10.23 million and common stock issued of $28.35 million.

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.

In January 2019, the Company acquired Big Muddy Bancorp, Inc. (“BMB”).This acquisition included four branches in Townsend, Dutton, Denton and Choteau, Montana. The total consideration paid was $16.44 million of Eagle common stock issued.

In January 2018, the Company acquired TwinCo, Inc. (“TwinCo”). This acquisition included 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.

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 and commercial loan and deposit products in all of its markets. We offer mortgage loans, the majority of which are sold on the secondary market with loan servicing retained. 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, including agricultural loans, as a complement to our single family residential real estate lending while maintaining disciplined credit underwriting standards. As of December 31, 2022, commercial real estate and commercial business loans constituted approximately 78.04% 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 30 other full-service branches located in Ashland, Big Timber, Billings, Bozeman, Butte, Choteau, Culbertson, Denton, Dutton, Froid, Glasgow, Great Falls, Hamilton, Helena, Hinsdale, Livingston, Missoula, Sheridan, Three Forks, Townsend, Twin Bridges, Winifred 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 2020, it had a population of 1.08 million. 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	0.91	9
Fergus, MT	6.35	5
Gallatin, MT	4.84	7
Lewis and Clark, MT	13.34	4
Madison, MT	36.27	2
Missoula, MT	1.81	9
Park, MT	8.83	5
Ravalli, MT	3.29	7
Roosevelt, MT	60.44	1
Rosebud, MT	8.29	3
Silver Bow, MT	11.00	4
Sweet Grass, MT	36.45	2
Teton, MT	18.15	2
Valley, MT	53.71	1
Yellowstone, MT	0.79	9

[1] Source: FDIC.gov-data as of June 30, 2022.

Competition

We face strong competition in our primary market areas for retail deposits and the origination of loans from both banks and non-bank competitors. 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 1.12 million people, there are 45 credit unions in Montana as well as one state-chartered thrift institution and 37 commercial banks as of December 31, 2022. Our most direct competition for depositors has historically come from national banks, super-regional banks, locally owned banks, nontraditional internet based 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, credit unions and government sponsored entities in addition to mortgage bankers and brokers. Through successive acquisitions, the Company has entered several markets in Montana that are predominantly reliant on agriculture. Accordingly, our lending activities in these markets focus on farm and ranch real estate, annual operating lines of credit, and agriculture related term debt. Competition for agricultural loans comes from both traditional Montana banks and an increasing number of nonbank lenders. These nonbank lenders range from government sponsored entities to large national insurance companies.

Technological advances have made it possible for our competitors, including nonbank competitors, to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and internet-based financial solutions, including online deposit accounts, electronic payment processing and marketplace lending, without having a physical presence where their customers are located. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. In many cases, our competitors have substantially greater resources and lending limits and offer certain services that we do not currently provide. 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. Mortgage loan servicing fees were $4.84 million and $4.10 million for the years ended December 31, 2022 and 2021, respectively. Other loan related fee income for late charges and other ancillary fees were $1.01 million and $839,000 for the years ended December 31, 2022 and 2021, 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, 2022, the Bank's balance of 1-4 family mortgage loans was $135.95 million or 10.03% 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, 2022, the Bank had $2.02 billion in residential 1-4 family mortgage loans and $125.08 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 $59.76 million or 4.41% of the Bank's total loan portfolio at December 31, 2022.

Commercial Real Estate Loans

The Bank originates commercial real estate loans including loans on multi-family dwellings. Commercial real estate loans made up 39.76% of the Bank's total loan portfolio, or $539.07 million at December 31, 2022. 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 80.0% 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, 2022 had an outstanding balance of $12.74 million and is collateralized by commercial real estate located in Helena, Montana. At December 31, 2022, 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 $151.15 million or 11.15% of the Bank's total loan portfolio at December 31, 2022. In addition, the bank originates loans secured by farm and ranch real estate. Farmland loans accounted for $136.33 million or 10.06% of the Bank's total loan portfolio at December 31, 2022.

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, 2022, $74.27 million or 5.48% 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, 2022, consumer loans totaled $27.61 million or 2.04% 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 $127.26 million, or 9.39% of the Bank's total loan portfolio at December 31, 2022. Agricultural production loans amounted to $104.04 million, or 7.68% of the Bank's total loan portfolio at December 31, 2022. 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, 2022, the Bank's limit to a single borrower was $30.44 million. Our largest aggregation of loans to one borrower was approximately $28.00 million at December 31, 2022. The total amount subject to the lending limit at December 31, 2022 was $63.82 million. This consisted of seven loans: six commercial real estate loans each secured by a single property and one construction loan secured by a single property. The first commercial real estate loan had a principal balance of $1.53 million at December 31, 2022. As of December 31, 2022, the principal balance on the second commercial real estate loan was $209,000. The third commercial real estate loan had a principal balance of $272,000 as of December 31, 2022. However, another bank is 50.0% participating in this loan for $272,000. The fourth commercial real estate loan had a principal balance of $12.74 million as of December 31, 2022. The fifth commercial real estate loan had a principal balance of $3.95 million as of December 31, 2022.The sixth commercial real estate loan had a principal balance of $9.26 million as of December 31, 2022. The seventh construction loan had a principal balance of $123,000 as of December 31, 2022. However, another bank is 50.0% participating in this loan for $123,000. At December 31, 2022, 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 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. Loan consultants or loan brokers are generally not 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 $7.50 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 $18.60 million as of December 31, 2022.

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 account (“IRA”) certificates 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, and sales training. 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 Texas Independent Bank ("TIB"). Our Federal funds line of credit with Zions Bank was terminated during 2021. In addition, Eagle has a line of credit with Bell Bank.

In January 2022, the Company completed the issuance of $40.00 million in aggregate principal amount of subordinated notes due in 2032 in a private placement transaction to certain institutional accredited investors and qualified buyers. The notes bear interest at an annual fixed rate of 3.50% payable semi-annually. Starting February 1, 2027, 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 218.0 basis points, payable quarterly. The notes are subject to redemption at the option of the Company on or after February 1, 2027. A portion of the net proceeds were used to redeem $10.00 million of senior notes due in February 2022. 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 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 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. These notes were redeemed in February 2022 with proceeds from the subordinated notes issued in January 2022. 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.

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, Western Financial Services, Inc. and Opportunity Housing Fund, LLC, which is a subsidiary of the Bank.

Employees and Human Capital Resources

As of December 31, 2022, we had 399 full-time employees and 29 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good. The Board of Directors oversees the strategic management of our human capital resources. The Human Resources Department's day-to-day responsibility is managing our human capital resources.

Opportunity Bank of Montana is committed to providing equal employment opportunity and maintaining an environment that encourages appropriate conduct among all persons and fosters respect for and inclusion of individuals with diverse perspectives, work experiences, lifestyles, and cultures. Embracing equal employment opportunity and the diversity and inclusion of our workforce helps the Bank achieve its mission and each of us to live our core values.

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 the 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 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. Amid a competitive labor market, we continue to develop and deliver job specific training programs, leadership and coaching opportunities, career development opportunities including tuition reimbursement, and the retention of top talent through succession planning. Whenever possible, we strive to fill vacancies from within. In addition, our internship programs, in partnership with state colleges and technical schools, help ensure a steady pipeline of accomplished talent.

Health and Safety

The safety, health and wellness of our employees is a top priority. Robust wellness initiatives supporting a healthy lifestyle are encouraged through an established employee wellness program. All employees and their dependents have access to an employee assistance program which provides expert referrals and consultation in support of mental well-being.

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 illness.

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.

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 Bank 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.

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 1 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.

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

Federal regulations require Federal Reserve member banks, such as Opportunity Bank of Montana and all other FDIC insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total average assets leverage ratio.

Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of accumulated other comprehensive income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). The Bank exercised its AOCI opt-out election. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien 1-4 family residential mortgage loans, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet each of its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 until fully implemented at 2.5% on January 1, 2019. The Bank's actual capital ratios are set out in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Prompt Corrective Action

Federal law establishes a prompt corrective action framework to resolve the problems of undercapitalized depository institutions. The Federal Reserve has adopted regulations to implement the prompt corrective action legislation. Those regulations were amended effective January 1, 2015 to incorporate the previously mentioned increased regulatory capital standards that were effective on the same date. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Generally, a receiver or conservator must be appointed for an institution that is "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the FDIC within 45 days of the date a commercial bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Various restrictions, such as restrictions on capital distributions and growth, also apply to "undercapitalized" institutions. The Federal Reserve may also take any one of a number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

The Bank was classified as "well-capitalized" under the prompt corrective action framework as of December 31, 2022.

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 common share, measured over the previous four fiscal quarters. Federal regulations also limit 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, 2022, 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.

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, and proxy statements 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

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.

Additionally, financial markets may be adversely affected by the current or anticipated impact of military conflict, including escalating military tension between Russia and Ukraine, terrorism and other geopolitical events.

Our success depends, to a certain extent, upon global, domestic and local economic and political conditions, as well as governmental monetary policies. Conditions such as changes in interest rates, money supply, levels of employment and other factors beyond our control may have a negative impact on economic activity. Any contraction of economic activity, including an economic recession, may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. In particular, interest rates are highly sensitive to many factors that are beyond our control, including global, domestic and local economic conditions and the policies of various governmental and regulatory agencies and, specifically, the Federal Reserve. Throughout 2022 the Federal Open Market Committee ("FOMC") raised the target range for the federal funds rate on seven separate occasions and-citing factors including the hardships caused by the ongoing Russia-Ukraine conflict, continued global supply chain disruptions and imbalances, and increased inflationary pressure-the FOMC has indicated that ongoing increases may be appropriate.

The tightening of the Federal Reserve's monetary policies, including repeated and aggressive increases in target range for the federal funds rate as well as the conclusion of the Federal Reserve's tapering of asset purchases, together with ongoing economic and geopolitical instability, increases the risk of an economic recession. Although forecasts have varied, many economists are projecting that U.S. economic growth will slow and inflation will remain elevated in the coming quarters, potentially resulting in a contraction of U.S. gross domestic output in 2023. Any such downturn, especially domestically and in the regions in which we operate, may adversely affect our asset quality, deposit levels, loan demand and results of operations.

As a result of the economic and geopolitical factors discussed above, financial institutions also face heightened credit risk, among other forms of risk. Of note, because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral, which, in turn, can adversely affect the value of our loan and investment portfolios. Adverse economic developments, specifically including inflation-related impacts, may have a negative effect on the ability of our borrowers to make timely repayments of their loans or to finance future home purchases. Moreover, while commercial real estate values have stabilized as demand has returned to pre-pandemic levels in several markets, the outlook for commercial real estate remains dependent on the broader economic environment and, specifically, how major subsectors respond to a rising interest rate environment and higher prices for commodities, goods and services. In each case, credit performance over the medium- and long-term is susceptible to economic and market forces and therefore forecasts remain uncertain. Instability and uncertainty in the commercial and residential real estate markets, as well as in the broader commercial and retail credit markets, could have a material adverse effect on our financial condition and 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.

Many of our lending products, securities, derivatives, and other financial transactions utilize a benchmark rate, such as LIBOR, to determine the applicable interest rate or payment amount. The U.K. Financial Conduct Authority and the ICE Benchmark Administration have announced that the publication of the most commonly used U.S. Dollar LIBOR tenors will cease to be provided or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be provided or ceased to be representative as of December 31, 2021. The Adjustable Interest Rate (LIBOR) Act (LIBOR Act), enacted in March 2022, provides a statutory framework to replace U. S. Dollar LIBOR with a benchmark rate based on the Secured Overnight Financing Rate ("SOFR") for contracts governed by U.S. law that have no fallbacks or fallbacks that would require the use of a poll or LIBOR-based rate, and in December 2022, the FRB adopted rules which identify different SOFR-based replacement rates for derivative contracts, for cash instruments such as floating-rate notes and preferred stock, for consumer loans, for certain government-sponsored enterprise contracts and for certain asset-backed securities. We continue to monitor market developments and regulatory updates related to the cessation of LIBOR. As the transition from LIBOR is ongoing, there continues to be uncertainty as to the ultimate effect of the transition on the financial markets for LIBOR-linked financial instruments.

The discontinuation of a benchmark rate, changes in a benchmark rate, or changes in market perceptions of the acceptability of a benchmark rate, including LIBOR, could, among other things, adversely affect the value of and return on certain of our financial instruments or products, result in changes to our risk exposures, or require renegotiation of previous transactions. In addition, any such discontinuation or changes, whether actual or anticipated, could result in market volatility, increased compliance, legal and operational costs, and risks associated with customer disclosures and contract negotiations. Although the LIBOR Act includes safe harbors if the FRB-identified SOFR-based replacement rate is selected, these safe harbors are untested. As a result, and despite the enactment of the LIBOR Act, for the most commonly used U.S. Dollar LIBOR settings, the use or selection of a successor rate could also expose us to risks associated with disputes with customers and other market participants in connection with implementing LIBOR fallback provisions.

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.

We are subject to physical and financial risks associated with climate change and other weather and natural disaster impacts.

The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. Although the U.S. rejoined the Paris Agreement, effective as of February 19, 2021, and the U.S. Congress, state legislatures and federal and state regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change, each of which may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes, which may require us to expend significant capital and incur compliance, operating, maintenance and remediation costs. Given the lack of empirical data on the credit and other financial risks posed by climate change, it is impossible to predict how climate change may impact our financial condition and operations; however, as a banking organization, the physical effects of climate change on the Bank may present certain unique risks.

The physical risks of climate change include discrete events, such as flooding, hurricanes, tornadoes, and wildfires, and longer-term shifts in climate patterns, such as extreme heat, sea level rise, and more frequent and prolonged drought. Physical risks may alter the Company's strategic direction in order to mitigate certain financial risks. Our operations are located in Montana and are susceptible to severe weather events including severe droughts, wildfires, floods, severe winter storms and tornadoes. Any of these, or any other severe weather event, could cause disruption to our operations and could have a material adverse effect on our overall business, results of operations or financial condition. We have taken certain preemptive measures that we believe will mitigate these adverse effects; however, such measures cannot prevent the disruption that a catastrophic drought, wildfire, tornado or other severe weather event could cause to the markets that we serve and any resulting adverse impact on our customers, such as hindering our borrowers' ability to timely repay their loans, diminishing the value of any collateral held by us, interrupting supply chains, causing significant property damage, causing us to incur additional expense or resulting in a loss of revenue, and affecting the stability of our deposit base. The severity and impact of future droughts, wildfires, floods, tornadoes and other weather-related events are difficult to predict and may be exacerbated by global climate change. Such events may also cause reductions in regional and local economic activity that may have an adverse effect on our customers, which could limit our ability to raise and invest capital in these areas and communities, each of which could have a material adverse effect on our financial condition and results of operations.

Climate change may worsen the frequency and severity of future droughts, wildfires, floods, tornadoes and other extreme weather-related events that could cause disruption to our business and operations. Chronic results of climate change such as shifting weather patterns could also cause disruption to our business and operations. Climate change may also result in new and/or more stringent regulatory requirements for the Company, which could materially affect the Company's results of operations by requiring the Company to take costly measures to comply with any new laws or regulations related to climate change that may be forthcoming. New regulations, shift in customer behaviors, supply chain collapse or breakthrough technologies that accelerate the transition to a lower carbon economy may negatively affect certain sectors and borrowers in our loan portfolio, impacting their ability to timely repay their loans or decreasing the value of any collateral held by us.

