

# 2018 Notice & Proxy Statement



# 2017 Annual Report

## STOCKHOLDER INFORMATION

### Annual Meeting

The Annual Meeting of Shareholders will be held at 3:00 p.m. on Tuesday, September 18, 2018 at the Western Hills Country Club, located at 5780 Cleves Warsaw Pike, Cincinnati, Ohio 45233.

### Stock Listing

The Company's Common Stock is listed on NASDAQ under the symbol "EFBI".

### Special Counsel

Luse Gorman, PC  
5335 Wisconsin Avenue, N.W., Suite 780  
Washington, D.C. 20015

### Independent Registered Public Accounting Firm

BKD, LLP  
312 Walnut Street, Suite 3000  
Cincinnati, OH 45202

### Transfer Agent

Continental Stock Transfer & Trust Company  
1 State Street  
30th Floor  
New York, New York 10004

If you have any questions concerning your stockholder account, please call our transfer agent, noted above, at 1-800-509-5586. This is the number to call if you require a change of address, records or information about lost certificates.

## DIRECTORS AND EXECUTIVE OFFICERS

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### Directors

James W. Braun  
*Chairman of the Board*

Guy W. Cagney  
*Director*

Steven J. Dulle  
*Director*

Gary J. Koester  
*Director, President and  
Chief Executive Officer*

Adam B. Goetzman  
*Director*

Steven C. Kehoe  
*Director*

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### Executive Officers

Gary J. Koester  
*President and Chief Executive Officer*

Patricia L. Walter  
*Executive Vice President*

Kevin R. Schramm  
*Vice President, Chief  
Financial Officer and  
Treasurer*

W. Raymond McCleese  
*Vice President of  
Commercial Lending*

August 8, 2018

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Eagle Financial Bancorp, Inc. The meeting will be held at the Western Hills Country Club, located at 5780 Cleves Warsaw Pike, Cincinnati, Ohio, 45233, at 3:00 p.m., local time, on Tuesday, September 18, 2018.

The notice of annual meeting and proxy statement appearing on the following pages describe the formal business to be transacted at the meeting. Officers of the Company, as well as a representative of the Company's independent registered public accounting firm, will be present to respond to appropriate questions of shareholders.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card promptly. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

We look forward to seeing you at the meeting.

Sincerely,

A handwritten signature in black ink that reads "Gary J. Koester". The signature is written in a cursive style with a large, stylized "G" and "K".

Gary J. Koester  
*President and Chief Executive Officer*

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Eagle Financial Bancorp, Inc.  
6415 Bridgetown Road  
Cincinnati, Ohio 45248  
(513) 574-0700

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**NOTICE OF 2018 ANNUAL MEETING OF SHAREHOLDERS**

- TIME AND DATE** . . . . . 3:00 p.m. on Tuesday, September 18, 2018.
- PLACE** . . . . . The Western Hills Country Club, located at 5780 Cleves Warsaw Pike, Cincinnati, Ohio 45233.
- ITEMS OF BUSINESS** . . . . .
- (1) To elect two directors to serve for a term of three years.
  - (2) To approve the Eagle Financial Bancorp, Inc. 2018 Equity Incentive Plan.
  - (3) To ratify the selection of BKD, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.
  - (4) To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.
- RECORD DATE** . . . . . To vote, you must have been a shareholder at the close of business on July 2, 2018.
- PROXY VOTING** . . . . . It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card or voting instruction card sent to you. Voting instructions, including how to vote by phone or internet, are printed on your proxy or voting instruction card and included in the accompanying proxy statement. You can revoke a proxy at any time before its exercise at the meeting by following the instructions in the proxy statement.

By Order of the Board of Directors



Patricia L. Walter  
Corporate Secretary  
August 8, 2018

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be Held on September 18, 2018: The Proxy Statement, Notice and 2017 Annual Report are Available at: <http://www.cstproxy.com/eaglesavings/2018>.**

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## **Eagle Financial Bancorp, Inc.**

### **Proxy Statement**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Eagle Financial Bancorp, Inc. (the “Company” or “Eagle Financial”) to be used at the annual meeting of shareholders of the Company. The Company is the holding company for Eagle Savings Bank (the “Bank”). The annual meeting will be held at the Western Hills Country Club, Cincinnati, Ohio 45233 on Tuesday, September 18, 2018 at 3:00 p.m. local time. This proxy statement and the enclosed proxy card are being mailed to shareholders of record on or about August 8, 2018.

### **Voting and Proxy Procedure**

#### **Who Can Vote at the Meeting**

You are entitled to vote your Company common stock if the records of the Company show that you held your shares as of the close of business on July 2, 2018. If your shares are held through a broker, bank or similar holder of record, you are considered the beneficial owner of shares held in “street name” and these proxy materials are being forwarded to you by your broker or other holder of record. As the beneficial owner, you have the right to direct your broker or other holder of record how to vote by filling out a voting instruction form that accompanies these proxy materials. Your broker or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Please see the voting instruction form provided by your broker or other holder of record that accompanies this proxy statement.

As of the close of business on July 2, 2018, there were 1,612,808 shares of Company common stock outstanding. Each share of common stock has one vote. The Company’s articles of incorporation provide that record owners of Company common stock beneficially owned by a person who beneficially owns in excess of 10% of the Company’s outstanding common stock (a “10% beneficial owner”), shall not be entitled to vote, in the aggregate, shares beneficially owned by the 10% beneficial owner in excess of 10% of the Company’s outstanding common stock, unless a majority of unaffiliated directors (as defined in the articles of incorporation) grant such entitlement by resolution in advance of the acquisition of the excess shares.

#### **Attending the Meeting**

If you were a shareholder as of the close of business on July 2, 2018, you may attend the meeting. However, if your shares of Company common stock are held in street name, you will need proof of ownership to be admitted to the meeting. A recent account statement or letter from your broker or other holder of record are examples of proof of ownership. If you want to vote your shares of Company common stock held in street name in person at the meeting, you will have to get a written proxy in your name from your broker or other holder of record.

#### **Quorum and Vote Required for Proposals**

**Quorum.** A majority of the outstanding shares of common stock entitled to vote is required to be represented at the meeting to constitute a quorum for the transaction of business.

**Votes Required for Proposals.** At this year’s annual meeting, shareholders will elect two directors to serve for a term of three years and until their successors are elected and qualified. In voting on the election of directors, you may vote in favor of the nominees, withhold votes as to all nominees, or withhold votes as to a specific nominee. There is no cumulative voting for the election of directors. Directors must be elected by a plurality of the votes cast at the annual meeting. This means that the nominees receiving the greatest number of votes will be elected.

In voting on the approval of the Eagle Financial Bancorp, Inc. 2018 Equity Incentive Plan (the “Equity Incentive Plan”), a stockholder may vote in favor of the proposal, vote against the proposal or abstain from voting. The affirmative vote of a majority of the votes cast at the annual meeting is required for the approval of this matter.

In voting on the ratification of the appointment of BKD, LLP (“BKD”) as the Company’s independent registered public accounting firm, you may vote in favor of the proposal, vote against the proposal or abstain from voting. To ratify the selection of BKD as our independent registered public accounting firm for the fiscal year ending December 31, 2018, the affirmative vote of a majority of the votes cast on the proposal is required.

**Broker Non-Votes.** If you do not provide your broker or other record holder with voting instructions on certain non-routine matters, your broker will not have discretion to vote your shares on such matters. The election of directors and the approval of the Equity Incentive Plan are non-routine matters. In the case of routine matters (e.g., the ratification of the appointment of the Company’s independent registered public accounting firm), your broker or other holder of record is permitted to vote your shares in the record holder’s discretion if you have not provided voting instructions. A “broker non-vote” occurs when your broker submits a proxy for the meeting with respect to routine matters, but does not vote on non-routine matters because you did not provide voting instructions on such matters.

**How Votes Are Counted.** If you return valid proxy instructions or attend the meeting in person, we will count your shares for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for purposes of determining the existence of a quorum.

In counting votes for the election of directors, votes that are withheld and broker non-votes will have no effect on the outcome of the election.

In counting votes on the approval of the Equity Incentive Plan, we will not count abstentions or broker non-votes as votes cast on the proposal. Therefore, abstentions and broker non-votes will have no impact on the outcome of this proposal.

In counting votes on the proposal to ratify the selection of the independent registered public accounting firm, abstentions will have no effect on the outcome of the vote.

## **Voting by Proxy**

The Company’s Board of Directors is sending you this proxy statement to request that you allow your shares of Company common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of Company common stock represented at the meeting by properly executed and dated proxies will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company’s Board of Directors.

The Board of Directors recommends that you vote:

- *for* each of the nominees for director;
- *for* the approval of the Equity Incentive Plan; and
- *for* ratification of the appointment of BKD as the Company’s independent registered public accounting firm.