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which are highly uncertain and are difficult to predict.

While COVID-19 conditions have improved, past and potential future government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment, and lingering economic uncertainty and reduced economic activity remains.

New strains of the virus could adversely impact our workforce and operations and the operations of our borrowers, customers and business partners. As a result, we may experience financial losses due to a number of operational factors impacting us or our borrowers, customers or business partners. These factors may be prevalent for a significant period of time and may adversely affect our business, results of operations and financial condition even after the COVID-19 outbreak has subsided.

Renewed spread of COVID-19 could cause us to modify our business practices (including restricting employee travel, and developing work from home and social distancing plans for our employees), and we may take further actions if required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures would be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities.

The extent to which the COVID-19 outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak and its variants, its severity, the actions to contain the virus or treat its impact, the effectiveness of vaccination programs for the virus, vaccination rates, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak 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. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described herein.

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. Our consolidated balance sheet at December 31, 2022 included goodwill of $34.74 million. 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.

Many of our commercial real estate and commercial business loans are made to small-to-mid-sized businesses. These small-to-mid-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small-to-mid-sized business often depends on the management talents and efforts of one or two persons or a small group of persons and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could have an adverse effect on our business, financial condition and results of operations.

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 mortgage banking activities provide a significant portion of our noninterest income. We originate and sell mortgage loans, including $551.02 million of mortgage loans sold during 2022. 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.

Changes in interest rates may change the value of our mortgage servicing rights portfolio, which may increase the volatility of our earnings.

As a result of our mortgage servicing business, which we may expand in the future, we have a portfolio of mortgage servicing rights ("MSR") assets. An MSR is the right to service a mortgage loan - collect principal, interest and escrow amounts - for a fee. We measure and carry all of our residential MSR assets using the fair value measurement method. Fair value is determined as the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers.

Current trends of rising interest rates have resulted in an increased valuation of the MSR asset, however one of the principal risks associated with MSR assets is that in a declining interest rate environment, they will likely lose a substantial portion of their value as a result of higher than anticipated prepayments. Moreover, if prepayments are greater than expected, the cash we receive over the life of the mortgage loans would be reduced.

An increased size of our MSR portfolio could result in us carrying significant asset balances. This could result in a reduction in our liquidity and cause a reduction in our capital ratios. The combination of these impacts along with other impacts, could cause us to not have sufficient liquidity or capital.

At December 31, 2022, our MSR asset had a fair value of $15.41 million. All income related to retained servicing, including changes in the value of the MSR asset, is included in noninterest income. Depending on the interest rate environment and market trends related to MSR sales, it is possible that the fair value of our MSR asset may be reduced in the future. If such changes in fair value significantly reduce the carrying value of our MSR asset, our financial condition and results of operations would be negatively affected.

Farmland and agriculture production lending presents unique credit risk.

As of December 31, 2022, approximately 17.73% of our total gross loan portfolio was comprised of farmland and agricultural production loans. As of December 31, 2022, we had $240.37 million in farmland and agricultural production loans, including $136.33 million in farmland loans, and $104.04 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 a 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.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Rights Related to the Legal and Regulatory Environment

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including any future acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have an adverse effect on our business, financial condition and results of operations.

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, 2022 was $5.09 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, 2022, the Bank conducted its business through 34 locations; including 31 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.

	Occupancy Type		
Locations	Owned	Leased	Total Locations
Ashland, Montana	1	-	1
Big Timber, Montana	1	-	1
Billings, Montana	3	-	3
Bozeman, Montana	2	1	3
Butte, Montana	1	-	1
Choteau, Montana	1	-	1
Culbertson, Montana	1	-	1
Denton, Montana	1	-	1
Dutton, Montana	1	-	1
Froid, Montana	1	-	1
Glasgow, Montana	1	-	1
Great Falls, Montana	-	1	1
Hamilton, Montana	1	-	1
Helena, Montana	5	1	6
Hinsdale, Montana	1	-	1
Livingston, Montana	1	-	1
Missoula, Montana	1	2	3
Sheridan, Montana	1	-	1
Three Forks, Montana	1	-	1
Townsend, Montana	1	-	1
Twin Bridges, Montana	1	-	1
Winifred, Montana	-	1	1
Wolf Point, Montana	1	-	1
Total	**28**	**6**	**34**

Management believes all locations are in good condition and meet the operating needs of the Company. 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, 2022, there were 8,006,033 shares of common stock outstanding, held by approximately 997 shareholders of record. The closing price of the common stock on December 31, 2022, was $16.16 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.

Because we are a bank holding company and do not engage directly in business activities of a material nature, our ability to pay dividends to our stockholders depends, in large part, upon our receipt of dividends from our bank subsidiary, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. The present and future dividend policy of our bank subsidiary is subject to the discretion of its Board. Our subsidiary bank is not obligated to pay dividends.

On April 21, 2022, Eagle's Board of Directors (the "Board") authorized the repurchase of up to 400,000 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 second quarter of 2022, 5,000 shares were purchased under this plan at an average price of $19.75. During the third quarter of 2022, 99,517 shares were purchased under this plan at an average price of $19.45. The following table summarizes the Company's purchase of its common stock for the three months ended December 31, 2022 under this plan. The plan expires on April 21, 2023.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2022 through October 31, 2022	6,608	$ 18.80	6,608	288,875
November 1, 2022 through November 30, 2022	-	-	-	288,875
December 1, 2022 through December 31, 2022	-	-	-	288,875
Total	6,608	$ 18.80	6,608	

On July 22, 2021, 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 during the year ended December 31, 2021. However, during the first quarter of 2022, the Company purchased the total authorized amount of 100,000 shares at an average price of $22.71 per share. The plan expired on July 22, 2022.

On July 23, 2020, 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. 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 fourth quarter of 2020 or during 2021. The plan expired on July 23, 2021.

ITEM 6. [RESERVED]

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.

Introduction

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") describes Eagle and its subsidiaries' results of operations for the year ended December 31, 2022 as compared to the year ended December 31, 2021, and also analyzes our financial condition as of December 31, 2022 as compared to December 31, 2021. Like most banking institutions, our principal business consists 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, 2022, commercial real estate and commercial business loans represented 60.97% and 17.07% 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, 2022, we had mortgage servicing rights, net of $15.41 million compared to $13.69 million as of December 31, 2021. 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 held the federal funds target rate at 0.25% during the year ended December 31, 2021. The rate increased to 4.50% during the year ended December 31, 2022.

Acquisitions

The Bank has used growth through mergers or acquisition, in addition to its strategy of organic growth.

In April 2022, Eagle acquired First Community Bancorp, Inc. ("FCB"), a Montana corporation, and FCB's wholly-owned subsidiary, First Community Bank, a Montana chartered commercial bank. In the transaction, Eagle acquired nine retail bank branches and two loan production offices in Montana.

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.

Critical Accounting Policies and Estimates

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

The allowance for loan losses is the estimated amount considered necessary to absorb losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged against income. The provision for loan losses reflects the amount required to maintain the allowance for loan losses at an appropriate level based upon management's evaluation of the adequacy of loss reserves. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded 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. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired, and have been individually evaluated. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable), and payment history. Using a three-year lookback period, historical loss experience, delinquency trends and general economic conditions are analyzed. Separately evaluated but also taken into consideration are call report, geographic, and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations.

In addition, as an integral part of their examination process, banking regulators 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. 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.

For the year ended December 31, 2022, we followed the incurred loss methodology for determining our allowance for loan losses. We will adopt the current expected credit losses ("CECL") standard for determining the amount of our allowance for credit losses beginning January 1, 2023.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting. The Company records assets acquired, including identifiable intangible assets and liabilities assumed at their fair values as of the acquisition date. Transaction costs related to the acquisition are expensed in the period incurred. Results of operations of the acquired entity are included in the consolidated statements of income from the date of acquisition. Any measurement-period adjustments are recorded in the period the adjustment is identified.

The excess of consideration paid over fair value of net assets acquired is recorded as goodwill. Determining the fair value of assets acquired, including identifiable intangible assets and liabilities assumed often requires significant use of estimates and assumptions. This may involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques such as estimates of attrition, inflation, asset growth rates, discount rates, multiples of earnings or other relevant factors. Goodwill is not amortized but is tested at least annually for impairment. Other intangible assets are assigned useful lives and amortized. The determination of useful lives is subjective. See Note 2 and 7 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” for further information.

The Company's accounting policies and discussion of recent accounting pronouncements is included in Note 1 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

Financial Condition

December 31, 2022 compared to December 31, 2021

Total assets were $1.95 billion at December 31, 2022, an increase of $512.45 million, or 35.7% from $1.44 billion at December 31, 2021. The increase was largely due to the FCB acquisition in April 2022, primarily reflected in loans receivable. Loans receivable, net increased by $419.04 million or 45.5%, to $1.34 billion at December 31, 2022 from $920.64 million at December 31, 2021. In addition, securities available-for-sale increased by $78.24 million from $271.26 million at December 31, 2021. Total liabilities were $1.79 billion at December 31, 2022, an increase of $510.77 million, or 39.9%, from $1.28 billion at December 31, 2021. The increase in liabilities was mainly due to an increase in deposits. Total deposits increased by $412.72 million from December 31, 2021, $321.11 million of which were brought on from the FCB acquisition. FHLB advances and other borrowings also increased $64.39 million from December 31, 2021. Total shareholders' equity increased by $1.69 million from December 31, 2021.

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, 2022 or 2021. 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 $5.09 million and $1.70 million at December 31, 2022 and 2021, respectively. FRB stock was $4.13 million and $2.97 million at December 31, 2022 and 2021, respectively.

The following table summarizes investment activities:

	December 31,					
	2022		2021		2020	
	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 and agency obligations	$ 2,390	0.68%	$ 1,633	0.60%	$ 2,245	1.38%
U.S. treasury obligations	51,951	14.86	53,183	19.61	5,657	3.47
Municipal obligations	172,849	49.47	123,667	45.58	99,088	60.81
Corporate obligations	6,990	2.00	9,336	3.44	10,663	6.54
Mortgage-backed securities	29,653	8.48	14,636	5.40	7,669	4.71
Collateralized mortgage obligations	82,131	23.50	63,067	23.25	31,189	19.14
Asset-backed securities	3,531	1.01	5,740	2.12	6,435	3.95
Total securities available-for-sale	$349,495	100.00%	$271,262	100.00%	$162,946	100.00%

Securities available-for-sale were $349.50 million at December 31, 2022, an increase of $78.24 million, or 28.8%, from $271.26 million at December 31, 2021. The FCB acquisition included acquired securities of $126.12 million. However, immediately following the acquisition, a restructure of FCB's portfolio was incurred to better align the acquired portfolio with Eagle's investment strategy. Excluding securities acquired, securities decreased by $47.89 million. The decrease was primarily due to unrealized losses at December 31, 2022 resulting from increased interest rates. In addition, the decrease was impacted by sales, maturity, principal payments and call activity, which were largely offset by purchases.

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, 2022										
	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	Approximate Market Value	Weighted Average Yield
	(Dollars in Thousands)										
Securities available-for-sale:											
U.S. government and agency obligations	$ -	0.00%	$ -	0.00%	$ 2,390	3.94%	$ -	0.00%	$ 2,390	$ 2,390	2.94%
U.S. treasury obligations	6,270	1.20	4,699	2.78	40,982	1.46	-	0.00	51,951	51,951	1.55
Municipal obligations	4,932	2.97	12,890	2.99	34,905	2.86	120,122	3.58	172,849	172,849	3.37
Corporate obligations	2,995	5.59	956	3.00	3,039	4.99	-	0.00	6,990	6,990	3.97
Mortgage-backed securities	1,250	2.39	4,318	3.52	4,046	3.40	20,039	3.79	29,653	29,653	3.14
Collateralized mortgage obligations	-	0.00	8,859	3.51	1,168	3.55	72,104	3.33	82,131	82,131	3.36
Asset-backed securities	-	0.00	-	0.00	-	0.00	3,531	5.47	3,531	3,531	5.47
Total securities available-for-sale	$15,447	2.71%	$31,722	3.18%	$86,530	2.34%	$215,796	3.55%	$349,495	$ 349,495	3.11%

Lending Activities

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

	December 31,									
	2022		2021		2020		2019		2018	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)									
Real estate loans:										
Residential 1-4 family [1]	$ 135,947	10.03%	$ 101,180	10.82%	$ 110,802	13.14%	$ 119,296	15.28%	$ 116,939	18.92%
Residential 1-4 family construction	59,756	4.41	45,635	4.88	46,290	5.49	38,602	4.95	27,168	4.40
Total residential 1-4 family	195,703	14.44	146,815	15.70	157,092	18.63	157,898	20.23	144,107	23.32
Commercial real estate	539,070	39.76	410,568	43.92	316,668	37.56	331,062	42.41	256,784	41.54
Commercial construction and development	151,145	11.15	92,403	9.88	65,281	7.74	52,670	6.75	41,739	6.75
Farmland	136,334	10.06	67,005	7.17	65,918	7.82	50,293	6.44	29,915	4.84
Total commercial real estate	826,549	60.97	569,976	60.97	447,867	53.12	434,025	55.60	328,438	53.13
Total real estate loans	1,022,252	75.41	716,791	76.67	604,959	71.75	591,923	75.83	472,545	76.45
Other loans:										
Home equity	74,271	5.48	51,748	5.54	56,563	6.71	56,414	7.23	52,159	8.44
Consumer	27,609	2.04	18,455	1.97	20,168	2.39	18,882	2.42	16,565	2.68
Commercial	127,255	9.39	101,535	10.86	109,209	12.95	72,797	9.33	59,053	9.56
Agricultural	104,036	7.68	46,335	4.96	52,242	6.20	40,522	5.19	17,709	2.87
Total commercial loans	231,291	17.07	147,870	15.82	161,451	19.15	113,319	14.52	76,762	12.43
Total other loans	333,171	24.59	218,073	23.33	238,182	28.25	188,615	24.17	145,486	23.55
Total loans	1,355,423	100.00%	934,864	100.00%	843,141	100.00%	780,538	100.00%	618,031	100.00%
Deferred loan fees	(1,745)		(1,725)		(2,038)		(1,303)		(1,098)	
Allowance for loan losses	(14,000)		(12,500)		(11,600)		(8,600)		(6,600)	
Total loans, net	$ 1,339,678		$ 920,639		$ 829,503		$ 770,635		$ 610,333	

[1] Excludes loans held-for-sale

Loans receivable, net increased $419.04 million, or 45.5%, to $1.34 billion at December 31, 2022 from $920.64 million at December 31, 2021. The increase was impacted by the FCB acquisition, which included $190.89 million of acquired loans. Excluding acquired loans, loans receivable, net increased by $228.15 million. Including acquired loans, total commercial real estate loans increased $256.57 million, total commercial loans increased $83.42 million, total residential loans increased $48.88 million, home equity loans increased $22.52 million and consumer loans increased $9.15 million.

Total loan originations were $1.13 billion for the year ended December 31, 2022. Total residential 1-4 family originations were $635.03 million, which includes $532.56 million of originations of loans held-for-sale. Total commercial real estate originations were $315.35 million. Total commercial originations were $124.92 million. Home equity loan originations totaled $39.79 million. Consumer loan originations totaled $14.97 million. Loans held-for-sale decreased by $17.57 million, to $8.25 million at December 31, 2022 from $25.82 million at December 31, 2021.

Loan Maturities. The following table sets forth the estimated maturity of the loan portfolio of the Bank at December 31, 2022. 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	After One Year to Five Years	After Five Years to Fifteen Years	After Fifteen Years	Total
Total residential 1-4 family [(1)]	$ 53,066	$ 5,388	$ 24,663	$ 112,586	$ 195,703
Total commercial real estate	70,429	38,793	172,134	545,193	826,549
Home equity	4,328	22,435	46,158	1,350	74,271
Consumer	1,745	18,339	7,206	319	27,609
Total Commercial	74,760	79,614	73,815	3,102	231,291
Total loans [(1)]	$ 204,328	$ 164,569	$ 323,976	$ 662,550	$ 1,355,423

[(1)] Excludes loans held-for-sale

The following table includes loans by fixed or adjustable rates at December 31, 2022:

	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Due after December 31, 2022			
Total residential 1-4 family [(1)]	$ 44,719	$ 97,918	$ 142,637
Total commercial real estate	117,848	638,272	756,120
Home equity	4,058	65,885	69,943
Consumer	24,275	1,589	25,864
Total commercial	100,778	55,753	156,531
Total due after December 31, 2022	291,677	859,417	1,151,095
Due in less than one year	150,280	54,048	204,328
Total loans [(1)]	$ 441,958	$ 913,465	$ 1,355,423
Percent of total	32.61%	67.39%	100.00%

[(1)] Excludes loans held-for-sale

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

	December 31, 2022					
	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	7	$ 1,798	32.02%	1	$ 330	30.67%
Residential 1-4 family construction	2	500	8.91	-	-	0.00
Commercial real estate	2	780	13.89	-	-	0.00
Farmland	6	1,620	28.86	-	-	0.00
Other loans:						
Home equity	4	226	4.03	-	-	0.00
Consumer	58	93	1.66	-	-	0.00
Commercial	8	597	10.63	2	746	69.33
Total	87	$ 5,614	100.00%	3	$ 1,076	100.00%

Nonperforming Assets. The following table sets forth information regarding nonperforming assets:

	December 31, 2022	2021	2020	2019	2018
	(Dollars in Thousands)				
Non-accrual loans					
Real estate loans:					
Residential 1-4 family	$ 483	$ 616	$ 684	$ 618	$ 253
Residential 1-4 family construction	-	337	337	337	634
Commercial real estate	350	497	631	583	432
Commercial construction and development	-	-	36	50	13
Farmland	143	989	2,245	323	-
Other loans:					
Home equity	96	100	94	78	469
Consumer	25	62	151	156	127
Commercial	44	516	537	750	308
Agricultural	1,059	1,718	1,542	499	32
Accruing loans delinquent 90 days or more					
Real estate loans:					
Residential 1-4 family	330	-	34	4	130
Residential 1-4 family construction	-	-	170	-	-
Commercial real estate	-	-	-	-	1,347
Other loans:					
Commercial	746	-	6	-	-
Agricultural	-	-	182	1,805	-
Restructured loans					
Real estate loans:					
Commercial real estate	3,264	1,527	1,633	-	-
Commercial construction and development	-	-	14	-	-
Farmland	611	641	-	153	-
Other loans:					
Home equity	11	15	17	20	22
Commercial	140	-	-	74	-
Agricultural	476	41	160	-	-
Total nonperforming loans	7,778	7,059	8,473	5,450	3,767
Real estate owned and other repossessed property, net	-	4	25	26	107
Total nonperforming assets	$ 7,778	$ 7,063	$ 8,498	$ 5,476	$ 3,874
Total nonperforming loans to total loans	0.57%	0.76%	1.00%	0.70%	0.61%
Total nonperforming loans to total assets	0.40%	0.49%	0.67%	0.52%	0.44%
Total nonaccrual loans to total loans	0.24%	0.59%	0.74%	0.47%	0.37%
Total nonperforming assets to total assets	0.40%	0.49%	0.68%	0.52%	0.45%

Nonaccrual loans as of December 31, 2022 and 2021 include $694,000 and $492,000, respectively of acquired loans that deteriorated subsequent to the acquisition date. During the year ended December 31, 2022 and 2021, an insignificant amount of interest was recorded on loans previously accounted for on a nonaccrual basis.

During the year ended December 31, 2022, the Bank sold three real estate owned and other repossessed assets resulting in a net gain of $185,000. There was one write-up on real estate owned and other repossessed assets for a gain of $18,000 during the year ended December 31, 2022. During the year ended December 31, 2021, the Bank sold three real estate owned and other repossessed assets resulting in a net gain of $12,000. There was one write-up on real estate owned and other repossessed assets for a gain of $10,000 during the year ended December 31, 2021.

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 equaling 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, 2022				
	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)				
Real estate loans:					
Residential 1-4 family	$ 515	$ 353	$ -	$ -	$ 868
Residential 1-4 family construction	-	-	-	-	-
Commercial real estate	16,833	1,732	-	-	18,565
Commercial construction and development	1,044	-	-	-	1,044
Farmland	2,232	2,456	-	-	4,688
Other loans:					
Home equity	-	124	-	-	124
Consumer	10	39	-	-	49
Commercial	1,476	736	8	-	2,220
Agricultural	311	2,182	102	-	2,595
Total loans	22,421	7,622	110	-	30,153
Real estate owned/repossessed property, net					-
					$ 30,153

	December 31, 2021				
	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)				
Real estate loans:					
Residential 1-4 family	$ -	$ 301	$ 199	$ -	$ 500
Residential 1-4 family construction	-	337	-	-	337
Commercial real estate	1,527	2,145	-	-	3,672
Commercial construction and development	-	-	-	-	-
Farmland	177	1,744	47	-	1,968
Other loans:					
Home equity	-	134	-	-	134
Consumer	-	63	-	-	63
Commercial	130	524	-	-	654
Agricultural	332	1,444	9	-	1,785
Total loans	2,166	6,692	255	-	9,113
Real estate owned/repossessed property, net					4
					$ 9,117

The increase in special mention for commercial real estate of $15.30 million from December 31, 2021 to December 31, 2022 was largely related to one customer relationship. The outstanding balance of $10.08 million at December 31, 2022 was paid off during the three months ended March 31, 2023.

Allowance for Loan Losses. 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 and national economy.

At least quarterly, the management of the Bank evaluates the need to establish an allowance for 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.

Provisions for, or adjustments to, estimated losses are included in earnings in the period they are established. At December 31, 2022, we had $14.00 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, 2022	2021	2020
	(Dollars in Thousands)		
Beginning balance	$ 12,500	$ 11,600	$ 8,600
Provision for loan losses	2,001	861	3,130
Charge-offs			
Residential 1-4 Family	(199)	-	-
Commercial real estate	-	(35)	(18)
Home equity	(32)	-	-
Consumer	(31)	(16)	(36)
Commercial	(299)	(6)	(173)
Recoveries			
Residential 1-4 Family	4	-	-
Commercial real estate	30	21	12
Home equity	-	-	-
Consumer	4	8	16
Commercial	22	67	69
Net loan (recoveries) charge-offs	s (501)	39	(130)
Ending balance	$ 14,000	$ 12,500	$ 11,600
Allowance for loan losses to total loans excluding loans held-for-sale	1.03%	1.34%	1.38%
Allowance for loan losses to total nonperforming loans	179.99%	177.08%	136.91%
Allowance for loan losses to nonaccrual loans	424.50%	227.65%	184.89%
Net (recoveries) charge-offs to average loans outstanding during the period	-0.04%	0.00%	-0.01%

Net charge-offs to average loans outstanding for each loan category are considered insignificant for the periods presented in the table above.

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, 2022			2021			2020		
	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans
	(Dollars in Thousands)								
Real estate loans:									
Residential 1-4 family	$ 1,472	10.51%	14.44%	$ 1,596	12.77%	15.70%	$ 1,506	12.98%	18.63%
Commercial real estate	9,037	64.55	60.97	7,470	59.76	60.97	6,951	59.92	53.12
Total real estate loans	10,509	75.06	75.41	9,066	72.53	76.67	8,457	72.90	71.75
Other loans:									
Home equity	509	3.64	5.48	533	4.26	5.54	515	4.44	6.71
Consumer	342	2.44	2.04	365	2.92	1.97	364	3.14	2.39
Commercial	2,640	18.86	17.07	2,536	20.29	15.82	2,264	19.52	19.15
Total other loans	3,491	24.94	24.59	3,434	27.47	23.33	3,143	27.10	28.25
Total	$14,000	100.00%	100.00%	$12,500	100.00%	100.00%	$11,600	100.00%	100.00%

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 a 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 $1.41 billion or 86.1% of the Bank's total deposits at December 31, 2022 ($1.38 billion or 84.4% excluding IRA certificates of deposit). The presence of a high percentage of core deposits and, in particular, transaction accounts reflects in part of our strategy to restructure our liabilities to more closely resemble the lower cost of 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,								
	2022			2021			2020		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in Thousands)								
Noninterest checking	$ 468,955	28.68%	0.00%	$ 368,846	30.16%	0.00%	$ 318,389	30.82%	0.00%
Interest-bearing checking	252,922	15.47	0.11	203,410	16.64	0.02	160,614	15.55	0.02
Savings	273,790	16.74	0.06	223,069	18.25	0.06	179,868	17.41	0.06
Money market	387,947	23.72	1.12	277,469	22.7	0.25	202,407	19.59	0.24
Total	1,383,614	84.61	0.34	1,072,794	87.75	0.08	861,278	83.37	0.07
Certificates of deposit accounts:									
IRA certificates	24,907	1.52	0.48	25,333	2.07	0.44	24,693	2.39	0.50
Brokered certificates	-	0.00	0.00	-	0.00	0.00	495	0.05	1.35
Other certificates	226,751	13.87	1.51	124,422	10.18	0.38	146,617	14.19	0.71
Total certificates of deposit	251,658	15.39	1.41	149,755	12.25	0.39	171,805	16.63	0.68
Total deposits	$1,635,272	100.00%	0.50%	$1,222,549	100.00%	0.12%	$1,033,083	100.00%	0.18%

Deposits increased by $412.72 million, or 33.8%, to $1.64 billion at December 31, 2022 from $1.22 billion at December 31, 2021. A large portion of the deposit increase was due to the FCB acquisition, which brought on $321.11 million in deposits. Excluding acquired deposits, total deposits increased by $91.61 million. Including acquired deposits, money market increased by $110.48 million, certificates of deposits increased by $101.90 million, noninterest checking increased by $100.11 million, savings increased by $50.72 million, and interest-bearing checking increased by $49.51 million.

At December 31, 2022 and 2021, the Company held $642.02 million and $444.89 million, respectively, in deposit accounts that met or exceeded the Federal Deposit Insurance Corporation ("FDIC") requirements of $250,000 and greater.

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, 2022:

	Balance $250,000 and Greater
	(In Thousands)
3 months or less	$ 33,410
Over 3 to 6 months	4,550
Over 6 to 12 months	11,557
Over 12 months	15,686
Total	$ 65,203

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. The Bank has Federal funds lines of credit with PCBB, PNC, TIB and UBB. Eagle has a line of credit with Bell Bank.

Advances from FHLB and other borrowings increased by $64.39 million to $69.39 million at December 31, 2022 from $5.00 million at December 31, 2021. The increase was related to funding loan growth. The weighted average rate for borrowings was 4.52% as of December 31, 2022, compared to 1.81% at December 31, 2021.

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

	December 31, 2022		December 31, 2021	
	Net Amount	Percent of Total	Net Amount	Percent of Total
	(Dollars in Thousands)			
Senior notes fixed at 5.75%, due 2022	$ -	0.00%	$ 9,996	33.47%
Subordinated debentures fixed at 5.50% to floating, due 2030	14,751	25.07	14,718	49.27
Subordinated debentures fixed at 3.50% to floating, due 2032	38,938	66.17	-	0.00
Subordinated debentures variable at 3-Month Libor plus 1.42%, due 2035	5,155	8.76	5,155	17.26
Total other long-term debt, net	$ 58,844	100.00%	$ 29,869	100.00%

Total other long-term debt was $58.84 million at December 31, 2022 compared to $29.87 million at December 31, 2021. This increase of $28.97 million primarily resulted from the issuance of $40.00 million of subordinated notes, slightly offset by the redemption of $10.00 million of senior notes.

Shareholders' Equity

Total shareholders' equity increased slightly by $1.69 million or 1.1%, to $158.42 million at December 31, 2022 from $156.73 million at December 31, 2021. This increase was primarily the result of stock issued in connection with the FCB acquisition of $28.35 million in addition to net income of $10.70 million. The increase was largely offset by an increase in other comprehensive loss of $29.85 million, net of tax, related to net unrealized losses in securities available-for-sale, reflecting increases in market interest rates, as well as treasury stock purchases of $4.43 million and dividends paid of $4.06 million.

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, 2022			Year Ended December 31, 2021			Year Ended December 31, 2020		
	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	$ 336,779	$ 8,579	2.55 %	$ 215,978	$ 4,238	1.96 %	$ 166,577	$ 3,742	2.24 %
FHLB and FRB stock	6,369	302	4.74	4,831	255	5.28	6,534	370	5.65
Loans receivable[1]	1,194,788	60,353	5.05	914,804	45,134	4.93	874,669	45,381	5.17
Other earning assets	34,170	228	0.67	74,102	120	0.16	44,771	161	0.36
Total interest earning assets	1,572,106	69,462	4.42	1,209,715	49,747	4.11	1,092,551	49,654	4.54
Noninterest earning assets	196,813			147,534			127,339		
Total assets	$ 1,768,919			$ 1,357,249			$ 1,219,890		
Liabilities and equity:									
Interest-bearing liabilities:									
Deposit accounts:									
Checking	$ 244,208	$ 173	0.07 %	$ 190,645	$ 47	0.02 %	$ 151,745	$ 58	0.04 %
Savings	269,033	128	0.05	198,648	117	0.06	154,224	145	0.09
Money market	358,122	1,711	0.48	244,113	545	0.22	169,531	473	0.28
Certificates of deposit	188,954	1,112	0.59	158,959	765	0.48	213,696	2,938	1.37
FHLB advances and other borrowings	14,627	514	3.51	9,411	175	1.86	76,119	1,183	1.55
Other long-term debt	59,807	2,512	4.20	29,834	1,558	5.22	28,593	1,687	5.88
Total interest-bearing liabilities	1,134,751	6,150	0.54	831,610	3,207	0.39	793,908	6,484	0.81
Noninterest checking	453,841			346,243			265,304		
Other noninterest-bearing liabilities	24,672			22,382			19,518		
Total liabilities	1,613,264			1,200,235			1,078,730		
Total equity	155,655			157,014			141,160		
Total liabilities and equity	$ 1,768,919			$ 1,357,249			$ 1,219,890		
Net interest income/interest rate spread[2]		$ 63,312	3.88 %		$ 46,540	3.72 %		$ 43,170	3.73 %
Net interest margin[3]			4.03 %			3.85 %			3.94 %
Total interest earning assets to interest-bearing liabilities			138.54 %			145.47 %			137.62 %

(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.