If any matters not described in this proxy statement are properly presented at the annual meeting, the persons named in the proxy card will use their judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the meeting to solicit additional proxies. If the annual meeting is postponed or adjourned for less than 30 days, your Company common stock may be voted by the persons named in the proxy card on the new meeting date, provided you have not revoked your proxy. The Company does not currently know of any other matters to be presented at the meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must advise the Corporate Secretary of the Company in writing before your common stock has been voted at the annual meeting, deliver a later dated proxy or attend the meeting and vote your shares in person by ballot. Attendance at the annual meeting will not in itself constitute revocation of your proxy.



### **Participants in the Eagle Savings Bank ESOP or 401(k) Plan**

If you participate in the Eagle Savings Bank Employee Stock Ownership Plan (the “ESOP”), you will receive a vote authorization form for the plan that reflects all shares you may direct the trustees to vote on your behalf under the ESOP. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary responsibilities, will vote all unallocated shares of Eagle Financial common stock held by the ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions. Under the terms of the Eagle Savings Bank 401(k) Profit Sharing Plan (the “401(k) Plan”), a participant is entitled to vote the shares credited to his or her 401(k) Plan account. Shares for which no voting instructions are given or for which instructions were not timely received may be voted by the 401(k) Plan trustee as directed in the sole discretion of the Plan Administrator, subject to the determination that such a vote is for the exclusive benefit of plan participants and beneficiaries. **The deadline for returning your ESOP and 401(k) Plan voting instructions is September 11, 2018.**

## Corporate Governance and Board Matters

### General

The Company periodically reviews its corporate governance policies and procedures to ensure that the Company reports results with accuracy and transparency and maintains full compliance with the laws, rules and regulations that govern the Company's operations. As part of this periodic corporate governance review, the Board of Directors reviews and adopts what the Board believes are best corporate governance policies and practices for the Company.

### Code of Ethics and Business Conduct

The Company has adopted a Code of Ethics and Business Conduct that is designed to promote the highest standards of ethical conduct by the Company's directors, executive officers and employees. The Code of Ethics and Business Conduct requires that the Company's directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company's best interest. Under the terms of the Code of Ethics and Business Conduct, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethics and Business Conduct. A copy of the Code of Ethics and Business Conduct can be found in the "Investor Relations — Corporate Governance — Charters and Code of Ethics" section of the Company's website, [www.eaglesavings.com](http://www.eaglesavings.com).

As a mechanism to encourage compliance with the Code of Ethics and Business Conduct, the Company has established procedures for receiving, retaining and addressing complaints regarding accounting, internal accounting controls and auditing matters. These procedures ensure that individuals may submit concerns regarding questionable accounting or auditing matters in a confidential and anonymous manner. The Code of Ethics and Business Conduct also prohibits the Company from retaliating against any director, executive officer or employee who reports actual or apparent violations of the Code of Ethics and Business Conduct.

The Company has also adopted an additional Code of Ethics that is applicable to our senior officers. This Code of Ethics is also available at our website at [www.eaglesavings.com](http://www.eaglesavings.com). Amendments to and waivers from the Code of Ethics for senior officers will also be disclosed on our website.

### Director Independence

Eagle Financial currently has six directors. The Board of Directors has determined that each of the directors, with the exception of President and Chief Executive Officer Gary Koester, is "independent" as defined in NASDAQ Stock Market Rules (the "NASDAQ rules"). Mr. Koester is not independent because he is an executive officer.

In determining the independence of the directors listed above, the Board of Directors reviewed accounts that directors and their affiliates had with the Bank, none of which are required to be reported in this proxy statement under the heading "*Transactions With Related Persons.*"

### Meetings of the Board of Directors

The Company conducts business through meetings of its Board of Directors and through activities of its committees. During the fiscal year ended December 31, 2017, the Board of Directors held 16 meetings. No director attended fewer than 75% percent of the total meetings of the Company's Board of Directors and the board committees on which such director served.

### Board Leadership Structure

At the Company, the positions of Chairman of the Board and Chief Executive Officer are held by different individuals. Chairman James Braun provides guidance to our Chief Executive Officer, Gary Koester, and is active in setting the agenda for Board meetings and presides over meetings of the full Board. The Chief Executive Officer is responsible for setting the strategic direction for the Company and the day to

day leadership and performance of the Company. We believe that this separation of roles enhances the Chairman's leadership of the Board, which in turn oversees management, and enhances the Chief Executive Officer's focus on managing Company operations. The Board is also involved in the strategic planning of the Company through formal discussions and approval of the Company's strategic plan, which is updated annually.

### Board's Role in Risk Oversight

The Board of Directors is actively involved in oversight of risks that could affect the Company. This oversight is conducted primarily through committees of the Board of Directors, but the full Board of Directors has retained responsibility for general oversight of risks. The Board of Directors also satisfies this responsibility through reports by the committee chair of all Board committees regarding the committees' considerations and actions, through review of minutes of committee meetings and through regular reports directly from officers responsible for oversight of particular risks within the Company. Risks relating to the direct operations of the Bank are further overseen by the Board of Directors of the Bank, which currently consists of the same individuals who serve on the Board of Directors of the Company. Risk categories include credit, interest rate, liquidity, price, operational, information technology, compliance, capital, earnings, strategic, accounting and reputation risks. The Compliance Officer coordinates and oversees the risk and compliance programs with management. The Audit Committee coordinates and oversees the Company's major financial and accounting risk exposures and the steps management has undertaken to control them. Management reports action plans for any risk categories outside of acceptable tolerances.

### Committees of the Board of Directors

The following table identifies our standing Board committees and their members as of July 2, 2018. All members of each committee are independent as defined by NASDAQ rules. Each committee operates under a written charter or charters available in the "Investor Relations — Corporate Governance — Charters and Codes" section of the Company's website, [www.eaglesavings.com](http://www.eaglesavings.com).

	Nominating and Corporate Governance Committee	Compensation Committee	Audit Committee
James W. Braun . . . . .	X	X**	
Guy W. Cagney . . . . .	X	X	
Steven J. Dulle . . . . .	X	X	X
Adam B. Goetzman . . . . .	X**	X	X
Steven C. Kehoe . . . . .	X	X	X**
Meetings in 2017: . . . . .	1	1	4

\*\* Denotes Chairperson.

**Audit Committee.** The Audit Committee assists the Board of Directors in its oversight of the Company's accounting and reporting practices, the quality and integrity of the Company's financial reports and the Company's compliance with applicable laws and regulations. The Audit Committee is also responsible for engaging the Company's independent registered public accounting firm and monitoring its conduct and independence. The Board of Directors of Eagle Financial has designated director Steven Kehoe as an "audit committee financial expert," as that term is defined by the rules and regulations of the Securities and Exchange Commission ("SEC"). The report of the Audit Committee required by the rules of the SEC is included in this proxy statement under the heading "Audit Committee Report."

**Compensation Committee.** The Compensation Committee is responsible for the annual evaluation of the Chief Executive Officer as well as recommending to the full Board the compensation of the Chief Executive Officer and other executive officers and directors, and administering the overall compensation policy of the Company. The Compensation Committee's duties include:

- establishing, reviewing, modifying and approving the executive compensation philosophy of the Company;
- reviewing at least annually the performance of the Chief Executive Officer and reviewing all compensation components for the Chief Executive Officer and other executive officers, including base salary, annual incentive, long-term incentives and perquisites;
- administering and having discretionary authority over the Company's incentive compensation plans and programs;
- regularly evaluating the relationship between the Company's overall compensation policies and practices and risk; and
- reviewing the Company's employee benefits plans and other personnel, compensation, and related policies.

These duties and responsibilities are set forth in a written Charter reviewed by the Compensation Committee and approved by the Board of Directors annually.

The Compensation Committee considers the relationship between the Company's compensation policies and practices for all employees and risk, including whether such policies and practices encourage imprudent risk taking and/or would be reasonably likely to have a material adverse effect on the Company. The Compensation Committee annually reviews the risk profile of our executive and broad-based compensation programs to determine if any practices might encourage excessive risk taking on the part of senior executives.

The Compensation Committee makes decisions about the Chief Executive Officer and executive officer compensation as part of the annual review of the performance of the Chief Executive Officer and the other executive officers. The Compensation Committee considers the Chief Executive Officer's perspective on each executive officer's individual performance (other than the Chief Executive Officer's performance) and the performance of the Company. The Chief Executive Officer is not in the executive sessions or any meetings where his compensation and/or performance are being discussed. In addition, the Compensation Committee may delegate to management certain of its duties and responsibilities, including with respect to the adoption, amendment, modification or termination of the Company's tax-qualified retirement plans and health and welfare plans.