	Year Ended December 31, 2022			Year Ended December 31, 2021		
	Volume	Due to Rate	Net	Volume	Due to Rate	Net
	(In Thousands)					
Interest earning assets:						
Investment securities	$ 2,370	$ 1,971	$ 4,341	$ 1,110	$ (614)	$ 496
FHLB and FRB stock	81	(34)	47	(96)	(19)	(115)
Loans receivable[1]	13,814	1,405	15,219	2,082	(2,329)	(247)
Other earning assets	(65)	173	108	105	(146)	(41)
Total interest earning assets	16,200	3,515	19,715	3,201	(3,108)	93
Interest-bearing liabilities:						
Checking	13	113	126	15	(26)	(11)
Savings	41	(30)	11	42	(70)	(28)
Money market	255	911	1,166	208	(136)	72
Certificates of deposit	144	203	347	(753)	(1,420)	(2,173)
FHLB advances and other borrowings	97	242	339	(1,037)	29	(1,008)
Other long-term debt	1,565	(611)	954	73	(202)	(129)
Total interest-bearing liabilities	2,115	828	2,943	(1,452)	(1,825)	(3,277)
Change in net interest income	$ 14,085	$ 2,687	$ 16,772	$ 4,653	$ (1,283)	$ 3,370

[1] Includes loans held-for-sale.

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 2022 and 2021

Net Income

Eagle's net income for the year ended December 31, 2022 was $10.70 million compared to $14.42 million for the year ended December 31, 2021. The decrease of $3.72 million was primarily due to a decrease in noninterest income of $19.96 million. This decrease was largely offset by an increase in net interest income after loan loss provision of $15.63 million. Basic and diluted earnings per common share were both $1.45 for the year ended December 31, 2022. Basic and diluted earnings per common share were both $2.17 for the prior period.

Net Interest Income

Net interest income increased to $63.31 million for the year ended December 31, 2022, from $46.54 million for the year ended December 31, 2021. This increase of $16.77 million, or 36.0%, was primarily the result of an increase in interest and dividend income of $19.71 million. This increase was offset by an increase in interest expense of $2.94 million.

Interest and Dividend Income

Interest and dividend income was $69.46 million for the year ended December 31, 2022, compared to $49.75 million for the year ended December 31, 2021, an increase of $19.71 million, or 39.6%. Interest and fees on loans increased to $60.35 million for the year ended December 31, 2022 from $45.13 million for the same period ended December 31, 2021. This increase of $15.22 million, or 33.7%, was largely due to an increase in the average balance of loans. Average balances for loans receivable, including loans held-for-sale, for the year ended December 31, 2022 were $1.19 billion, compared to $914.80 million for the year ended December 31, 2021. This increase of $279.99 million, or 30.6% was impacted by the FCB acquisition, as well as organic growth. In addition, the average interest rate earned on loans receivable increased by 12 basis points, from 4.93% for the year ended December 31, 2021, to 5.05% for the year ended December 31, 2022. Interest accretion on purchased loans was $1.56 million for the year ended December 31, 2022, which resulted in a 10 basis point increase in net interest margin compared to $579,000 for the year ended December 31, 2021, which resulted in a 5 basis point increase in net interest margin. Interest on investment securities available-for-sale increased by $4.34 million or 102.4% period over period. Average balances for investments increased to $336.78 million for the year ended December 31, 2022, from $215.98 million for the year ended December 31, 2021. The increase in average investment balances was largely driven by the FCB acquisition. Average interest rates earned on investments also increased to 2.55% for the year ended December 31, 2022 from 1.96% for the year ended December 31, 2021.

Interest Expense

Total interest expense was $6.15 million for the year ended December 31, 2022, increasing from $3.21 million for the year ended December 31, 2021. The increase of $2.94 million, or 91.6%, was due to an increase of $1.65 million in interest expense on deposits and a net increase of $1.28 million in interest expense on total borrowings. The average balance for total deposits was $1.51 million for the year ended December 31, 2022, compared to $1.14 million for the year ended December 31, 2021. The increase in average deposit balances was due to the FCB acquisition but was also driven by organic growth. In addition, the overall average rate on total deposits was 0.21% for the year ended December 31, 2022, compared to 0.13% for the year ended December 31, 2021. The average balance for total borrowings increased from $39.25 million for the year ended December 31, 2021 to $74.43 million for the year ended December 31, 2022. The increase was impacted by the issuance of $40.00 million of subordinated notes in January 2022. A portion of the net proceeds were used to redeem $10.00 million of senior notes due in February 2022. However, the average rate paid on total borrowings decreased from 4.42% for the year ended December 31, 2021, to 4.07% for the year ended December 31, 2022. The decrease in the average rate paid was due to the change in the mix of the outstanding borrowings.

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 $2.00 million in loan loss provisions for the year ended December 31, 2022, compared to $861,000 in loan loss provisions for the year ended December 31, 2021. The increase in the loan loss provision was largely due to loan growth. Management believes the level of total allowances is adequate to cover estimated losses inherent in the portfolio. However, if the economic outlook worsens relative to the assumptions we utilized, our allowance for loan losses will increase accordingly in future periods. Total nonperforming loans, including restructured loans, net, was $7.78 million at December 31, 2022 compared to $7.06 million at December 31, 2021. There was no other real estate owned and other repossessed assets at December 31, 2022 compared to $4,000 at December 31, 2021.

Noninterest Income

Total noninterest income was $26.22 million for the year ended December 31, 2022, compared to $46.18 million for the year ended December 31, 2021. The decrease of $19.96 million, or 43.2% was primarily due to a decrease in a mortgage banking, net of $21.55 million for the year ended December 31, 2022. Mortgage banking, net includes net gain on sale of mortgage loans which decreased $27.48 million to $18.61 million for the year ended December 31, 2022, compared to $46.09 million for the year ended December 31, 2021. This change reflects a mortgage market that has returned to more normal levels after record levels were reached in 2020 and 2021. During the year ended December 31, 2022, $551.02 million residential mortgage loans were sold compared to $1.06 billion in the prior year. In addition, gross margin on sale of mortgage loans for the year ended December 31, 2022 was 3.38% compared to 4.34% for the year ended December 31, 2021. There has been margin compression due to increased competition. Mortgage banking, net also includes the impact of fair value changes of loans held-for sale and derivatives. The net change in fair value of loans held-for-sale and derivatives was a loss of $1.84 million for the year ended December 31, 2022 compared to a loss of $5.44 million for the year ended December 31, 2021.

Noninterest Expense

Noninterest expense was $73.68 million for the year ended December 31, 2022, compared to $72.58 million for the year ended December 31, 2021, a slight increase of $1.10 million, or 1.5%. Acquisition costs were $2.30 million during the year ended December 31, 2022, compared to $761,000 during the prior year. Occupancy and equipment also increased by $1.15 million due to office expansion and the corresponding depreciation and amortization expense, as well as utilization and maintenance costs. These increases were largely offset by a decrease in salaries and employee benefits of $4.25 million due to lower commissions paid on residential mortgage originations.

Provision for Income Taxes

Provision for income taxes was $3.15 million for the year ended December 31, 2022, compared to $4.86 million for the year ended December 31, 2021 due to decreased income before provision for income taxes. The effective tax rate was 22.7% for the year ended December 31, 2022 compared to 25.2% for the prior year.

Liquidity and Capital Resources

Liquidity

The Bank is required by regulation to maintain sufficient levels of liquidity for safety and soundness purposes. 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, 2022 and 2021.

The Company’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 Company uses liquidity resources principally to fund existing and future loan commitments. It also uses them to fund maturing certificates of deposit and demand deposit withdrawals. In addition, the Bank uses liquidity resources for investment purposes, to meet operating expenses and capital expenditures, for dividend payments and stock repurchases and to maintain adequate liquidity levels.

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.

Comparison of Cash Flow for Years Ended December 31, 2022 and 2021

Net cash provided by the Company's operating activities, which is primarily comprised of cash transactions affecting net income, was $41.91 million for the year ended December 31, 2022 compared to $56.45 million for the prior year. Net cash provided by operating activities was lower for the year ended December 31, 2022 primarily due to changes in loans held-for-sale activity.

Net cash used in the Company's investing activities, which is primarily comprised of cash transactions related to activity in the loan portfolio and investment securities, was $235.04 million for the year ended December 31, 2022 compared to $232.92 million for the year ended December 31, 2021. Net cash used in investing activities for the year ended December 31, 2022 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 $234.26 million for the year ended December 31, 2022. In addition, available-for-sale securities purchases were $77.07 million during the year ended December 31, 2022, more than offset by available-for sale securities sales and maturities, principal payments and calls of $82.95 million. Investing activities was also impacted by net cash received from acquisitions of $13.40 million. Available-for-sale securities purchases were $132.18 million during the year ended December 31, 2021. Net cash used in investing activities for the year ended December 31, 2021, was also impacted by loan originations being higher than loan pay-off and principal payments during the year. Loan origination and principal collection, net was $98.67 million for the year ended December 31, 2021.

Net cash provided by the Company's financing activities was $153.51 million for the year ended December 31, 2022 compared to $168.10 million for the year ended December 31, 2021. Net cash provided by financing activities for the year ended December 31, 2022 was largely impacted by a net increase in deposits of $91.62 million. In addition, net short-term advances from FHLB and other borrowings increased by $69.39 million and subordinated debentures of $40.00 million were issued. These increases were partially offset by a net decrease in repurchase agreements of $22.85 million and the repayment of $10.00 million of subordinated debentures. Net cash provided by financing activities for the year ended December 31, 2021 was impacted by a net increase in deposits of $189.47 million. This was slightly offset by net payment on FHLB and other borrowings of $12.07 million.

Capital Resources

At December 31, 2022, the Bank's internally determined measurement of sensitivity to interest rate movements as measured by a 200 basis point rise in interest rates scenario, decreased the economic value of equity ("EVE") by 12.6% compared to an increase of 8.90% at December 31, 2021. The Bank is within the guidelines set forth by the Board of Directors for interest rate sensitivity.

The Bank's Tier 1 leverage ratio, as measured under State of Montana and FRB rules, decreased from 10.96% as of December 31, 2021 to 9.82% as of December 31, 2022. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

As of December 31, 2022, the Company's regulatory capital was in excess of all applicable regulatory requirements and is deemed "well capitalized" pursuant to State of Montana and FRB rules. At December 31, 2022, the Bank's total capital, Tier 1 capital, common equity Tier 1 capital and Tier 1 leverage ratios amounted to 13.04%, 12.14%, 12.14% and 9.82%, 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-earning assets and interest-bearing 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 or decrease in interest rates of up to 200 basis points or by more than 10.0% given an immediate increase or 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 As of December 31, 2022**		**Policy Limits**
	Year 1	**Year 2**	
+200	-2.3%	8.2%	-15.0%
+100	-0.9%	7.8%	-10.0%
-100	-0.2%	3.9%	-10.0%
-200	-0.7%	0.6%	-15.0%

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, 2022 Projected EVE	**Board Policy Limit**
		Maximum % change:
+400	4.4%	-40.0%
+300	4.1%	-35.0%
+200	3.2%	-30.0%
+100	2.4%	-20.0%
0	0.0%	0.0%
-100	-5.4%	-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, 2022	December 31, 2021
	(In Thousands)	
Commitments to extend credit	$ 367,494	$ 252,485
Letters of credit	10,563	4,129

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, 2022, 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, 2022, 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, 2022. Based on this assessment, management concluded that, as of December 31, 2022, 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, 2022 that have materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTION.

Not applicable.

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, 2022.

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 2023 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" and "Code of Ethics" 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 ACCOUNTANT FEES AND SERVICES.

The information in the Proxy Statement set forth under the caption of "Proposal 2 – Ratification of Appointment of Independent Registered Public Accounting Firm" is incorporated herein by reference.

PART IV

ITEM 15. EXHIBIT AND 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, 2022 and 2021 and the related Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Shareholders' Equity and Consolidated Statements of Cash Flows for the years then ended, together with the related notes and Report of Independent Registered Public Accounting Firm.

(2) Schedules omitted as they are not applicable.

(3) Exhibits.

Exhibits 10.1 through 10.16 and 10.23 through 10.34 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)*
2.4	Agreement and Plan of Merger, dated as of September 30, 2021, by and among Eagle Bancorp Montana, Inc., Opportunity Bank of Montana, First Community Bancorp, Inc. and First Community bank (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on October 1, 2021)*
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).
4.5	Form of 3.50% Subordinated Note due 2032 (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on January 24, 2022).
4.6	Indenture dated January 21, 2022, by and between Eagle Bancorp Montana, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on January 24, 2022).
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 Opportunity Bank of Montana and its executive officers (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on September 28, 2022).
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	Second Amendment to the Salary Continuation Agreement between Opportunity Bank of Montana and Peter J. Johnson dated August 20, 2021 (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on August 24, 2021).
10.6	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).
10.7	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).
10.8	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).
10.9	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).
10.10	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).
10.11	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).
10.12	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).
10.13	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).
10.14	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).
10.15	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).
10.16	Amendment No. 4 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 27, 2022.
10.17	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).
10.18	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).

10.19	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).
10.20	Form of Subordinated Note Purchase Agreement dated January 21, 2022, 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 January 24, 2022).
10.21	Form of Registration Rights Agreement dated January 21, 2022, by and among Eagle Bancorp Montana, Inc. and the Purchasers (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on January 24, 2022).
10.22	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).
10.23	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).
10.24	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).
10.25	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).
10.26	Second Amendment to 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 November 4, 2022).
10.27	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).
10.28	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).
10.29	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).
10.30	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).
10.31	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).
10.32	Salary Continuation Agreement between Opportunity Bank of Montana and Alana Binde (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q filed on November 4, 2022).
10.33	Salary Continuation Agreement between Opportunity Bank of Montana and Miranda Spaulding (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q filed on November 9, 2022).
10.34	Deferred Compensation Agreement between Eagle Bancorp Montana, Inc. and Peter J. Johnson (filed herewith).

21.1 Subsidiaries of Registrant.

23.1 Consent of Moss Adams LLP.

31.1 Certification by Laura F. Clark, 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 Miranda J. Spaulding, 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 Laura F. Clark, Chief Executive Officer and Miranda J. Spaulding, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* 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/ Laura F. Clark
Laura F. Clark
President and Chief Executive Officer
March 8, 2023

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
/s/ Laura F. Clark Laura F. Clark	President and Chief Executive Officer Director (Principal Executive Officer)	March 8, 2023
/s/ Miranda J. Spaulding Miranda J. Spaulding	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 8, 2023
/s/ Rick F. Hays Rick F. Hays	Chairman	March 8, 2023
/s/ Thomas J. McCarvel Thomas J. McCarvel	Vice Chairman	March 8, 2023
/s/ Peter J. Johnson Peter J. Johnson	Director	March 8, 2023
/s/ Maureen J. Rude Maureen J. Rude	Director	March 8, 2023
/s/ Shavon R. Cape Shavon R. Cape	Director	March 8, 2023
/s/ Tanya J. Chemodurow Tanya J. Chemodurow	Director	March 8, 2023
/s/ Kenneth M. Walsh Kenneth M. Walsh	Director	March 8, 2023
/s/ Corey Jensen Corey Jensen	Director	March 8, 2023
/s/ Benjamin G. Ruddy Benjamin G. Ruddy	Director	March 8, 2023
/s/ Cynthia A. Utterback Cynthia A. Utterback	Director	March 8, 2023
/s/ Samuel D. Waters Samuel D. Waters	Director	March 8, 2023

Exhibit 31.1

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 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 8, 2023

/s/ Laura F. Clark
Laura F. Clark
Chief Executive Officer

Exhibit 31.2

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, Miranda J. Spaulding, 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 8, 2023

/s/ Miranda J. Spaulding
Miranda J. Spaulding
Chief Financial Officer
Principal Accounting Officer

Exhibit 32.1

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, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Laura F. Clark, Chief Executive Officer of the Company, and Miranda J. Spaulding, 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/ Laura F. Clark	/s/ Miranda J. Spaulding
Laura F. Clark	Miranda J. Spaulding
Chief Executive Officer	Chief Financial Officer and Principal Accounting Officer
(Principal Executive Officer)	(Principal Financial Officer)
March 8, 2023	March 8, 2023

EAGLE BANCORP
MONTANA, INC.

AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

and

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2022 AND 2021

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Contents

MOSSADAMS

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, 2022 and 2021, 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, 2022 and 2021, 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 in accordance with the standards of the PCAOB. 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 in accordance with the standards of the PCAOB. 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 the consolidated financial statements, the Company's allowance for loan losses balance was $14.0 million at December 31, 2022. The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio, which represents management's estimate for probable losses based on available information. The allowance consists of specific reserves on impaired loans and also includes a general component. The general component covers loans not classified as impaired and is based on historical loss experience adjusted for qualitative factors.

We identified management's estimation of qualitative factors, which is used in the general component of 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. The estimation of these factors, based on management's evaluation of available internal and external data, is subjective in nature and requires significant judgment by management. 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 validating the completeness and accuracy of the data used in the calculation 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.
- Developing an independent expectation of the allowance for loan losses and the general reserve component of the allowance for loan losses using a combination of internal and external data and comparing the expected balance to the Company's recorded amounts.

Moss Adams LLP

Everett, Washington
March 8, 2023

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, 2022	December 31, 2021
ASSETS:		
Cash and due from banks	$ 19,321	$ 10,938
Interest-bearing deposits in banks	2,490	43,669
Federal funds sold	-	6,827
Total cash and cash equivalents	21,811	61,434
Securities available-for-sale	349,495	271,262
Federal Home Loan Bank ("FHLB") stock	5,089	1,702
Federal Reserve Bank ("FRB") stock	4,131	2,974
Mortgage loans held-for-sale, at fair value	8,250	25,819
Loans receivable, net of allowance for loan losses of $14,000 and $12,500 at December 31, 2022 and 2021, respectively	1,339,678	920,639
Accrued interest and dividends receivable	11,284	5,751
Mortgage servicing rights, net	15,412	13,693
Assets held-for-sale, at fair value	1,305	-
Premises and equipment, net	84,323	67,266
Cash surrender value of life insurance, net	47,724	36,474
Goodwill	34,740	20,798
Core deposit intangible, net	7,459	1,780
Deferred tax asset, net	10,808	-
Other assets	6,875	6,334
Total assets	$ 1,948,384	$ 1,435,926
LIABILITIES:		
Deposit accounts:		
Noninterest-bearing	$ 468,955	$ 368,846
Interest-bearing	1,166,317	853,703
Total deposits	1,635,272	1,222,549
Accrued expenses and other liabilities	26,458	21,131
Deferred tax liability, net	-	648
FHLB advances and other borrowings	69,394	5,000
Other long-term debt:		
Principal amount	60,155	30,155
Unamortized debt issuance costs	(1,311)	(286)
Total other long-term debt, net	58,844	29,869
Total liabilities	1,789,968	1,279,197
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; 8,507,429 and 7,110,833 shares issued at December 31, 2022 and 2021 respectively; 8,006,033 and 6,794,811 shares outstanding at December 31, 2022 and 2021, respectively)	85	71
Additional paid-in capital	109,164	80,832
Unallocated common stock held by Employee Stock Ownership Plan ("ESOP")	(5,156)	(5,729)
Treasury stock, at cost (501,396 and 316,022 shares at December 31, 2022 and 2021, respectively)	(11,343)	(7,321)
Retained earnings	92,023	85,383
Accumulated other comprehensive (loss) income, net of tax	(26,357)	3,493
Total shareholders' equity	158,416	156,729
Total liabilities and shareholders' equity	$ 1,948,384	$ 1,435,926

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, 2022	Years Ended December 31, 2021
INTEREST AND DIVIDEND INCOME:		
Interest and fees on loans	$ 60,353	$ 45,134
Securities available-for-sale	8,579	4,238
FHLB and FRB dividends	302	255
Other interest income	228	120
Total interest and dividend income	69,462	49,747
INTEREST EXPENSE:		
Deposits	3,124	1,474
FHLB advances and other borrowings	514	175
Other long-term debt	2,512	1,558
Total interest expense	6,150	3,207
NET INTEREST INCOME	63,312	46,540
Loan loss provision	2,001	861
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	61,311	45,679
NONINTEREST INCOME:		
Service charges on deposit accounts	1,668	1,213
Mortgage banking, net	19,489	41,035
Interchange and ATM fees	2,375	1,982
Appreciation in cash surrender value of life insurance	1,035	721
Other noninterest income	1,653	1,232
Total noninterest income	26,220	46,183
NONINTEREST EXPENSE:		
Salaries and employee benefits	44,521	48,766
Occupancy and equipment expense	7,601	6,448
Data processing	5,995	5,035
Advertising	1,419	1,276
Amortization	1,334	573
Loan costs	2,036	2,736
Federal Deposit Insurance Corporation ("FDIC") insurance premiums	559	332
Professional and examination fees	1,469	1,756
Acquisition costs	2,296	761
Other noninterest expense	6,453	4,897
Total noninterest expense	73,683	72,580
INCOME BEFORE PROVISION FOR INCOME TAXES	13,848	19,282
Provision for income taxes	3,147	4,863
NET INCOME	$ 10,701	$ 14,419
BASIC EARNINGS PER COMMON SHARE	$ 1.45	$ 2.17
DILUTED EARNINGS PER COMMON SHARE	$ 1.45	$ 2.17

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, 2022	Years Ended December 31, 2021
NET INCOME	$ 10,701	$ 14,419
OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME BEFORE TAX:		
Change in fair value of investment securities available-for-sale	(40,526)	(3,178)
Reclassification for net realized losses (gains) on investment securities available-for-sale	6	(23)
Total other comprehensive loss	(40,520)	(3,201)
Income tax benefit related to securities available-for-sale	10,670	843
COMPREHENSIVE (LOSS) INCOME	$ (19,149)	$ 12,061

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, 2022	$ -	$ 71	$ 80,832	$ (5,729)	$ (7,321)	$ 85,383	$ 3,493	$156,729
Net income	-	-	-	-	-	10,701	-	10,701
Other comprehensive loss	-	-	-	-	-	-	(29,850)	(29,850)
Dividends paid ($0.525 per share)	-	-	-	-	-	(4,061)	-	(4,061)
Stock issued in connection with First Community Bancorp, Inc. acquisition		14	28,337					28,351
Stock compensation expense	-	-	491	-	-	-	-	491
Treasury stock reissued for stock incentive plans (25,751 shares at $15.85 average cost per share)	-	-	(408)	-	408	-	-	-
ESOP shares allocated (23,990 shares)	-	-	(88)	573	-	-	-	485
Treasury stock purchased (211,125 shares at $20.98 average cost per share)	-	-	-	-	(4,430)	-	-	(4,430)
Balance at December 31, 2022	$ -	$ 85	$ 109,164	$ (5,156)	$(11,343)	$ 92,023	$ (26,357)	$158,416
Balance at January 1, 2021	$ -	$ 71	$ 77,602	$ (145)	$ (4,423)	$ 73,982	$ 5,851	$152,938
Net income	-	-	-	-	-	14,419	-	14,419
Other comprehensive loss	-	-	-	-	-	-	(2,358)	(2,358)
Dividends paid ($0.445 per share)	-	-	-	-	-	(3,018)	-	(3,018)
Stock compensation expense	-	-	439	-	-	-	-	439
Treasury stock reissued for stock incentive plans (18,108 shares at $17.09 average cost per share)	-	-	(310)	-	310	-	-	-
ESOP shares allocated (25,716 shares)	-	-	172	416	-	-	-	588
Treasury stock purchased through tender offer (250,000 shares at $25.12 average cost per share)	-	-	-	-	(6,279)	-	-	(6,279)
Sale of shares to ESOP (251,256 shares at $23.88 average price per share)	-	-	2,929	(6,000)	3,071	-	-	-
Balance at December 31, 2021	$ -	$ 71	$ 80,832	$ (5,729)	$ (7,321)	$ 85,383	$ 3,493	$156,729

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, 2022	Years Ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,701	$ 14,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	2,001	861
Recovery of servicing rights	(56)	(736)
Depreciation	3,576	2,917
Net amortization of investment securities premiums and discounts	1,486	1,264
Amortization of mortgage servicing rights	2,118	3,709
Amortization of right-of-use assets	681	628
Amortization	1,334	573
Compensation expense related to restricted stock awards	491	439
ESOP compensation expense for allocated shares	485	588
Deferred income tax provision	2,069	1,034
Net gain on sale of loans	(18,610)	(46,086)
Originations of loans held-for-sale	(532,558)	(1,040,753)
Proceeds from sales of loans held-for-sale	568,737	1,115,635
Net gain on sale of real estate owned and other repossessed assets	(203)	(23)
Net gain on sale/disposal of premises and equipment	(105)	(70)
Net appreciation in cash surrender value of life insurance	(1,035)	(721)
Net change in:		
Accrued interest and dividends receivable	(2,779)	14
Other assets	14	3,899
Accrued expenses and other liabilities	3,564	(1,137)
Net cash provided by operating activities	41,911	56,454
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	43,794	4,921
Maturities, principal payments and calls	39,157	11,333
Purchases	(77,073)	(132,180)
FHLB stock (purchased) redeemed	(2,762)	358
FRB stock purchased	(317)	-
Net cash received from acquisitions	13,397	-
Loan origination and principal collection, net	(234,255)	(98,666)
Purchases of bank owned life insurance	(1,600)	(8,000)
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	535	152
Proceeds from sale of premises and equipment	845	1,379
Purchases of premises and equipment, net	(16,762)	(12,218)
Net cash used in investing activities	(235,041)	(232,921)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	91,616	189,466
Net decrease in repurchase agreements	(22,853)	-
Net short-term advances from FHLB and other borrowings	69,394	-
Payments on long-term FHLB and other borrowings	(5,000)	(12,070)
Proceeds from issuance of subordinated debentures	40,000	-
Repayment of subordinated debentures	(10,000)	-
Payments for debt issuance costs	(1,159)	-
Purchase of treasury stock	(4,430)	(6,279)
Dividends paid	(4,061)	(3,018)
Net cash provided by financing activities	153,507	168,099
NET INCREASE IN CASH AND CASH EQUIVALENTS	(39,623)	(8,368)
CASH AND CASH EQUIVALENTS, beginning of period	61,434	69,802
CASH AND CASH EQUIVALENTS, end of period	$ 21,811	$ 61,434

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, 2022	Years Ended December 31, 2021
	(In Thousands)	
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 4,951	$ 3,467
Cash paid during the year for income taxes	2,930	4,440
Acquisitions:		
Assets acquired, excluding cash	346,739	-
Liabilities assumed	345,727	-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Decrease in fair value of securities available-for-sale	$ (40,520)	$ (3,201)
Mortgage servicing rights recognized	3,781	6,561
Right-of-use assets obtained in exchange for lease liabilities	204	1,140
Loans transferred to real estate and other assets acquired in foreclosure	328	108
Stock issued in connection with acquisitions	28,351	-
Sale of shares from Eagle to ESOP in exchange for loan	-	6,000

The accompanying notes are an integral part of these 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.

In September 2021, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") with First Community Bancorp, Inc. ("FCB"), a Montana corporation, and FCB's wholly-owned subsidiary, First Community Bank, a Montana chartered commercial bank. The Merger Agreement provided that, upon the terms and subject to the conditions set forth in the Merger Agreement, FCB would merge with and into Eagle, with Eagle continuing as the surviving corporation. The merger closed on April 30, 2022. First Community Bank operated nine branches in Ashland, Culbertson, Froid, Glasgow, Helena, Hinsdale, Three Forks and Wolf Point, Montana.

In March 2021, The Bank established a subsidiary, Opportunity Housing Fund, LLC ("OHF"), to invest in Low-Income Housing Tax Credit ("LIHTC") projects. The LIHTC program is designed to encourage capital investment in construction and rehabilitation of low-income housing. Tax credits are allowable over a 10-year period.

On January 1, 2020, the Company 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. The acquisition included 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 customers that produce agricultural products.

The Bank is headquartered in Helena, Montana, and has additional branches in Ashland, Big Timber, Billings, Bozeman, Butte, Choteau, Culbertson, Denton, Dutton, Froid, Glasgow, Great Falls, Hamilton, Hinsdale, Livingston, Missoula, Sheridan, Three Forks, Townsend, Twin Bridges, Winifred 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.

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 fair value of assets acquired and liabilities assumed for acquisitions, the valuation of goodwill and deferred tax assets and liabilities.

Principles of Consolidation

The consolidated financial statements include Eagle, the Bank, the Trust, WFS and OHF. All significant intercompany transactions and balances have been eliminated in consolidation.

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

Reclassifications

Certain prior period amounts were reclassified to conform to the presentation for 2022. 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, 2022 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," "interest-bearing deposits in banks" and "federal funds sold," all of which mature within ninety days.

Investment Securities

The Company can designate debt and equity securities as held-to-maturity, available-for-sale or trading. At December 31, 2022 and 2021 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.

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

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 50,888 and 17,019 FHLB shares at December 31, 2022 and 2021, 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 82,618 and 59,472 FRB shares at December 31, 2022 and 2021, 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. Loan origination fees and costs are recognized in earnings at the time of origination.

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.

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

Loans – continued

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.

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.

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

Loans – continued

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.

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.

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

Allowance for Loan Losses – continued

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 loans not classified as impaired and is based on historical loss experience adjusted for qualitative factors, as well as uncertainties that could affect management's estimate of probable losses.

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") allowed companies to suspend application of TDR guidance to loan modifications if (i) the modification was related to COVID-19; (ii) the borrower was not more than 30 days past due as of December 31, 2019; and (iii) the modifications were related to arrangements that defer payment of principal and interest, or modify an interest rate on the loan. The applicable period for this relief was originally for modifications occurring 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, but the Consolidated Appropriations Act (CAA) extended the provisions of the CARES Act to January 1, 2022. The Company elected to adopt these provisions of the CARES Act and CAA.

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.

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

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. 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. Lease and non-lease components are accounted for separately. Leases with a lease term of 12 months or less are not recorded on the consolidated statements of financial condition.

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 $0 and $4,000 at December 31, 2022 and 2021, 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 service charges on deposit accounts, interchange and other fees and commodity sales income. 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:

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 $1,668,000 and $1,213,000 for the years ended December 31, 2022 and 2021, respectively.

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

Revenue Recognition – continued

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 $2,375,000 and $1,982,000 for the years ended December 31, 2022 and 2021, respectively.

Commodity Sales Income – The Company's subsidiary, WFS, processes deferred payment contracts between suppliers and customers of agricultural commodities. The revenue from these contracts is accounted for in accordance with ASC Topic 606. The Company is considered an agent in these contracts, as: (i) the Company facilitates payment from customer to supplier, (ii) the Company does not take inventory of commodities as they are delivered by supplier to the customer, (iii) pricing of commodities is determined by the market, (iv) consideration on deferred payment contracts is insignificant to the Company and (v) the Company's exposure to credit risk is minimal. Revenue is recognized net of expenses and reported in other noninterest income in the financial statements. Commodity sales income and the corresponding commodity sales expense were $4,279,000 and $1,586,000 for the years ended December 31, 2022 and 2021, respectively, for a net impact of $0.