**Nominating and Corporate Governance Committee.** The Company's Nominating and Corporate Governance Committee assists the Board of Directors in identifying qualified individuals to serve as Board members. The Nominating and Corporate Governance Committee also considers and recommends the nominees for director to stand for election at the Company's annual meeting of shareholders, including considering recommendations for nominees submitted by shareholders. The procedures of the Nominating and Corporate Governance Committee, which are required to be disclosed by the rules of the SEC, are included in this proxy statement under the heading "*Nominating and Corporate Governance Committee Procedures.*"

The Nominating and Corporate Governance Committee also develops and recommends corporate governance guidelines to the Board for its approval, makes recommendations to the Board regarding the size and composition of the Board and develops and recommends to the Board criteria for the selection of individuals to be considered for election or re-election to the Board. The Nominating and Corporate Governance Committee reviews the Board's committee structure and recommends to the Board, for its approval, directors to serve as members of each committee. In addition, the Nominating and Corporate Governance Committee develops and recommends to the Board for its approval an annual self-evaluation process of the Board and its committees.

## **Director Attendance at the Annual Meeting**

The Board of Directors encourages each director to attend annual meetings of shareholders. All of our then-current directors attended the 2017 annual meeting of shareholders.

## **Nominating and Corporate Governance Committee Procedures**

### **General**

It is the policy of the Nominating and Corporate Governance Committee of the Board of Directors to consider director candidates recommended by shareholders who appear to be qualified to serve on the Company's Board of Directors. The Nominating and Corporate Governance Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors and the Nominating and Corporate Governance Committee does not perceive a need to increase the size of the Board of Directors. To avoid the unnecessary use of the Nominating and Corporate Governance Committee's resources, the Nominating and Corporate Governance Committee will consider only those director candidates recommended in accordance with the procedures set forth below.

### **Procedures to be Followed by Shareholders**

To submit a recommendation of a director candidate to the Nominating and Corporate Governance Committee, a shareholder should submit the following information in writing, addressed to the Chair of the Nominating and Corporate Governance Committee, care of the Corporate Secretary, at the main office of the Company located at Attention: Corporate Secretary, 6415 Bridgetown Road, Cincinnati, Ohio 45248.

- A statement that the writer is a shareholder and is proposing a candidate for consideration by the Nominating and Corporate Governance Committee;
- The name and address of the shareholder as they appear on the Company's books, and the number of shares of the Company's common stock that are owned beneficially by the shareholder (if the shareholder is not a holder of record, appropriate evidence of the shareholder's ownership will be required);
- The name, address and contact information for the candidate, and the number of shares of common stock of the Company that are owned by the candidate (if the candidate is not a holder of record, appropriate evidence of the candidate's share ownership, if any, should be provided);
- A statement of the candidate's business and educational experience;
- Such other information regarding the candidate as would be required to be included in the proxy statement pursuant to SEC Regulation 14A;
- A statement detailing any relationship between the candidate and any customer, supplier or competitor of the Company;
- Detailed information about any relationship or understanding between the proposing shareholder and the candidate; and
- A statement that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

In order for a director candidate to be considered for nomination at the Company's annual meeting of shareholders, the recommendation must be received by the Nominating and Corporate Governance Committee at least 150 calendar days before the date the Company's proxy statement was released to shareholders in connection with the previous year's annual meeting, advanced by one year.

## Process for Identifying and Evaluating Nominees

The process that the Nominating and Corporate Governance Committee follows to identify and evaluate individuals to be nominated for election to the Board of Directors is as follows:

**Identification.** For purposes of identifying nominees for the Board of Directors, the Nominating and Corporate Governance Committee first develops an analysis of board skill needs. The Committee then identifies possible candidates meeting the requirements and relies on personal contacts of the committee members and other members of the Board of Directors as well as knowledge of the members of the communities served by the Bank who fit the criteria. Candidates are vetted and brought in for formal interviews with the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee makes recommendations to the Board for additional interviews and vetting. After the candidate is fully vetted by the Committee and the Board of Directors, the Board of Directors vote on whether to nominate the candidate for election as a director. The Nominating and Corporate Governance Committee will also consider director candidates recommended by shareholders in accordance with the policy and procedures set forth above. The Nominating and Corporate Governance Committee has not previously used an independent search firm to identify nominees.

**Evaluation.** In evaluating potential nominees, the Nominating and Corporate Governance Committee determines whether the candidate is eligible and qualified for service on the Board of Directors by evaluating the candidate under certain criteria, which are described below. If such individual fulfills these criteria, the Nominating and Corporate Governance Committee will conduct a background check of the individual and interview the candidate to further assess the qualities of the prospective nominee and the contributions he or she would make to the Board of Directors.

## Qualifications

The Nominating and Corporate Governance Committee has recommended, and the Board of Directors has adopted, a set of criteria for the Nominating and Corporate Governance Committee to consider when it selects individuals to be nominated for election to the Board of Directors. A candidate must meet the eligibility requirements set forth in the Company's bylaws, which include a residency requirement and a requirement that the candidate not have been subject to certain criminal or regulatory actions. A candidate also must meet any qualification requirements set forth in any Board or Committee governing documents. If the candidate is deemed eligible for election to the Board of Directors, the Nominating and Corporate Governance Committee will then evaluate the potential nominee based on the following criteria:

- *Contribution to Board* — The Company endeavors to maintain a Board that possesses a wide range of abilities. To that end, the Nominating and Corporate Governance Committee will assess the extent to which the candidate would contribute to the range of talent, skill and expertise appropriate for the Board.
- *Experience* — The Company is the holding company for an insured depository institution. Because of the complex and heavily regulated nature of the Company's business, the Nominating and Corporate Governance Committee will consider a candidate's relevant financial, regulatory and business experience and skills, including the candidate's knowledge of the banking and financial services industries, familiarity with the operations of public companies, and ability to read and understand fundamental financial statements.
- *Familiarity with and Participation in Local Community* — The Company is a community-orientated organization that serves the needs of local consumers and local businesses. Consistent with the local character of the Company's business, the Nominating and Corporate Governance Committee will consider a candidate's familiarity with the Company's market area (or a portion thereof) and participation in local business, civic, charitable or religious organizations, as well as the candidate's ties to local businesses.

- *Integrity* — Due to the nature of the financial services provided by the Company and its subsidiaries, the Company is in a special position of trust with respect to its customers. Accordingly, the integrity of the Board is of utmost importance to developing and maintaining customer relationships. In order to uphold that trust, the Nominating and Corporate Governance Committee will consider a candidate's personal and professional integrity, honesty and reputation.
- *Stockholder Interests and Dedication* — A basic fiduciary duty of directors is the exercise of their business judgment to act in what they reasonably believe to be in the best interests of the Company and its stockholders. In order to discharge this obligation, the Nominating and Corporate Governance Committee will consider a candidate's ability to represent the best interests of the Company and its stockholders, the potential for conflicts of interests with the candidate's other pursuits, and the candidate's ability to devote sufficient time and energy to diligently perform his or her duties, including the candidate's ability to personally attend Board and committee meetings.
- *Independence* — A majority of the Board and all members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee must be independent. In meeting this requirement, the Nominating and Corporate Governance Committee will consider the absence or presence of material relationships between a candidate and the Company (including those set forth in the NASDAQ rules) that might impact objectivity and independence of thought and judgment. In addition, the Committee will consider the candidate's ability to serve on any Board committees that are subject to additional regulatory requirements (e.g. SEC regulations).
- *Additional Factors* — The Nominating and Corporate Governance Committee may also consider any other factors it deems relevant to a candidate's nomination, including the extent to which the candidate helps the Board reflect the diversity of the Company's stockholders, employees, customers and communities. The Committee also may consider the current composition and size of the Board, the number of independent directors, and the need for audit committee expertise.

With respect to nominating an existing director for re-election to the Board of Directors, the Nominating and Corporate Governance Committee will consider and review an existing director's board and committee attendance and performance; results of their annual board evaluation; length of board service; experience, skills and contributions that the existing director brings to the Board; and independence.

### **Submission of Business Proposals and Shareholder Nominations**

The Company must receive proposals that shareholders seek to include in the proxy statement for the Company's next annual meeting a reasonable time before the Company begins to print and mail its proxy solicitation for such annual meeting. Any shareholder proposals that are intended to be included in the proxy statement for the Company's next annual meeting will be subject to other requirements of the proxy rules adopted by the SEC.

In addition, the Company's bylaws provide that, in order for a shareholder to make nominations for the election of directors or proposals for business to be brought before the annual meeting, a shareholder must deliver notice of such nominations and/or proposals to the Secretary not less than 110 days nor more than 120 days prior to the anniversary of the prior year's annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to the anniversary of the preceding year's annual meeting, a stockholder's written notice shall be timely only if delivered or mailed to and received by the Secretary of the Company no earlier than the day on which public disclosure of the date of such annual meeting is first made and no later than the tenth day following the day on which public disclosure of the date of such annual meeting is first made.