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, 2022 and 2021. 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 2019 and forward; Montana income tax returns for tax years 2019 and forward.

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

Income Taxes – continued

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 $1,419,000 and $1,276,000 for the years ended December 31, 2022 and 2021, respectively.

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 Common 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.

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

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 18. 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.

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. Our annual impairment tests as of October 31, 2022 and October 31, 2021 did not result in impairment.

Goodwill recorded for the FCB acquisition during the second quarter of 2022 was $13,942,000. Goodwill related to acquisitions prior to 2022 totaled $20,798,000. 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 Issued Accounting Pronouncements

In June 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.

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

Recently Issued Accounting Pronouncements – continued

In February 2022, the FASB issued ASU No. 2022-02, an update to ASU No. 2016-13. The amendments in the update eliminate TDR recognition and measurement guidance. Instead, entities must evaluate whether the modification represents a new loan or a continuation of an existing loan. Existing disclosure requirements are enhanced and the new requirements are introduced related to certain modifications of receivables made to borrowers experiencing financial difficulty. In addition, for public business entities, the amendments in the update require that entities disclosure current period gross write-offs by year of origination for financing receivables. This information must be included in the vintage disclosures, which require an entity to disclose the amortized cost basis of financing receivables by credit-quality indicator and class of financing receivable by year of origination.

The Company believes the amendments in these updates will have an impact on the Company's consolidated financial statements and is finalizing its evaluation of the adoption. In that regard, we have established a working group composed of individuals from the finance and credit administration areas of the Company. We have developed a current expected credit losses ("CECL") model with the assistance of a third-party vendor. The Company is concluding its assessment of qualitative factors, forecasted losses based on economic and forward-looking data and controls around the model. The final 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 which is effective January 1, 2023.

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 is not expected to have a significant 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 Secured Overnight Financing Rate ("SOFR"). The guidance was effective upon issuance and generally can be applied through December 31, 2024. The Company evaluated this guidance and identified substitution rates for impacted loans. In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848), which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU No. 2021-01 was effective upon issuance and generally can be applied through December 31, 2024. ASU No. 2021-01 has not had and is not expected to have a significant impact on the Company's consolidated financial statements.

NOTE 2: Mergers and Acquisitions

Effective April 30, 2022, Eagle completed its previously announced merger with FCB. The acquisition closed after receipt of approvals from regulatory authorities, approval of FCB shareholders and the satisfaction of other closing conditions. The total consideration paid was $38,577,000 and included cash consideration of $10,226,000 and common stock issued of $28,351,000.

This transaction was accounted for under the acquisition method of accounting.

NOTE 2: Mergers and Acquisitions – continued

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.

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

	FCB April 30, 2022 (In Thousands)
Assets acquired:	
Cash and cash equivalents	$ 23,623
Securities available-for-sale	126,123
Loans receivable	190,894
Premises and equipment	6,393
Cash surrender value of life insurance	8,638
Core deposit intangible	7,004
Other assets	7,687
Total assets acquired	$ 370,362
Liabilities assumed:	
Deposits	$ 321,107
Accrued expenses and other liabilities	1,767
Other borrowings	22,853
Total liabilities assumed	$ 345,727
Net assets acquired	$ 24,635
Consideration paid:	
Cash	$ 10,226
Common stock issued (1,396,596 shares)	28,351
Total consideration paid	$ 38,577
Goodwill resulting from acquisition	$ 13,942

FCB investments were written down an additional $4,559,000 to fair value on the date of acquisition based on market prices obtained from an independent third-party.

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.

NOTE 2: Mergers and Acquisitions – continued

The total accretable discount on FCB acquired loans was $5,416,000 as of April 30, 2022. During the period from April 30, 2022 to December 31, 2022, accretion of the loan discount totaled $1,297,000. The remaining accretable loan discount was $4,119,000 as of December 31, 2022. Three impaired loans were acquired through the FCB acquisition with insignificant balances as of April 30, 2022.

Fair value adjustments recorded for FCB related to premises and equipment were insignificant overall. The Company used independent third-party appraisals in the determination of the fair value of acquired assets.

Core deposit intangible assets of $7,004,000 were recorded for FCB 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. 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 FCB of $2,296,000 during the year ended December 31, 2022. Acquisition costs included 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, 2022.

NOTE 2: Mergers and Acquisitions – continued

The accompanying consolidated statements of income include the results of operations of FCB since the April 30, 2022 acquisition date. The following table presents unaudited pro forma results of operations for the year ended December 31, 2022 as if the acquisition had occurred on January 1, 2022. This pro forma information gives the 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 FCB on January 1, 2022. Cost savings are also not reflected in the unaudited pro forma amounts for the year ended December 31, 2022.

	Year Ended December 31, 2021
	(Dollars in Thousands, Except Per Share Data)
Pro forma net income[(1)]	
Net interest income after loan loss provision	$ 59,016
Noninterest income	54,142
Noninterest expense	87,381
Income before income taxes	25,777
Income tax provision	6,444
Net income	$ 19,333
Pro forma earnings per common share[(1)]	
Basic earnings per common share	$ 2.91
Diluted earnings per common share	$ 2.90
Weighted average shares outstanding, basic	6,653,935
Weighted average shares outstanding, diluted	6,655,735

[(1)] Significant assumptions utilized include the acquisition costs noted above and a 25.00% effective tax rate.

NOTE 3: Investment Securities

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

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. government and agency obligations	$ 2,575	$ 2	$ (187)	$ 2,390
U.S. treasury obligations	58,715	-	(6,764)	51,951
Municipal obligations	190,811	77	(18,039)	172,849
Corporate obligations	7,240	1	(251)	6,990
Mortgage-backed securities	31,553	-	(1,900)	29,653
Collateralized mortgage obligations	90,812	-	(8,681)	82,131
Asset-backed securities	3,569	-	(38)	3,531
Total	$ 385,275	$ 80	$ (35,860)	$ 349,495

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. government obligations	$ 1,618	$ 15	$ -	$ 1,633
U.S. treasury obligations	52,707	580	(104)	53,183
Municipal obligations	119,381	4,616	(330)	123,667
Corporate obligations	9,251	103	(18)	9,336
Mortgage-backed securities	14,662	92	(118)	14,636
Collateralized mortgage obligations	63,286	416	(635)	63,067
Asset-backed securities	5,617	123	-	5,740
Total	$ 266,522	$ 5,945	$ (1,205)	$ 271,262

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, 2022	Years Ended December 31, 2021
	(In Thousands)	
Proceeds from sale of available-for-sale securities	$ 43,794	$ 4,921
Gross realized gain on sale of available-for-sale securities	$ -	$ 23
Gross realized loss on sale of available-for-sale securities	(6)	-
Net realized gain on sale of available-for-sale securities	$ (6)	$ 23

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, 2022 Amortized Cost	December 31, 2022 Fair Value
	(In Thousands)	
Due in one year or less	$ 14,253	$ 14,197
Due from one to five years	18,962	18,545
Due from five to ten years	92,716	81,316
Due after ten years	136,979	123,653
	262,910	237,711
Mortgage-backed securities	31,553	29,653
Collateralized mortgage obligations	90,812	82,131
Total	$ 385,275	$ 349,495

At December 31, 2022 and 2021, securities with a fair value of $58,942,000 and $22,245,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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, 2022			
	Less than 12 Months		12 Months or Longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency obligations	$ 1,773	$ (187)	$ -	$ -
U.S. treasury obligations	10,969	(196)	40,982	(6,568)
Municipal obligations	128,036	(8,781)	33,092	(9,258)
Corporate obligations	4,994	(246)	995	(5)
Mortgage-backed securities and collateralized mortgage obligations	67,310	(3,647)	44,444	(6,934)
Asset-backed securities	3,531	(38)	-	-
Total	$ 216,613	$ (13,095)	$ 119,513	$ (22,765)

	December 31, 2021			
	Less than 12 months		12 months or Longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency obligations	$ -	$ -	$ -	$ -
U.S. treasury obligations	19,301	(104)	-	-
Municipal obligations	17,973	(330)	-	-
Corporate obligations	2,982	(18)	-	-
Mortgage-backed securities and collateralized mortgage obligations	50,002	(741)	1,296	(12)
Asset-backed securities	-	-	-	-
Total	$ 90,258	$ (1,193)	$ 1,296	$ (12)

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, 2022, or 2021. As of December 31, 2022 and 2021, there were, respectively, 388 and 43 securities in unrealized loss positions that were considered to be temporarily impaired and therefore an impairment charge has not been recorded.

NOTE 4: Loans

Loans receivable consisted of the following:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Real estate loans:		
Residential 1-4 family	$ 195,703	$ 146,815
Commercial real estate	826,549	569,976
Other loans:		
Home equity	74,271	51,748
Consumer	27,609	18,455
Commercial	231,291	147,870
Total	1,355,423	934,864
Deferred loan fees, net	(1,745)	(1,725)
Allowance for loan losses	(14,000)	(12,500)
Total loans, net	$ 1,339,678	$ 920,639

Included in the above are loans guaranteed by U.S. government agencies totaling $24,605,000 and $25,730,000 at December 31, 2022 and December 31, 2021, respectively.

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)			
Allowance for loan losses:						
Balance, January 1, 2022	$ 1,596	$ 7,470	$ 533	$ 365	$ 2,536	$ 12,500
Charge-offs	(199)	-	(32)	(31)	(299)	(561)
Recoveries	4	30	-	4	22	60
Provision	71	1,537	8	4	381	2,001
Balance, December 31, 2022	$ 1,472	$ 9,037	$ 509	$ 342	$ 2,640	$ 14,000
Balance, December 31, 2022 allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 150	$ 150
Balance, December 31, 2022 allocated to loans collectively evaluated for impairment	$ 1,472	$ 9,037	$ 509	$ 342	$ 2,490	$ 13,850
Loans receivable:						
Balance, December 31, 2022	$ 195,703	$ 826,549	$ 74,271	$ 27,609	$ 231,291	$ 1,355,423
Balance, December 31, 2022 of loans individually evaluated for impairment	$ 483	$ 4,368	$ 107	$ 25	$ 1,719	$ 6,702
Balance, December 31, 2022 of loans collectively evaluated for impairment	$ 195,220	$ 822,181	$ 74,164	$ 27,584	$ 229,572	$ 1,348,721

NOTE 4: Loans – continued

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Consumer	Commercial	Total
	(In Thousands)					
Allowance for loan losses:						
Balance, January 1, 2021	$ 1,506	$ 6,951	$ 515	$ 364	$ 2,264	$ 11,600
Charge-offs	-	(35)	-	(16)	(6)	(57)
Recoveries	-	21	-	8	67	96
Provision	90	533	18	9	211	861
Balance, December 31, 2021	$ 1,596	$ 7,470	$ 533	$ 365	$ 2,536	$ 12,500
Balance, December 31, 2021 allocated to loans individually evaluated for impairment	$ 199	$ -	$ -	$ -	$ 401	$ 600
Balance, December 31, 2021 allocated to loans collectively evaluated for impairment	$ 1,397	$ 7,470	$ 533	$ 365	$ 2,135	$ 11,900
Loans receivable:						
Balance, December 31, 2021	$ 146,815	$ 569,976	$ 51,748	$ 18,455	$ 147,870	$ 934,864
Balance, December 31, 2021 of loans individually evaluated for impairment	$ 953	$ 3,654	$ 115	$ 62	$ 2,275	$ 7,059
Balance, December 31, 2021 of loans collectively evaluated for impairment	$ 145,862	$ 566,322	$ 51,633	$ 18,393	$ 145,595	$ 927,805

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.

NOTE 4: Loans – continued

Internal classification of the loan portfolio was as follows:

	December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)					
Real estate loans:						
Residential 1-4 family	$ 135,079	$ 515	$ 353	$ -	$ -	$ 135,947
Residential 1-4 family construction	59,756	-	-	-	-	59,756
Commercial real estate	520,505	16,833	1,732	-	-	539,070
Commercial construction and development	150,101	1,044	-	-	-	151,145
Farmland	131,646	2,232	2,456	-	-	136,334
Other loans:						
Home equity	74,147	-	124	-	-	74,271
Consumer	27,560	10	39	-	-	27,609
Commercial	125,035	1,476	736	8	-	127,255
Agricultural	101,441	311	2,182	102	-	104,036
Total	$ 1,325,270	$ 22,421	$ 7,622	$ 110	$ -	$ 1,355,423

	December 31, 2021					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)					
Real estate loans:						
Residential 1-4 family	$ 100,680	$ -	$ 301	$ 199	$ -	$ 101,180
Residential 1-4 family construction	45,298	-	337	-	-	45,635
Commercial real estate	406,896	1,527	2,145	-	-	410,568
Commercial construction and development	92,403	-	-	-	-	92,403
Farmland	65,037	177	1,744	47	-	67,005
Other loans:						
Home equity	51,614	-	134	-	-	51,748
Consumer	18,392	-	63	-	-	18,455
Commercial	100,881	130	524	-	-	101,535
Agricultural	44,550	332	1,444	9	-	46,335
Total	$ 925,751	$ 2,166	$ 6,692	$ 255	$ -	$ 934,864

NOTE 4: Loans – continued

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

	December 31, 2022					
	Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total	Non-Accrual Loans	Current Loans	Total Loans
	(In Thousands)					
Real estate loans:						
Residential 1-4 family	$ 1,798	$ 330	$ 2,128	$ 483	$ 133,336	$ 135,947
Residential 1-4 family construction	500	-	500	-	59,256	59,756
Commercial real estate	780	-	780	350	537,940	539,070
Commercial construction and development	-	-	-	-	151,145	151,145
Farmland	1,620	-	1,620	754	133,960	136,334
Other loans:						
Home equity	226	-	226	107	73,938	74,271
Consumer	93	-	93	25	27,491	27,609
Commercial	597	746	1,343	44	125,868	127,255
Agricultural	-	-	-	1,535	102,501	104,036
Total	$ 5,614	$ 1,076	$ 6,690	$ 3,298	$ 1,345,435	$ 1,355,423

	December 31, 2021					
	Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total	Non-Accrual Loans	Current Loans	Total Loans
	(In Thousands)					
Real estate loans:						
Residential 1-4 family	$ 21	$ -	$ 21	$ 616	$ 100,543	$ 101,180
Residential 1-4 family construction	-	-	-	337	45,298	45,635
Commercial real estate	788	-	788	497	409,283	410,568
Commercial construction and development	-	-	-	-	92,403	92,403
Farmland	61	-	61	1,630	65,314	67,005
Other loans:						
Home equity	-	-	-	115	51,633	51,748
Consumer	55	-	55	62	18,338	18,455
Commercial	6	-	6	516	101,013	101,535
Agricultural	-	-	-	1,718	44,617	46,335
Total	$ 931	$ -	$ 931	$ 5,491	$ 928,442	$ 934,864

NOTE 4: Loans – continued

The following tables include information regarding impaired loans.

	December 31, 2022			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(In Thousands)			
Real estate loans:				
Residential 1-4 family	$ 483	$ 585	$ -	$ 550
Residential 1-4 family construction	-	-	-	169
Commercial real estate	3,614	3,697	-	2,818
Commercial construction and development	-	-	-	-
Farmland	754	866	-	1,192
Other loans:				
Home equity	107	133	-	111
Consumer	25	30	-	44
Commercial	184	232	35	350
Agricultural	1,535	1,633	115	1,647
Total	$ 6,702	$ 7,176	$ 150	$ 6,881

	December 31, 2021			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(In Thousands)			
Real estate loans:				
Residential 1-4 family	$ 616	$ 703	$ 199	$ 910
Residential 1-4 family construction	337	387	-	337
Commercial real estate	2,024	2,078	-	2,143
Commercial construction and development	-	-	-	25
Farmland	1,630	1,721	-	1,937
Other loans:				
Home equity	115	139	-	113
Consumer	62	73	-	107
Commercial	516	639	101	527
Agricultural	1,759	1,862	300	1,731
Total	$ 7,059	$ 7,602	$ 600	$ 7,830

Interest income recognized on impaired loans for the years ended December 31, 2022 and 2021 is considered insignificant. Interest payments received on a cash basis related to impaired loans were $415,000 and $405,000 at December 31, 2022 and 2021, respectively.

NOTE 4: Loans – continued

As of December 31, 2022 and 2021, TDR loans totaled $4,502,000 and $2,224,000, respectively.

During the year ended December 31, 2022, there were eight new TDR loans. Four of the eight loans were commercial real estate loans and the recorded investments at time of restructure were $471,000, $1,552,000, $812,000 and $429,000. No charge-offs were incurred and the loans are on accrual status. Two of the loans were commercial loans and the recorded investments at time of restructure were $6,000 and $134,000. No charge-offs were incurred and the loans are on accrual status. The remaining two loans were agricultural loans and the recorded investments at time of restructure were $145,000 and $331,000. No charge-offs were incurred and the loans are on nonaccrual status.

During the year ended December 31, 2021, there were four new TDR loans. Three of the four loans were farmland loans, and the recorded investments at time of restructure were $180,000, $391,000 and $70,000. The fourth loan was a commercial real estate loan, and the recorded investment at the time of restructure was $115,000. The commercial real estate loan was paid off during the year ended December 31, 2021. At December 31, 2021, the recorded investments for the remaining farmland loans were $180,000, $391,000 and $70,000, respectively. No charge-offs were incurred for the remaining loans and they continue to be on nonaccrual status. The recorded investments for the farmland loans at December 31, 2022 were $180,000, $366,000 and $65,000, respectively.

There were two farmland loans modified as TDRs that defaulted during the year ended December 31, 2022 where the default occurred within 12 months of restructuring. However, subsequent payments were made and the loans are no longer in default as of December 31, 2022.

As of December 31, 2022, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in troubled debt restructures.

Loans are granted to directors and officers of the Company in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

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, 2021	$ 2,363
Principal additions	1,487
Principal payments	(1,925)
Balance, December 31, 2021	$ 1,925
Principal additions	241
Principal payments	(282)
Balance, December 31, 2022	$ 1,884

	December 31,	
	2022	2021
	(In Thousands)	
Loans serviced, for the benefit of others, for directors, executive officers and their related parties	$ 1,480	$ 1,583

NOTE 4: Loans – continued

	Years Ended December 31, 2022	Years Ended December 31, 2021
	(In Thousands)	
Interest income from loans owned for directors, executive officers and their related parties	$ 67	$ 20

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 $2,022,066,000 and $1,835,561,000 at December 31, 2022 and 2021, 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 $4,839,000 and $4,101,000 for the years ended December 31, 2022 and 2021, 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 are included in noninterest checking deposits and were $11,912,000 and $11,613,000 at December 31, 2022 and 2021, respectively.

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

	Years Ended December 31, 2022	Years Ended December 31, 2021
	(In Thousands)	
Mortgage servicing rights:		
Beginning balance	$ 13,749	$ 10,897
Mortgage servicing rights capitalized	3,781	6,561
Amortization of mortgage servicing rights	(2,118)	(3,709)
Ending balance	15,412	13,749
Valuation allowance:		
Beginning balance	(56)	(792)
Recovery (impairment) of mortgage servicing rights	56	736
Ending balance	-	(56)
Mortgage servicing rights, net	$ 15,412	$ 13,693

Recovery of servicing rights is included in other noninterest expense on the consolidated statements of income.

NOTE 5: Mortgage Servicing Rights – continued

The fair values of these rights were $19,288,000 and $14,686,000 at December 31, 2022 and 2021, 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,	
	2022	2021
Key assumptions:		
Discount rate	12%	12%
Prepayment speed range	116-210%	184-265%
Weighted average prepayment speed	131%	204%

NOTE 6: Premises and Equipment

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

	December 31,	
	2022	2021
	(In Thousands)	
Land	$ 13,070	$ 9,656
Buildings and improvements	66,371	52,469
Furniture and equipment	15,575	13,305
Construction in progress	10,435	8,911
	105,451	84,341
Accumulated depreciation	(24,088)	(20,512)
Premises and equipment, net, excluding right-of-use assets	81,363	63,829
Right-of-use assets	2,960	3,437
Premises and equipment, net	$ 84,323	$ 67,266

Depreciation expense was $3,576,000 and $2,917,000 for the years ended December 31, 2022 and 2021, respectively.

The Company leases four full-service branch locations, and two administrative office locations 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 2023 to 2028, some of which include lessee options to extend the leases for up to 10 years.

NOTE 6: Premises and Equipment – continued

The following table summarizes the Company's leases:

	December 31 2022	December 31 2021
	(In Thousands)	
Right-of-use assets, net of amortization	$ 2,960	$ 3,437
Lease liabilities	1,984	2,292
Weighted average remaining lease term (years)	5.12	6.05
Weighted average discount rate	2.70%	2.45%

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

	December 31 2022	December 31 2021
	(In Thousands)	
Operating lease cost	$ 734	$ 679
Short-term lease cost	1,767	40
Total lease cost	$ 2,501	$ 719

The following table presents the maturities of lease liabilities at December 31, 2022 for future periods:

	(In Thousands)
2023	$ 531
2024	368
2025	342
2026	342
2027	298
Thereafter	238
Total lease payments	2,119
Less imputed interest	(135)
Present value of lease liabilities	$ 1,984

The Company also leases office space to third parties through operating leases. The rent income from these leases for the years ending December 31, 2022 and 2021 was not significant.

NOTE 7: Other Intangible Assets

The components of core deposit intangible assets were as follows:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Core deposit intangible	$ 11,840	$ 4,836
Accumulated amortization	(4,381)	(3,056)
Core deposit intangible, net	$ 7,459	$ 1,780

Core deposit intangible assets are amortized on an accelerated basis over their estimated life of 10 years. Amortization expense related to intangible assets was $1,325,000 and $563,000 for the years ended December 31, 2022 and 2021. The estimated aggregate future amortization expense for core deposit intangible assets remaining as of December 31, 2022 was as follows:

Years ending December 31:	(In Thousands)
2023	$ 1,578
2024	1,382
2025	1,185
2026	989
2027	792
Thereafter	1,533
Total	$ 7,459

NOTE 8: Deposits

Deposits are summarized as follows:

	December 31, 2022		December 31, 2021	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(Dollars in Thousands)			
Noninterest checking	$ 468,955	0.00 %	$ 368,846	0.00 %
Interest-bearing checking	252,922	0.11	203,410	0.02
Savings	273,790	0.06	223,069	0.06
Money market	387,947	1.12	277,469	0.25
Time certificates of deposits	251,658	1.41	149,755	0.39
Total	$ 1,635,272	0.50 %	$ 1,222,549	0.12 %

Time certificates of deposits include $247,000 and $0 related to fixed rate brokered certificates through the Certificate of Deposit Account Registry Services ("CDARS") at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the Company held $642,017,000 and $444,891,000, 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 $65,203,000 and $24,472,000 at December 31, 2022 and 2021, respectively.

NOTE 8: Deposits – continued

At December 31, 2022, the scheduled maturities of time deposits were as follows:

Years ending December 31:	(In Thousands)
2023	$ 199,186
2024	40,238
2025	4,134
2026	4,403
2027	3,693
Thereafter	4
Total	$ 251,658

Interest expense on deposits was as follows:

	Years Ended December 31, 2022	Years Ended December 31, 2021
	(In Thousands)	
Checking	$ 173	$ 47
Savings	99	78
Money market	1,711	545
Time certificates of deposits	1,141	804
Total	$ 3,124	$ 1,474

At December 31, 2022 and 2021, the Company reclassified $436,000 and $178,000, respectively, in overdrawn deposits as loans.

Related party deposits, including directors' and executive officers' deposit accounts at December 31, 2022 and 2021 were $5,326,000 and $7,554,000, respectively.

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

At December 31, 2022, advances from the FHLB of Des Moines and other borrowings mature as follows:

Years ending December 31:	(In Thousands)
2023	$ 69,394
2024	-
2025	-
2026	-
2027	-
Thereafter	-
Total	$ 69,394

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, 2022, was 45.00% of total Bank assets as determined by FHLB, or approximately $860,071,000. The balance of advances was $69,394,000 and $5,000,000 at December 31, 2022 and 2021, respectively. The Bank also has a contingent letter of credit with FHLB for $520,000 at both December 31, 2022 and 2021.

Other Borrowings

During the year ended December 31, 2021, Eagle established a $10,000,000 line of credit with Bell Bank. The balance of this line of credit was $0 at both December 31, 2022 and 2021.

Federal Funds Purchased

At December 31, 2022, the Bank had $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 Texas Independent Bank ("TIB"). The balance of these lines of credit was $0 at both December 31, 2022 and 2021.

The Bank had a $20,000,000 Federal funds line of credit with Zions Bank, which terminated during the year ended December 31, 2021.

All Borrowings Outstanding

For all borrowings outstanding the weighted average interest rate for advances at December 31, 2022 and 2021 was 4.52% and 1.81%, respectively. The average amount outstanding was $14,518,000 and $9,410,000 for 2022 and 2021, respectively. The maximum amount outstanding at any month-end was $69,394,000 and $16,917,000 for 2022 and 2021, respectively.

NOTE 10: Other Long-Term Debt

Other long-term debt consisted of the following:

	December 31,			
	2022		2021	
	Principal Amount	Unamortized Debt Issuance Costs	Principal Amount	Unamortized Debt Issuance Costs
	(In Thousands)			
Senior notes fixed at 5.75%, due 2022	$ -	$ -	$ 10,000	$ (4)
Subordinated debentures fixed at 5.50% to floating, due 2030	15,000	(249)	15,000	(282)
Subordinated debentures fixed at 3.50% to floating, due 2032	40,000	(1,062)	-	-
Subordinated debentures variable at 3-Month Libor plus 1.42%, due 2035	5,155	-	5,155	-
Total other long-term debt	$ 60,155	$ (1,311)	$ 30,155	$ (286)

In January 2022, the Company completed the issuance of $40,000,000 in aggregate principal amount of subordinated notes due in 2032 in a private placement transaction to certain institutional accredited investors and qualified buyers. The notes bear interest at an annual fixed rate of 3.50% payable semi-annually. Starting February 1, 2027, interest will accrue at a floating rate per annum equal to a benchmark rate, which is expected to be three-month term SOFR plus a spread of 218.0 basis points, payable quarterly. The notes are subject to redemption at the option of the Company on or after February 1, 2027. The subordinated debentures qualify as Tier 2 capital for regulatory capital purposes. A portion of the net proceeds were used to redeem the $10,000,000 senior notes due in February 2022.

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 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 was paid semi-annually through maturity date. The notes were not subject to redemption at the option of the Company. The notes were redeemed on February 15, 2022.

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 6.20% and 1.63% as of December 31, 2022 and 2021, 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.

NOTE 10: Other Long-Term Debt – continued

For 2022 and 2021, interest expense on all other long-term debt was $2,512,000 and $1,558,000, respectively, which includes $134,000 and $78,000 in amortization for debt issuance costs, respectively. Debt issuance costs consisting primarily of underwriting discounts and professional fees were capitalized and are being amortized through maturity to interest expense using the straight-line method.

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. 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,	
	2022	2021
	(In Thousands)	
Commitments to extend credit	$ 367,494	$ 252,485
Letters of credit	10,563	4,129

NOTE 11: Commitments and Contingencies – continued

Employment Contracts

The Company has entered into change of control agreements with its executive officers other than the Chief Executive Officer. The change in control agreements provide a double trigger benefit equal to the sum of the executive's annual salary and incentive bonus for the most recently completed year. The benefits are payable in the event that four months prior to, in connection with or within 18 months after a change in control the executive's employment is terminated without cause or if the executive resigns for good reason. The change in control agreements are for two years, renewing automatically for successive one-year periods unless Eagle or the executive provide written notice of nonrenewal 60 days before the contract anniversary date. If the officer timely and properly elects health continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), the Bank will pay the Executive's monthly COBRA premium paid for himself/herself and his/her dependents for all applicable group health plan benefits until the earliest of (i) the expiration of twelve months of coverage, (ii) the date the executive is no longer eligible to receive COBRA continuation coverage, and (iii) the date on which the executive receives or becomes eligible to receive substantially similar coverage from another employer or source.

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, 2022	Years Ended December 31, 2021
	(In Thousands)	
Current		
U.S. federal	$ 535	$ 2,717
Montana	543	1,112
Total current income tax provision	1,078	3,829
Deferred		
U.S. federal	1,650	825
Montana	419	209
Total deferred income tax provision	2,069	1,034
Total income tax provision	$ 3,147	$ 4,863

NOTE 12: Income Taxes – continued

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

	December 31, 2022	December 31, 2021
	(In Thousands)	
Deferred tax assets:		
Loans receivable	$ 3,687	$ 3,292
Deferred loan fees	460	454
Lease liability	523	604
Deferred compensation	1,817	1,495
Employee benefits	533	435
Unrealized losses on securities available-for-sale	9,423	-
Acquisition costs	167	202
Acquisition fair value adjustments	3,513	345
Other	257	903
Total deferred tax assets	20,380	7,730
Deferred tax liabilities:		
Premises and equipment	757	891
Right-of-use asset	779	905
FHLB stock	130	25
Mortgage servicing rights	4,059	3,606
Unrealized gains on securities available-for-sale	-	1,247
Goodwill	1,242	1,119
Intangibles	1,964	464
Other	641	121
Total deferred tax liabilities	9,572	8,378
Net deferred tax asset (liability)	$ 10,808	$ (648)

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.

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,			
	2022		2021	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(Dollars in Thousands)			
Federal income taxes at the statutory rate	$ 2,908	21.00%	$ 4,049	21.00%
State income taxes	738	5.33	1,047	5.43
Tax-exempt interest income	(605)	-4.37	(292)	-1.51
Transaction costs	241	1.74	160	0.83
Income from bank-owned life insurance	(217)	-1.57	(151)	-0.78
Other, net	82	0.60	50	0.25
Actual tax expense and effective tax rate	$ 3,147	22.73%	$ 4,863	25.22%

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 Securities Available for Sale
	(In Thousands)
Balance, January 1, 2022	$ 3,493
Other comprehensive loss, before reclassifications and income taxes	(40,526)
Amounts reclassified from accumulated other comprehensive loss, before income taxes	6
Income tax benefit	10,670
Total other comprehensive loss	(29,850)
Balance, December 31, 2022	$ (26,357)
Balance, January 1, 2021	$ 5,851
Other comprehensive loss, before reclassifications and income taxes	(3,178)
Amounts reclassified from accumulated other comprehensive income, before income taxes	(23)
Income tax benefit	843
Total other comprehensive loss	(2,358)
Balance, December 31, 2021	$ 3,493

NOTE 14: Earnings Per Common Share

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

	Years Ended December 31, 2022	2021
	(Dollars in Thousands, Except for Per Share Data)	
Basic weighted average shares outstanding	7,376,275	6,653,935
Dilutive effect of stock compensation	9,978	1,800
Diluted weighted average shares outstanding	7,386,253	6,655,735
Net income available to common shareholders	$ 10,701	$ 14,419
Basic earnings per common share	$ 1.45	$ 2.17
Diluted earnings per common share	$ 1.45	$ 2.17

There were an insignificant number of weighted average shares outstanding that were not included in the computation of diluted earnings per common share because the effect would be anti-dilutive for the year ended December 31, 2022. There were no anti-dilutive shares at December 31, 2021.