## Proposal 1 — Election of Directors

Eagle Financial Bancorp, Inc. and Eagle Savings Bank each have six directors. Directors serve three-year staggered terms so that approximately one-third of the directors are elected at each annual meeting. Directors of Eagle Savings Bank will be elected by Eagle Financial Bancorp, Inc. as its sole stockholder. The table below sets forth certain information regarding the composition of the Board of Directors and management as well as stock ownership of directors and executive officers as of July 2, 2018. Except as indicated herein, there are no arrangements or understandings between any director and any other person pursuant to which the director was elected. Ages are as of December 31, 2017. Unless otherwise indicated, none of the shares listed are pledged as security, and each of the named individuals has sole voting power and sole investment power with respect to the number of shares shown. Percentages are based on 1,612,808 shares of Company common stock issued and outstanding as of July 2, 2018.

Name <sup>(1)</sup>	Age as of 12/31/17	Positions Held in Eagle Financial Bancorp, Inc.	Directors Since <sup>(2)</sup>	Term to Expire	Shares of Common Stock Beneficially Owned on the Record Date <sup>(3)</sup>	Percent of Class
<b>Directors</b>						
Gary J. Koester	64	President, Chief Executive Officer and Director	1982	2019	40,000 <sup>(4)</sup>	2.48%
James W. Braun	70	Chairman of the Board	1995	2018	10,000 <sup>(5)</sup>	0.62%
Guy W. Cagney	65	Director	2002	2020	35,000 <sup>(6)</sup>	2.17%
Steven J. Dulle	60	Director	1996	2020	30,000 <sup>(7)</sup>	1.86%
Adam B. Goetzman	58	Director	2008	2018	18,000	1.12%
Steven C. Kehoe	62	Director	2008	2019	20,000 <sup>(8)</sup>	1.24%
<b>Named Executive Officers Who Are Not Directors</b>						
Patricia L. Walter	42	Executive Vice President			30,000 <sup>(9)</sup>	1.86%
Kevin R. Schramm	52	Vice President, Chief Financial Officer and Treasurer			20,000 <sup>(10)</sup>	1.24%
All directors and executive officers as a group (9 persons)					208,000	12.90%

- (1) The mailing address for each person listed is 6415 Bridgetown Road, Cincinnati, Ohio 45248.
- (2) Includes initial appointment to the Board of Directors of our mutual predecessor.
- (3) Shares of common stock are held directly unless indicated otherwise.
- (4) Includes 5,700 shares of common stock held in Mr. Koester's individual retirement account, 20,000 shares held by Mr. Koester's spouse and 14,300 shares held in Mr. Koester's 401(k) plan account.
- (5) Includes 10,000 shares of common stock held in Mr. Braun's individual retirement account.
- (6) Includes 20,000 shares of common stock held in Mr. Cagney's individual retirement account, 10,700 shares held by Mr. Cagney's spouse and 10,700 shares held by Mr. Cagney's spouse's individual retirement account.
- (7) Includes 15,000 shares of common stock held in Mr. Dulle's individual retirement account and 15,000 shares held by Mr. Dulle's spouse's individual retirement account.
- (8) Includes 16,000 shares of common stock held in Mr. Kehoe's individual retirement account.



- (9) Includes 16,000 shares of common stock held in Ms. Walter's individual retirement account, 12,650 shares held by Ms. Walter's spouse's individual retirement account and 1,350 shares held by Ms. Walter's three children.
- (10) Includes 10,000 shares of common stock held in Mr. Schramm's individual retirement account and 10,000 shares held in Mr. Schramm's 401(k) plan account.

### **Nominees for Election as Directors**

The nominees for election as directors at the 2018 annual meeting of shareholders are James W. Braun and Adam B. Goetzman, each of whom is a current director of the Company and the Bank.

**It is intended that the proxies solicited by the Board of Directors will be voted for the election of the nominees named above unless other instructions are provided.** If any nominee is unable to serve, the proxy committee will vote your shares to approve the election of any substitute proposed by the Board of Directors. Alternatively, the Board of Directors may adopt a resolution to reduce the size of the Board. At this time, the Board of Directors knows of no reason why any nominee might be unable to serve.

### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF BOTH NOMINEES.**

### **The Business Background of Nominees and Continuing Directors and Executive Officers**

The business experience for the past five years of each of our directors is set forth below. The biographies also contain information regarding the person's experience, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee and the Board of Directors to determine that the person should serve as a director. Unless otherwise indicated, directors have held their positions for the past five years.

#### **Nominees**

*James W. Braun* is retired since 2012, and the former Vice President of Technology for MAG IAS, LLC, an international capital equipment manufacturer. Mr. Braun has over 40 years of industry experience, including 25 years at Milacron, where he held various senior management positions in product development and international business management. Mr. Braun provides the Board with extensive local business experience, strategic planning and valuable insight into managing and overseeing a business. Mr. Braun has served as a director of Eagle Savings Bank since 1995 and has been the Chairman of the Board since 2007.

*Adam B. Goetzman* is the Development Director and Zoning Administrator of Northeast Green Township Zoning District. Mr. Goetzman is responsible for zoning, code enforcement and development review services with county and/or state agencies. He performs comprehensive land use planning and promotes business development and retention. Mr. Goetzman brings the Board extensive knowledge of the building industry and business in the Bank's market. Mr. Goetzman has served as a director of Eagle Savings Bank since 2008.

#### **Directors Continuing in Office**

#### **The following directors have terms ending in 2019:**

*Steven C. Kehoe* is a founding member of Kehoe Financial Services, LLC, a regional office of Kestra and a Registered Investment Advisor in Cincinnati, Ohio since 1982. Mr. Kehoe's practice is an independent fee-based financial planning practice primarily focusing on small business planning, investments, retirement planning and estate planning. Mr. Kehoe is also a Registered Representative with Kestra and a licensed agent with many leading insurance companies. Mr. Kehoe has served as a director of Eagle Savings Bank since 2008. Mr. Kehoe brings the Board extensive financial experience and will serve as the Board's audit committee financial expert.

**Gary J. Koester** is our President and Chief Executive Officer and has served in those capacities with Eagle Savings Bank since 1996 and has served as a director of Eagle Savings Bank since 1982. Mr. Koester began his career at Eagle Savings Bank in 1977 and has held various other positions during his time with the Bank. His experience at Eagle Savings Bank includes all facets of the Bank including lending, operations, and information technology.

**The following directors have terms ending in 2020:**

**Guy W. Cagney** is a local real estate agent with Coldwell Banker West Shell since 2012. Mr. Cagney is a licensed Real Estate Agent in Ohio, Indiana and Florida. He has built a 40 year successful real estate career and reputation mostly in residential real estate sales. He is a member of the Western Hills Lions Club, Elder High School Alumni Board and Cincinnati Area Board of Realtors Grievance Advisory Committee. Mr. Cagney offers the Board experience in marketing, community involvement and the real estate market in the Bank's lending areas. Mr. Cagney has served as a director of Eagle Savings Bank since 2002.

**Steven J. Dulle** is the founder and President of Dulle and Company, a Cincinnati based advertising and marketing firm, which he started in 1982. His experience includes a wide variety of clients in the technology, service, manufacturing, home building, health care, financial services and consumer products industries. Mr. Dulle offers the Board his experience in developing marketing strategies and branding campaigns for local, national and international clients. Mr. Dulle has served as a director of Eagle Savings Bank since 1996.

**Executive Officers Who Are Not Directors**

**Patricia L. Walter** is our Executive Vice President and was hired on July 6, 2016. For 11 years prior to joining the Bank, Ms. Walter served as the Controller and then the Senior Vice President of Finance for the former Cheviot Savings Bank. Ms. Walter began her career in 1997 working for six years with Grant Thornton LLP as an auditor, and then for two years with Comair, Inc., a former subsidiary of Delta Air Lines, as the Manager of Corporate Accounting.

**Kevin R. Schramm** is our Vice President, Chief Financial Officer and Treasurer. Mr. Schramm has served as Chief Financial Officer and Treasurer with Eagle Savings Bank since September 2006, and was named Vice President in 2017. Mr. Schramm began his career in 1986 with Cinco Federal Credit Union where he spent 17 years in various positions, including Operations Manager and Controller. Mr. Schramm's experience also includes service as the Chief Financial Officer of the former Cottage Savings Bank.

**W. Raymond McCleese** is our Vice President of Commercial Lending since being hired in May 2016. Prior to joining Eagle Savings Bank, he served two years as a Vice President of Commercial Lending for First Financial Bank, and for over four years as a Vice President and a part of senior management with the former Merchants Bank and Trust, heading up the Commercial and Industrial division. He has also served as a Federal SBSE Agent for the Internal Revenue Service, Chief Financial Officer of a mid-sized interior design firm, and as a staff accountant for a well-established local CPA firm.

## Executive Compensation

**Summary Compensation Table.** The following table sets forth certain information as to the total remuneration paid by Eagle Savings Bank to Gary Koester, President and Chief Executive Officer, Patricia L. Walter, Executive Vice President, and Kevin Schramm, Vice President, Chief Financial Officer and Treasurer, for the years indicated. The individuals listed in the table below are referred to as “named executive officers.”

Name and principal position	Year	Salary (\$)	Bonus (\$)	All other Compensation <sup>(1)</sup> (\$)	Total (\$)
Gary J. Koester President and Chief Executive Officer	2017	162,898	49,005	33,936	245,839
	2016	157,804	31,861	25,524	215,189
Patricia L. Walter Executive Vice President	2017	122,989	37,636	3,816	164,441
Kevin R. Schramm Vice President, Chief Financial Officer & Treasurer	2017	104,948	31,231	5,708	141,887
	2016	95,778	19,376	4,441	119,595

- (1) A break-down of the various elements of compensation in this column for 2017 is set forth in the following table:

Name	Board and Other Fees (\$)	Employer Contributions to 401(k) Plan (\$)	Total All Other Compensation (\$)
Gary J. Koester	24,000	9,936	33,936
Patricia L. Walter	—	3,816	3,816
Kevin R. Schramm	—	5,708	5,708

## Benefit Plans and Agreements

**Employment Agreements.** Eagle Financial Bancorp, Inc. and Eagle Savings Bank have entered into employment agreements with Gary J. Koester, our President and Chief Executive Officer, Patricia L. Walter, our Executive Vice President and Kevin R. Schramm, our Vice President, Chief Financial Officer and Treasurer. Our continued success depends to a significant degree on the skills and competence of Mr. Koester, Ms. Walter and Mr. Schramm, and the employment agreements are intended to ensure that we maintain a stable management base following the conversion and offering.

Each employment agreement has substantially similar terms, except for the term of the agreements. Mr. Koester’s agreement has an initial three-year term and, commencing on January 1, 2018, and on each subsequent January 1<sup>st</sup> thereafter the agreement will be renewed for an additional year so that the remaining term will always be three years from the applicable January 1<sup>st</sup> renewal date, unless a notice is provided to Mr. Koester that the agreement will not renew. Ms. Walter’s and Mr. Schramm’s agreements have an initial two-year term with the same renewal provisions as provided in Mr. Koester’s agreement. The current base salary for Mr. Koester is \$183,668, Ms. Walter’s current base salary is \$127,308 and the current base salary for Mr. Schramm is \$106,761. In addition to the base salary, the agreement provides for, among other things, participation in bonus programs, if any, and other fringe benefit plans, if any, applicable to executive employees. The executive’s employment may be terminated for cause at any time, in which event the executive would have no right to receive compensation or other benefits for any period after termination.

Certain events resulting in the executive’s termination or resignation entitle the executive to payments of severance benefits following termination of employment. In the event the executive’s involuntary termination for reasons other than for cause, disability or retirement, or in the event the executive resigns during the term of the agreement following (a) for Mr. Koester’s agreement only, a failure to appoint him to

the executive position set forth in the agreement, (b) a material change in the executive's function, duties or responsibilities resulting in a reduction of the responsibility, scope, or importance of his position, (c) relocation of the executive's office by more than 30 miles, (d) a material reduction in the benefits or perquisites paid to the executive unless such reduction is part of a reduction that is generally applicable to officers or employees of Eagle Savings Bank, or (e) a material breach of the employment agreement by Eagle Savings Bank, then the executive would be entitled to a severance payment in the form of a cash lump sum equal to the base salary and bonus the executive would be entitled to receive for the remaining unexpired term of the employment agreement. For this purpose, the bonuses payable will be deemed to be equal to the highest bonus paid at any time during the prior three years. In addition, the executive would be entitled to receive a lump sum payment equal to the present value of the contributions that would reasonably have been expected to be made on executive's behalf under Eagle Savings Bank's defined contribution plans (e.g., 401(k) Plan, Employee Stock Ownership Plan) if the executive had continued working for the remaining unexpired term of the employment agreement earning the salary that would have been achieved during such period. Internal Revenue Code Section 409A may require that a portion of the above payments cannot be made until six months after termination of employment, if the executive is a "key employee" under IRS rules. In addition, the executive would be entitled, at no expense to the executive, to the continuation of life insurance and non-taxable medical and dental coverage until the earlier of: (i) the executive's employment by another employer whereby the executive receives substantially similar insurance coverage or (ii) for the remaining unexpired term of the employment agreement. If such coverage is not permitted by applicable law or if providing such benefits would subject Eagle Savings Bank to penalties, the executive will receive a cash lump sum payment equal to the value of such benefits.

In the event of a change in control of Eagle Savings Bank or Eagle Financial Bancorp, Inc. followed by executive's involuntary termination other than for cause, disability or retirement, or resignation for one of the reasons set forth above, within 18 months thereafter, the executive would be entitled to a severance payment in the form of a cash lump sum equal to (a) three times (two times for Ms. Walter and Mr. Schramm) the sum of (i) the highest rate of base salary paid to the executive at any time, and (ii) the highest bonus paid to the executive with respect to the three completed fiscal years (two completed fiscal years for Ms. Walter and Mr. Schramm) prior to the change of control, plus (b) a lump sum equal to the present value of the contributions that would reasonably be expected to have been made on the executive's behalf under Eagle Savings Bank's defined contribution plans (e.g., 401(k) Plan, Employee Stock Ownership Plan) if the executive had continued working for an additional 36 months (24 months for Ms. Walter and Mr. Schramm) after termination of employment, earning the salary that would have been achieved during such period. In addition, the executive would be entitled, at no expense to the executive, to the continuation of life insurance and non-taxable medical and dental coverage until the earlier of: (i) the executive's employment by another employer whereby the executive receives substantially similar insurance coverage or (ii) for 36 months (24 months for Ms. Walter and Mr. Schramm). If such coverage is not permitted by applicable law or if providing such benefits would subject Eagle Savings Bank to penalties, the executive will receive a cash lump sum payment equal to the value of such benefits. In the event payments made to the executive include an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code, such payments will be cutback by the minimum dollar amount necessary to avoid this result.

Under the employment agreement, if the executive becomes disabled within the meaning of such term under Section 409A of the Internal Revenue Code, the executive will receive benefits under any short-term or long-term disability plans maintained by Eagle Savings Bank, plus, if amount paid under such disability programs are less than the executive's base salary, Eagle Savings Bank will pay the executive an additional amount equal to the difference between such disability plan benefits and the amount of the executive's full base salary for the longer of one year or the remaining term of the employment agreement following the termination of employment due to disability. Eagle Savings Bank will also provide the executive with continued life insurance and non-taxable medical and dental coverage until the earlier of (i) the date the executive returns to full-time employment with Eagle Savings Bank, (ii) the executive's full-time employment with another employer, (iii) the expiration of the remaining term of the employment agreement, or (iv) death.

Upon termination of the executive's employment, the executive will be subject to certain restrictions on his ability to compete for six months, or to solicit business or employees of Eagle Savings Bank and Eagle Financial Bancorp, Inc. for a period of one year following termination of employment. The non-competition provision does not apply if a termination of employment occurs following a change in control.

**Supplemental Executive Retirement Plan.** Eagle Savings Bank adopted a Supplemental Executive Retirement Plan effective as of January 1, 2010 (the "SERP"). Mr. Koester and Mr. Schramm are participants in the Plan and each executive entered into a participation agreement evidencing his or her participation in the plan. Under the Plan, which is a nonqualified deferred compensation plan subject to Section 409A of the Internal Revenue Code, the executive is entitled to receive a benefit equal to 45% of the executive's final average salary (as defined in the SERP) payable for 15 years following a termination of employment on or after age 66, with the benefit paid in monthly installments. The annual benefit is subject to a ten-year vesting schedule, with zero percent vesting in the first five years, 20% vesting after six years, and 20% thereafter for each additional year of service. Mr. Koester is one hundred percent vested in the benefit. If the executive terminates employment prior to age 66 (other than due to disability or following a change in control), the executive will be entitled to receive a lump sum payment equal to his vested accrued benefit liability (as defined in the SERP) within 90 days following the date of termination. The agreement also provides a benefit in the event of the executive's disability or upon the occurrence of a change in control.

**401(k) Plan.** Eagle Savings Bank maintains the Eagle Savings Bank 401(k) Profit Sharing Plan and Trust, a tax-qualified defined contribution plan for eligible employees (the "401(k) Plan") effective as of January 1, 1993. Our executive officers are eligible to participate in the 401(k) Plan just like any other employee. An employee must attain age 21 and complete one year of service to be eligible to participate in the 401(k) Plan. Under the 401(k) Plan a participant may elect to defer, on a pre-tax basis, the maximum amount as permitted by the Internal Revenue Code. For 2017, the salary deferral contribution limit is \$18,000, provided, however, that a participant over age 50 may contribute an additional \$6,000 to the 401(k) Plan for a total of \$24,000. In addition to salary deferral contributions, Eagle Savings Bank may make discretionary matching and profit sharing contributions. A participant is always 100% vested in his or her salary deferral contributions and a participant will become vested in employer matching contributions at a rate of 20% per year, beginning with two years of vesting service, and the participant will become 100% vested over a six-year period. Generally, unless the participant elects otherwise, the participant's account balance will be distributed as a result of a participant's termination of employment with Eagle Financial Bancorp, Inc.