NOTE 15: Capital Management and Regulatory Matters

Federal regulations require Federal Reserve member banks, such as Opportunity Bank of Montana and all other FDIC insured depository institutions, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a Tier 1 capital to total average assets leverage ratio of 4.0%. Federal law establishes a prompt corrective action framework to resolve the problems of undercapitalized depository institutions. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the Company's financial statements. Prompt corrective action provisions are not applicable to bank holding companies.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet each of its minimum risk-based capital requirements. An institution is considered "adequately capitalized" if it has a leverage ratio of 4.0%, and including the conservation buffer, a common equity Tier 1 capital to risk-based assets 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%.

NOTE 15: Capital Management and Regulatory Matters – continued

Management believes that, as of December 31, 2022, the Company and the Bank meet all capital adequacy requirements.

As of December 31, 2022, 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 Banks's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2022 are presented in the table below and all of the ratios, with the exception of the Tier 1 capital to adjusted total average assets ratio, 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, 2022:						
Total risk-based capital to risk weighted assets						
Consolidated	$ 219,595	14.10%	$ 163,560	10.50%	N/A	N/A
Bank	202,905	13.04	163,444	10.50	155,661	10.00%
Tier 1 capital to risk weighted assets						
Consolidated	150,595	9.67	132,406	8.50	N/A	N/A
Bank	188,905	12.14	132,312	8.50	124,529	8.00
Common equity Tier 1 capital to risk weighted assets						
Consolidated	145,594	9.35	109,040	7.00	N/A	N/A
Bank	188,905	12.14	108,962	7.00	101,179	6.50
Tier 1 capital to adjusted total average assets						
Consolidated	150,595	7.78	77,422	4.00	N/A	N/A
Bank	188,905	9.82	76,947	4.00	96,184	5.00

NOTE 15: Capital Management and Regulatory Matters – continued

The Company's and the Bank’s actual capital amounts and ratios as of December 31, 2021 are presented in the table below and all of the ratios, with the exception of the Tier 1 capital to adjusted total average assets ratio, 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, 2021:						
Total risk-based capital to risk weighted assets						
Consolidated	$ 164,639	15.18 %	$ 113,904	10.50 %	N/A	N/A
Bank	165,786	15.32	113,591	10.50	108,182	10.00 %
Tier 1 capital to risk weighted assets						
Consolidated	137,139	12.64	92,208	8.50	N/A	N/A
Bank	153,286	14.17	91,955	8.50	86,546	8.00
Common equity Tier 1 capital to risk weighted assets						
Consolidated	132,139	12.18	75,936	7.00	N/A	N/A
Bank	153,286	14.17	75,727	7.00	70,318	6.50
Tier 1 capital to adjusted total average assets						
Consolidated	137,139	9.75	56,290	4.00	N/A	N/A
Bank	153,286	10.96	55,929	4.00	69,911	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 $0 and $5,800,000 during the years ended December 31, 2022 and 2021, respectively, to Eagle. Eagle paid dividends of $0.525 and $0.445 per share to its shareholders during the years ended December 31, 2022 and 2021, respectively.

Tender Offer

The Company completed a modified "Dutch auction" tender offer (the "Tender Offer") in June 2021. The Company accepted for purchase 250,000 shares of its common stock at a price of $24.00 per share. The aggregate purchase price for the shares purchased in the Tender Offer was approximately $6,279,000, including fees and expenses related to the Tender Offer. Therefore, the total price including fees and expenses was $25.12 per share.

NOTE 15: Capital Management and Regulatory Matters – continued

Stock Repurchase Program

On April 21, 2022, Eagle's Board of Directors (the "Board") authorized the repurchase of up to 400,000 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. There are 288,875 shares available to be repurchased under this plan as of December 31, 2022. The plan expires on April 21, 2023.

On July 22, 2021, 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 during the year ended December 31, 2021 under this plan. The Company repurchased the total authorized amount of 100,000 shares during the first quarter of 2022. The plan expired on July 22, 2022.

On July 23, 2020, 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 during the year ended December 31, 2021 under this plan. The plan expired on July 23, 2021.

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: 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 $1,365,000 and $1,183,000 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the Company's match totaled $575,000 and $569,000, 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, 2022 and 2021, the total expense was $1,039,000 and $760,000, respectively. The Company recorded a liability for the deferred compensation plan of $6,410,000 and $5,215,000 at December 31, 2022 and 2021, respectively, which are included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Employee Stock Ownership Plan

The Company established an ESOP in 2000 for eligible employees who meet certain age and service requirements. In April 2010, the ESOP borrowed approximately $1,971,000 from Eagle Bancorp Montana, Inc. and used the funds to purchase 197,142 shares of common stock, at $10 per share. The Bank made annual contributions to the ESOP sufficient to satisfy the debt service requirements of the loan that had a twelve-year term that matured December 31, 2021 and an 8.00% interest rate.

The Company sold 251,256 shares of common stock to the ESOP at a price of $23.88 per share in June 2021. The shares were purchased from Eagle by the ESOP in exchange for a loan totaling $6,000,000. The loan has a ten-year term and bears interest at 3.00%. The Bank makes annual contributions to the ESOP sufficient to satisfy the debt service requirements of the loan. The ESOP uses these contributions, and dividends received by the ESOP on unallocated shares, to make principal and interest payments on the loan to the Company. The shares held by the ESOP will be used for allocations to employees of the Company over a ten-year period.

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 ESOP shares are recorded as a reduction to retained earnings.

NOTE 16: Employee Benefits – continued

Employee Stock Ownership Plan – continued

Total ESOP expenses of $359,000 and $520,000 were recognized for the years ended December 31, 2022 and 2021, respectively.

The following table shows the components of the ESOP shares:

	December 31,	
	2022	2021
Allocated shares	235,340	225,947
Unallocated shares	215,912	239,902
Total ESOP shares	451,252	465,849
Fair value of unallocated shares (in thousands)	$ 3,489	$ 5,513

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, 2020 and 2022 and increased the maximum number of shares of restricted stock for issuance under this plan to 393,571. The number of shares of restricted stock available to award under this plan was 109,732 as of December 31, 2022.

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

	Number of Shares
Unvested awards as of January 1, 2021	58,337
Awards granted	43,515
Awards vested	(16,084)
Awards forfeited	(3,816)
Unvested awards as of December 31, 2021	81,952
Awards granted	13,450
Awards vested	(23,983)
Awards forfeited	(1,058)
Unvested awards as of December 31, 2022	70,361

At December 31, 2022, the Company has unrecognized expense of approximately $1,395,000 for this plan, which it expects to recognize ratably through November 2027. 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.

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. The number of shares of restricted stock available to award under this plan was 688 as of December 31, 2022.

NOTE 16: Employee Benefits – continued

Stock Incentive Plans – continued

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

	Number of Shares
Unvested awards as of January 1, 2021	2,024
Awards granted	1,768
Awards vested	(2,024)
Awards forfeited	-
Unvested awards as of December 31, 2021	1,768
Awards granted	8,520
Awards vested	(1,768)
Awards forfeited	-
Unvested awards as of December 31, 2022	8,520

At December 31, 2022, the Company has unrecognized expense of approximately $133,000 for this plan, which it expects to recognize ratably through November 2023.

The Company recognized total compensation expense of $491,000 and $439,000 for these plans during the years ended December 31, 2022 and 2021, respectively.

NOTE 17: 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, 2022			December 31, 2021		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Asset	Liability	Amount	Asset	Liability
	(In Thousands)					
Interest rate lock commitments	$ 18,603	$ -	$ 81	$ 84,674	$ 1,218	$ -
Forward TBA mortgage-backed securities	13,000	11	-	51,000	-	94

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 loss of $1,194,000 and $3,836,000 was recorded for the years ended December 31, 2022 and 2021, respectively.

NOTE 18: 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.

NOTE 18: 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.

NOTE 18: 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, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government and agency obligations	$ -	$ 2,390	$ -	$ 2,390
U.S. treasury obligations	51,951	-	-	51,951
Municipal obligations	-	172,849	-	172,849
Corporate obligations	-	6,990	-	6,990
Mortgage-backed securities	-	29,653	-	29,653
Collateralized mortgage obligations	-	82,131	-	82,131
Asset-backed securities	-	3,531	-	3,531
Loans held-for-sale	-	8,250	-	8,250
Forward TBA mortgage-backed securities	-	11	-	11
Financial liabilities:				
Interest rate lock commitments	-	-	81	81

	December 31, 2021			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government obligations	$ -	$ 1,633	$ -	$ 1,633
U.S. treasury obligations	53,183	-	-	53,183
Municipal obligations	-	123,667	-	123,667
Corporate obligations	-	9,336	-	9,336
Mortgage-backed securities	-	14,636	-	14,636
Collateralized mortgage obligations	-	63,067	-	63,067
Asset-backed securities	-	5,740	-	5,740
Loans held-for-sale	-	25,819	-	25,819
Interest rate lock commitments	-	-	1,218	1,218
Financial liabilities:				
Forward TBA mortgage-backed securities	-	94	-	94

NOTE 18: 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, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Impaired loans	$ -	$ -	$ 281	$ 281
Real estate and other repossessed assets	-	-	-	-
Mortgage servicing rights	-	-	1,346	1,346

	December 31, 2021			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Impaired loans	$ -	$ -	$ 376	$ 376
Real estate and other repossessed assets	-	-	4	4
Mortgage servicing rights	-	-	14,686	14,686

The following table represents the Bank's financial assets and liabilities measured at fair value on a recurring and nonrecurring basis, 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%
		Prepayment speeds	110-265%
Interest rate lock commitments	Internal pricing model	Pull-through expectations	80 - 95%

NOTE 18: 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, 2022.

	December 31, 2022	December 31, 2021
	Interest Rate Lock Commitments	
	(In Thousands)	
Balance, January 1, 2022	$ 1,218	$ 6,017
Purchases and issuances	227	12,408
Sales and settlements	(1,526)	(17,207)
Balance, December 31, 2022	$ (81)	$ 1,218
Unrealized losses relating to items held at end of period	$ (1,299)	$ (4,799)

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, 2022				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Carrying Amount
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 21,811	$ -	$ -	$ 21,811	$ 21,811
FHLB stock	-	5,089	-	5,089	5,089
FRB stock	-	4,131	-	4,131	4,131
Loans receivable, gross	-	-	1,322,814	1,322,814	1,353,678
Accrued interest and dividends receivable	11,284	-	-	11,284	11,284
Mortgage servicing rights	-	-	19,288	19,288	
Financial liabilities:					
Non-maturing interest-bearing deposits	-	914,659	-	914,659	914,659
Noninterest-bearing deposits	468,955	-	-	468,955	468,955
Time certificates of deposit	-	-	246,348	246,348	251,658
Accrued expenses and other liabilities	26,377	-	-	26,377	26,377
FHLB advances and other borrowings	-	-	69,373	69,373	69,394
Other long-term debt	-	-	56,721	56,721	60,155

NOTE 18: Fair Value of Financial Instruments – continued

	December 31, 2021				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Carrying Amount
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 61,434	$ -	$ -	$ 61,434	$ 61,434
FHLB stock	-	1,702	-	1,702	1,702
FRB stock	-	2,974	-	2,974	2,974
Loans receivable, gross	-	-	939,204	939,204	933,139
Accrued interest and dividends receivable	5,751	-	-	5,751	5,751
Mortgage servicing rights	-	-	14,686	14,686	13,693
Financial liabilities:					
Non-maturing interest-bearing deposits	-	703,948	-	703,948	703,948
Noninterest-bearing deposits	368,846	-	-	368,846	368,846
Time certificates of deposit	-	-	149,605	149,605	149,755
Accrued expenses and other liabilities	21,037	-	-	21,037	21,037
FHLB advances and other borrowings	-	-	5,003	5,003	5,000
Other long-term debt	-	-	29,299	29,299	30,155

NOTE 19: Condensed Parent Company Financial Statements

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

	December 31, 2022	December 31, 2021
	(In Thousands)	
Assets:		
Cash and cash equivalents	$ 5,038	$ 980
Securities available-for-sale	5,851	4,078
Investment in Eagle Bancorp Statutory Trust I	155	155
Investment in Subsidiaries	201,734	177,892
Other assets	5,526	4,203
Total assets	$ 218,304	$ 187,308
Liabilities and Shareholders' Equity:		
Accounts payable and accrued expenses	$ 1,044	$ 710
Other long-term debt	58,844	29,869
Shareholders' equity	158,416	156,729
Total liabilities and shareholders' equity	$ 218,304	$ 187,308

	Years Ended December 31, 2022	Years Ended December 31, 2021
	(In Thousands)	
Interest income	$ 137	$ 118
Interest expense	(2,598)	(1,560)
Noninterest income	-	7
Noninterest expense	(3,015)	(1,514)
Loss before income taxes	(5,476)	(2,949)
Income tax benefit	(1,139)	(579)
Loss before equity in undistributed earnings of Subsidiaries	(4,337)	(2,370)
Equity in undistributed earnings of Subsidiaries	15,038	16,789
Net income	$ 10,701	$ 14,419

NOTE 19: Condensed Parent Company Financial Statements – continued

	Years Ended December 31, 2022	2021
	(In Thousands)	
Cash Flows from Operating Activities:		
Net income	$ 10,701	$ 14,419
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of Subsidiaries	(15,038)	(16,789)
Other adjustments, net	(997)	(706)
Net cash used in operating activities	(5,334)	(3,076)
Cash Flows from Investing Activities:		
Cash contributions from Opportunity Bank of Montana	-	5,800
Cash paid for acquisitions, net of cash received	(10,227)	-
Activity in available-for-sale securities:		
Sales	-	387
Maturities, principal payments and calls	18,118	557
Purchases	(20,158)	-
Net cash (used in) provided by investing activities	(12,267)	6,744
Cash Flows from Financing Activities:		
Proceeds from issuance of subordinated debentures	40,000	-
Repayment of subordinated debentures	(10,000)	-
Payments for debt issuance costs	(918)	-
ESOP payments and dividends	585	425
Payments to purchase treasury stock	(4,430)	(6,279)
Treasury shares reissued for compensation	484	409
Dividends paid	(4,062)	(3,018)
Net cash provided by (used in) financing activities	21,659	(8,463)
Net Increase (Decrease) in Cash and Cash Equivalents	4,058	(4,795)
Cash and Cash Equivalents, beginning of period	980	5,775
Cash and Cash Equivalents, end of period	$ 5,038	$ 980

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SHAREHOLDER INFORMATION

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