**Employee Stock Ownership Plan.** Eagle Financial Bancorp, Inc. adopted an employee stock ownership plan for eligible employees. Eagle Financial Bancorp, Inc.'s named executive officers are eligible to participate in the employee stock ownership plan just like any other employee. Eligible employees who have attained age 21 and were employed by us as of January 1, 2017 will begin participation in the employee stock ownership plan on the later of the effective date of the employee stock ownership plan or upon the first entry date commencing on or after the eligible employee's completion of 1,000 hours of service during a continuous 12-month period.

The employee stock ownership plan trustee purchased, on behalf of the employee stock ownership plan, 129,024 shares of Eagle Financial Bancorp, Inc. common stock in the conversion. The employee stock ownership plan funded its stock purchase with a loan from Eagle Financial Bancorp, Inc. equal to the aggregate purchase price of the common stock. The loan will be repaid principally through Eagle Financial Bancorp, Inc.'s contributions to the employee stock ownership plan and dividends payable on common stock held by the employee stock ownership plan over the 20-year term of the loan. The interest rate for the employee stock ownership plan loan is expected to be a fixed rate equal to the prime rate, as published in *The Wall Street Journal*, on the closing date of the offering. See "Pro Forma Data."

The trustee holds the shares purchased by the employee stock ownership plan in an unallocated suspense account, and shares are released from the suspense account on a pro-rata basis as we repay the loan. The trustee allocates the shares released among participants on the basis of each participant's proportional share of compensation relative to all participants. A participant will become vested in his or

her account balance at a rate of 20% per year, beginning with two years of vesting service, and the participant will become 100% vested over a six-year period. Participants who were employed by Eagle Financial Bancorp, Inc. immediately prior to the offering will receive credit for vesting purposes for years of service prior to adoption of the employee stock ownership plan. Participants also will become fully vested automatically upon normal retirement, death or disability, a change in control, or termination of the employee stock ownership plan. Generally, participants will receive distributions from the employee stock ownership plan upon separation from service. The employee stock ownership plan reallocates any unvested shares forfeited upon termination of employment among the remaining participants.

The employee stock ownership plan permits participants to direct the trustee as to how to vote the shares of common stock allocated to their accounts. The trustee votes unallocated shares and allocated shares for which participants do not provide instructions on any matter in the same ratio as those shares for which participants provide instructions, subject to fulfillment of the trustee’s fiduciary responsibilities.

Under applicable accounting requirements, Eagle Financial Bancorp, Inc. will record a compensation expense for the employee stock ownership plan at the fair market value of the shares as they are committed to be released from the unallocated suspense account to participants’ accounts, which may be more or less than the original issue price. The compensation expense resulting from the release of the common stock from the suspense account and allocation to plan participants will result in a corresponding reduction in Eagle Financial Bancorp, Inc.’s earnings.

### Director Compensation

The following table sets forth for the year ended December 31, 2017 certain information as to the total remuneration we paid to our directors other than Gary J. Koester. Information with respect to director fees paid to Mr. Koester is included above in “Executive Officer Compensation — Summary Compensation Table.”

Name	Fees earned or paid in cash (\$)	All Other Compensation (\$)	Total (\$)
Steven J. Dulle . . . . .	24,000	—	24,000
James W. Braun . . . . .	34,000	—	34,000
Guy W. Cagney . . . . .	24,000	—	24,000
Steven C. Kehoe . . . . .	24,000	—	24,000
Adam B. Goetzman . . . . .	24,000	—	24,000

### Director Fees

Directors earn an annual fee and no additional fees, such as meeting or committee fees, are paid. For the year ended December 31, 2017, each director was paid an annual fee of \$24,000. The Chairman of the Board, Mr. Braun, receives an additional \$10,000 annual fee.

### Director Plan

**Supplemental Director Retirement Plan.** Eagle Savings Bank adopted a Supplemental Executive Retirement Plan effective as of January 1, 2010 (the “Director Plan”). Mr. Braun, Mr. Cagney, Mr. Dulle, Mr. Goetzman, Mr. Kehoe and Mr. Koester are participants in the Plan and each director entered into a participation agreement evidencing his and her participation in the plan. Under the Plan, which is a nonqualified deferred compensation plan subject to Section 409A of the Internal Revenue Code, the director is entitled to receive to \$1,000 for each year of service payable for 5 years following a separation from service on or after age 70, with the benefit paid in monthly installments. The annual benefit is subject to a ten-year vesting schedule, with zero percent vesting in the first five years, 20% vesting after six years, and 20% thereafter for each additional year of service. If a director terminates employment prior to age 70 (other than due to disability or following a change in control), the director will be entitled to receive a lump sum payment equal to the vested accrued benefit liability (as defined in the Director Plan) within 90 days from the director’s separation from service. The agreement also provides a benefit in the event of the director’s death, disability or upon the occurrence of a change in control.

## Proposal 2 — Approval of the Eagle Financial Bancorp, Inc. 2018 Equity Incentive Plan

The Board of Directors has adopted, subject to stockholder approval, the Eagle Financial Bancorp, Inc. 2018 Equity Incentive Plan (the “2018 Equity Incentive Plan”), to provide officers, employees and directors of Eagle Financial Bancorp, Inc. and Eagle Savings Bank with additional incentives to promote the growth and performance of Eagle Financial Bancorp, Inc. and Eagle Savings Bank. The Board of Directors and the Compensation Committee believe that the adoption of the 2018 Equity Incentive Plan is in the best interests of Eagle Financial Bancorp, Inc. and its stockholders as such plan will provide Eagle Savings Bank with the ability to retain and reward and, to the extent necessary, attract and incentivize its employees, officers, directors and other service providers to promote growth, improve performance and further align their interests with those of Eagle Financial Bancorp, Inc.’s stockholders through the ownership of additional common stock of Eagle Financial Bancorp, Inc.

### Why We Are Seeking Approval of the 2018 Equity Incentive Plan

Many companies that we compete with for directors and management-level employees are public companies that offer equity compensation as part of their overall director and officer compensation programs. By approving the 2018 Equity Incentive Plan, our stockholders will give us the flexibility we need to continue to attract and retain highly qualified officers and directors by offering a competitive compensation program that is linked to the performance of our common stock. In addition, the 2018 Equity Incentive Plan is intended to further align the interests of our directors and management with the interests of our stockholders by potentially increasing the ownership interests of directors and officers in the common stock of Eagle Financial Bancorp, Inc.

We completed our mutual-to-stock conversion and related public stock offering on July 20, 2017, raising approximately \$15.7 million in gross proceeds. The substantial majority of financial institutions following their mutual-to-stock conversion transaction have adopted equity-based incentive plans. We note that our prospectus made clear that we intended to adopt an equity incentive plan, described the regulatory requirements applicable to such plan and we included the pro forma effect of awards made under such plan.

### Highlights of the 2018 Equity Incentive Plan

- ***Share Reserve and Terms Consistent with Industry Standards.*** In determining the size and terms of the 2018 Equity Incentive Plan, the Board of Directors and Compensation Committee considered a number of factors, including: (1) industry practices related to the adoption of equity-incentive plans by financial institutions following a mutual-to-stock conversion; and (2) applicable regulations related to the adoption of equity-incentive plans by converted financial institutions. In this regard (and as described below), the maximum number of shares of common stock that may be delivered pursuant to the exercise of stock options is 10% of the number of shares of common stock sold in our offering, and the maximum number of shares of common stock that may be issued as restricted stock is 4% of the number of shares of common stock sold in our offering.
- ***Minimum Vesting Periods for Awards.*** Subject to limited exceptions in the event of death, disability or involuntary termination without cause following a change in control, the 2018 Equity Incentive Plan requires a one-year minimum vesting period for at least 95% of the awards granted under the Plan. Unless the Compensation Committee specifies a different vesting schedule, awards will be granted with a vesting rate of 20% per year, with the first installment vesting on the one-year anniversary of the date of grant.
- ***Limits on Grants to Directors.*** Each non-employee director who is in the service of Eagle Financial Bancorp, Inc. immediately following the 2018 annual stockholder meeting will automatically be granted 6,451 stock options, which represents 4% of the maximum number of stock options available for grant, and each non-employee director will automatically be granted 2,580 restricted stock awards, which represents 4% of the maximum number of restricted stock awards available for grant.

- **Limits on Grants to Employees.** The maximum number of shares of common stock that may be delivered to any one employee pursuant to the exercise of stock options and pursuant to restricted stock awards is 25% of the shares available for grant or award, respectively, under the 2018 Equity Incentive Plan.
- **Share Counting.** The 2018 Equity Incentive Plan provides that, if an award is forfeited or expires, the shares covered by the award will be available for future grant, while shares withheld to cover taxes or used to pay the exercise price of stock options will not be available for future grant.
- **No Cash-Out or Repricing of Underwater Options.** The 2018 Equity Incentive Plan prohibits repricing and exchange of underwater options for cash or shares without stockholder approval.
- **No Single-Trigger Vesting.** The 2018 Equity Incentive Plan does not provide for vesting of stock options or restricted stock awards based solely on the occurrence of a change in control.
- **Awards Subject to Clawback.** Awards granted under the 2018 Equity Incentive Plan are subject to clawback if the Company is required to prepare an accounting restatement due to material noncompliance of the Company, as a result of misconduct with any financial reporting requirement under the federal securities laws or the forfeiture provisions of the Sarbanes-Oxley Act of 2002. Awards may also be subject to clawback under any other clawback policy adopted by the Company from time to time.

## General

The following is a summary of the material features of the 2018 Equity Incentive Plan, which is qualified in its entirety by reference to the provisions of the 2018 Equity Incentive Plan, attached hereto as Appendix A. In the event of conflict between the terms of this disclosure and the terms of the 2018 Equity Incentive Plan, the terms of the 2018 Equity Incentive Plan will control.

Subject to permitted adjustments for certain corporate transactions, the 2018 Equity Incentive Plan authorizes the issuance or delivery to participants of up to 225,792 shares of Eagle Financial Bancorp, Inc. common stock pursuant to grants of incentive and non-qualified stock options and restricted stock awards. Of this number, the maximum number of shares of Eagle Financial Bancorp, Inc. common stock that may be issued under the 2018 Equity Incentive Plan pursuant to the exercise of stock options is 161,280 shares, and the maximum number of shares of Eagle Financial Bancorp, Inc. common stock that may be issued as restricted stock awards is 64,512 shares. These amounts represent 10% and 4%, respectively, of the shares of Eagle Financial Bancorp, Inc. common stock that were sold and contributed to the Eagle Savings Bank Charitable Foundation in connection with the mutual-to-stock conversion of Eagle Savings Bank and initial public offering of Eagle Financial Bancorp, Inc. that was consummated on July 20, 2017.

The 2018 Equity Incentive Plan will be administered by the members of the Compensation Committee (the “Committee”) who are “Disinterested Board Members,” as defined in the 2018 Equity Incentive Plan. The Committee has full and exclusive power within the limitations set forth in the 2018 Equity Incentive Plan to make all decisions and determinations regarding: (1) the selection of participants and the granting of awards; (2) establishing the terms and conditions relating to each award; (3) adopting rules, regulations and guidelines for carrying out the 2018 Equity Incentive Plan’s purposes; and (4) interpreting the provisions of the 2018 Equity Incentive Plan and any award agreement. The 2018 Equity Incentive Plan also permits the Committee to delegate all or part of its responsibilities and powers to any person or persons selected by it.

Except for accelerating the vesting of awards to avoid the minimum requirements specified in the plan, the Compensation Committee has the authority to reduce, eliminate or accelerate any restrictions or vesting requirements applicable to an award at any time after the grant of the award or to extend the time period to exercise a stock option, provided that such extension is consistent with Section 409A of the Internal Revenue Code.

## Eligibility

Each employee or director of Eagle Financial Bancorp, Inc. or any subsidiary is eligible to receive awards under the 2018 Equity Incentive Plan, except that non-employees may not be granted incentive stock options.



## Types of Awards

The Committee may determine the type and terms and conditions of awards under the 2018 Equity Incentive Plan, which will be set forth in an award agreement delivered to each participant. Awards may be granted as incentive and non-qualified stock options, restricted stock awards or any combination thereof, as follows.

**Stock Options.** A stock option gives the recipient or “optionee” the right to purchase shares of common stock at a specified price for a specified period of time. The exercise price may not be less than the fair market value on the date the stock option is granted. Fair market value for purposes of the 2018 Equity Incentive Plan means the final sales price of Eagle Financial Bancorp, Inc.’s common stock as reported on any national securities exchange on which the common stock may from time to time be listed or traded on the date the option is granted, or if Eagle Financial Bancorp, Inc.’s common stock was not traded on such date, then on the day prior to such date or on the next preceding day on which Eagle Financial Bancorp, Inc.’s common stock was traded, and without regard to after-hours trading activity. The Committee will determine the fair market value, in accordance with Section 422 of the Internal Revenue Code and applicable requirements of Section 409A of the Internal Revenue Code, if it cannot be determined in the manner described herein. Further, the Committee may not grant a stock option with a term that is longer than 10 years.

Stock options are either “incentive” stock options or “non-qualified” stock options. Incentive stock options have certain tax advantages and must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are eligible to receive incentive stock options. Shares of common stock purchased upon the exercise of a stock option must be paid for in full at the time of exercise: (1) either in cash or with stock valued at fair market value as of the day of exercise; (2) by a “cashless exercise” through a third party; (3) by a net settlement of the stock option using a portion of the shares obtained on exercise in payment of the exercise price of the stock option; (4) by personal, certified or cashiers’ check; (5) by other property deemed acceptable by the Committee; or (6) by a combination of the foregoing. Stock options are subject to vesting conditions and restrictions as determined by the Committee.

**Restricted Stock.** A restricted stock award is a grant of common stock, subject to vesting requirements, to a participant for no consideration or minimum consideration as may be required by applicable law. Restricted stock awards under the 2018 Equity Incentive Plan will be granted only in whole shares of common stock and are subject to vesting conditions and other restrictions established by the Committee as set forth in the 2018 Equity Incentive Plan or the award agreement. Awards will be evidenced by award agreements approved by the Committee, which set forth the terms and conditions of each award. Prior to their vesting, unless otherwise determined by the Committee, the recipient of a restricted stock award may exercise any voting rights with respect to common stock subject to an award and receive any dividends and distributions with respect to the common stock.

## Limitations on Awards Under the 2018 Equity Incentive Plan

The following limits apply to awards under the 2018 Equity Incentive Plan:

- The maximum number of shares of common stock that may be available for awards under the 2018 Equity Incentive Plan is 225,792 shares, of which up to 161,280 shares of common stock may be delivered pursuant to the exercise of stock options and 64,512 shares of common stock may be issued pursuant to restricted stock awards.
- The maximum number of shares of common stock that may be delivered to any one employee pursuant to the exercise of stock options and pursuant to restricted stock awards is 40,320 shares and 16,128 shares, respectively (all of which may be granted in any one calendar year). Such maximum amount represents 25% of the maximum number of shares of common stock that may be delivered pursuant to the exercise of stock options and 25% of the number of shares of common stock that may be issued pursuant to restricted stock awards.
- Each non-employee director who is in the service of Eagle Financial Bancorp, Inc. immediately following the 2018 annual stockholder meeting will automatically be granted 6,451 stock options,

which represents 4% of the maximum number of stock options available for grant, and each non-employee director will automatically be granted 2,580 restricted stock awards, which represents 4% of the maximum number of restricted stock awards available for grant.

- The maximum number of shares of common stock that may be delivered to any one non-employee director pursuant to the exercise of stock options and the issuance of restricted stock awards is 8,064 shares and 3,225 shares, respectively (all of which may be granted in any one calendar year). Such maximum amount represents 5% of the maximum number of shares of common stock that may be delivered pursuant to the exercise of stock options and 5% of the maximum number of shares of common stock that may be issued pursuant to restricted stock awards.
- The maximum number of shares of common stock that may be delivered to all non-employee directors, in the aggregate, pursuant to the exercise of stock options and the issuance of restricted stock awards is 48,384 shares and 19,350 shares, respectively (all of which may be granted in any one calendar year). Such maximum amount represents 30% of the maximum number of shares of common stock that may be delivered pursuant to the exercise of stock options and 30% of the maximum number of shares of common stock that may be issued pursuant to restricted stock awards.

In the event of a corporate transaction involving the stock of Eagle Financial Bancorp, Inc. (including, without limitation, any stock dividend, stock split or other special and nonrecurring dividend or distribution, recapitalization, reorganization, merger, consolidation, spin-off, combination or exchange of shares), the Committee will, in an equitable manner, adjust the number and kind of securities deemed to be available for grants of stock options, restricted stock awards, the number and kind of securities that may be delivered or deliverable with respect to outstanding stock options, restricted stock awards, and the exercise price of stock options.

In addition, the Committee is authorized to make adjustments to the terms and conditions of stock options and restricted stock awards.

***Prohibition Against Repricing of Options.*** The 2018 Equity Incentive Plan provides that neither the Committee nor the Board is authorized to make any adjustment or amendment that reduces or would have the effect of reducing the exercise price of a stock option that has been previously granted.

***Prohibition on Transfer.*** Generally, all awards, except non-qualified stock options, granted under the 2018 Equity Incentive Plan will be nontransferable except by will or in accordance with the laws of intestate succession. Restricted stock awards may be transferable pursuant to a qualified domestic relations order. At the Committee's sole discretion, non-qualified stock options may be transferred for valid estate planning purposes that are permitted by the Internal Revenue Code and federal securities laws. During the life of the participant, awards can be exercised only by the participant. The Committee may permit a participant to designate a beneficiary to exercise or receive any rights that may exist under the 2018 Equity Incentive Plan upon the participant's death.

### **Vesting of Awards**

The Committee will specify the vesting schedule or conditions of each award. Unless the Committee specifies a different vesting schedule at the time of grant, awards under the 2018 Equity Incentive Plan must be granted with a vesting rate not exceeding 20% per year. If the vesting of an award under the 2018 Equity Incentive Plan is conditioned on the completion of a specified period of service with Eagle Financial Bancorp, Inc. or its subsidiaries, then the required period of service for full vesting will be determined by the Committee and evidenced in an award agreement. Vesting may be accelerated in the event of death, disability, or upon involuntary termination of employment or service following a change in control or, subject to the foregoing requirements, at the discretion of the Committee, including due to retirement.

### **Change in Control**

Unless otherwise stated in an award agreement, at the time of an involuntary termination of employment or service following a change in control, all stock options then held by the participant will become fully earned and exercisable (subject to the expiration provisions otherwise applicable to the stock

option). All stock options may be exercised for a period of one year following the participant's involuntary termination, provided, however, that no stock option will be eligible for treatment as an incentive stock option in the event such stock option is exercised more than three months following involuntary termination following a change in control. At the time of an involuntary termination of employment or service following a change in control, all awards of restricted stock will become fully earned and vested immediately.

### **Amendment and Termination**

The Board of Directors may, at any time, amend or terminate the 2018 Equity Incentive Plan or any award granted under the 2018 Equity Incentive Plan, provided that, except as provided in the 2018 Equity Incentive Plan, no amendment or termination may adversely impair the rights of a participant or beneficiary under an award without the participant's (or affected beneficiary's) written consent. The Board of Directors may not amend the 2018 Equity Incentive Plan to materially increase the benefits accruing to participants under the plan, materially increase the aggregate number of securities that may be issued under the 2018 Equity Incentive Plan (other than as provided in the 2018 Equity Incentive Plan), or materially modify the requirements for participation in the 2018 Equity Incentive Plan, without approval of stockholders. Notwithstanding the foregoing, the Committee may amend the 2018 Equity Incentive Plan or any award agreement, to take effect retroactively or otherwise, to conform the 2018 Equity Incentive Plan or the award agreement to current or future law or to avoid an accounting treatment resulting from an accounting pronouncement or interpretation issued by the Securities and Exchange Commission or Financial Accounting Standards Board subsequent to the adoption of the 2018 Equity Incentive Plan, or the making of the award affected thereby, which, in the sole discretion of the Committee, may materially and adversely affect the financial condition or results of operations of Eagle Financial Bancorp, Inc.

### **Duration of Plan**

The 2018 Equity Incentive Plan will become effective upon approval by the stockholders at the 2018 annual stockholder meeting. The 2018 Equity Incentive Plan will remain in effect as long as any awards under it are outstanding; however, no awards may be granted under the 2018 Equity Incentive Plan on or after the 10-year anniversary of the effective date of the 2018 Equity Incentive Plan. At any time, the Board of Directors may terminate the 2018 Equity Incentive Plan. However, any termination of the 2018 Equity Incentive Plan will not affect outstanding awards.

### **Federal Income Tax Considerations**

The following is a summary of the federal income tax consequences that may arise in conjunction with participation in the 2018 Equity Incentive Plan.

***Non-Qualified Stock Options.*** The grant of a non-qualified option will not result in taxable income to the participant. Except as described below, the participant will realize ordinary income at the time of exercise in an amount equal to the excess of the fair market value of the shares acquired over the exercise price for those shares, and Eagle Financial Bancorp, Inc. will be entitled to a corresponding deduction for tax purposes. Gains or losses realized by the participant upon disposition of such shares will be treated as capital gains and losses, with the cost basis in such shares equal to the fair market value of the shares at the time of exercise.

***Incentive Stock Options.*** The grant of an incentive stock option will not result in taxable income to the participant. The exercise of an incentive stock option also will not result in taxable income to the participant provided the participant was, without a break in service, an employee of Eagle Financial Bancorp, Inc. or a subsidiary during the period beginning on the date of the grant of the option and ending on the date three months prior to the date of exercise (one year prior to the date of exercise if the participant is disabled, as that term is defined in the Internal Revenue Code).

The excess of the fair market value of the shares at the time of the exercise of an incentive stock option over the exercise price is an adjustment that is included in the calculation of the participant's alternative minimum taxable income for the tax year in which the incentive stock option is exercised. For purposes of

determining the participant's alternative minimum tax liability for the year of disposition of the shares acquired pursuant to the incentive stock option exercise, the participant will have a basis in those shares equal to the fair market value of the shares at the time of exercise.

If the participant does not sell or otherwise dispose of the shares within two years from the date of the grant of the incentive stock option or within one year after the exercise of such stock option, then, upon disposition of such shares, any amount realized in excess of the exercise price will be taxed as a capital gain. A capital loss will be recognized to the extent that the amount realized is less than the exercise price.

If the foregoing holding period requirements are not met, the participant will generally realize ordinary income at the time of the disposition of the shares, in an amount equal to the lesser of: (1) the excess of the fair market value of the shares on the date of exercise over the exercise price; or (2) the excess, if any, of the amount realized upon disposition of the shares over the exercise price, and Eagle Financial Bancorp, Inc., Inc. will be entitled to a corresponding deduction. If the amount realized exceeds the value of the shares on the date of exercise, any additional amount will be a capital gain. If the amount realized is less than the exercise price, the participant will recognize no income, and a capital loss will be recognized equal to the excess of the exercise price over the amount realized upon the disposition of the shares.

**Restricted Stock.** A participant who has been granted a restricted stock award will not realize taxable income at the time of grant, provided that the stock subject to the award is not delivered at the time of grant, or if the stock is delivered, it is subject to restrictions that constitute a "substantial risk of forfeiture" for federal income tax purposes. Upon the later of delivery or vesting of shares subject to an award, the holder will realize ordinary income in an amount equal to the then fair market value of those shares and Eagle Financial Bancorp, Inc. will be entitled to a corresponding deduction for tax purposes. Gains or losses realized by the participant upon disposition of such shares will be treated as capital gains and losses, with the basis in such shares equal to the fair market value of the shares at the time of delivery or vesting. Dividends paid to the holder during the restriction period, if so provided, will also be compensation income to the participant, and Eagle Financial Bancorp, Inc. will be entitled to a corresponding deduction for tax purposes. A participant who makes an election under Section 83(b) of the Internal Revenue Code will include the full fair market value of the restricted stock award in taxable income in the year of grant at the grant date fair market value.

**Withholding of Taxes.** Eagle Financial Bancorp, Inc. may withhold amounts from participants to satisfy withholding tax requirements. Except as otherwise provided by the Committee, participants may have shares withheld from awards to satisfy the minimum tax withholding requirements or an amount up to the participant's highest marginal tax rate required for federal, state and local tax withholding, provided such withholding does not trigger adverse accounting consequences.

**Change in Control.** Any acceleration of the vesting or payment of awards under the 2018 Equity Incentive Plan in the event of a change in control or termination of employment or service following a change in control may cause part or all of the consideration involved to be treated as an "excess parachute payment" under Section 280G of the Internal Revenue Code, which may subject the participant to a 20% excise tax and preclude deduction by Eagle Financial Bancorp, Inc. related to the awards.

**Deduction Limits.** Section 162(m) of the Internal Revenue Code generally limits our ability to deduct for tax purposes compensation in excess of \$1.0 million per year for each of our chief executive officer and other executive officers named in the summary compensation table (each, a "covered employee") of our annual proxy statement, as well as any employee who has been designated a covered employee for any fiscal year beginning after December 31, 2016. Compensation resulting from awards under the 2018 Equity Incentive Plan will be counted toward the \$1.0 million limit.

**Tax Advice.** The preceding discussion is based on federal tax laws and regulations currently in effect, which are subject to change, and the discussion does not purport to be a complete description of the federal income tax aspects of the 2018 Equity Incentive Plan. A participant may also be subject to state and local taxes in connection with the grant of awards under the 2018 Equity Incentive Plan. Eagle Financial Bancorp, Inc. suggests that participants consult with their individual tax advisors to determine the applicability of the tax rules to the awards granted to them in their personal circumstances.

#### **Accounting Treatment**

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Eagle Financial Bancorp, Inc. is required to recognize compensation expense on its income

statement over the requisite service period or performance period based on the grant date fair value of stock options and other equity-based compensation (such as restricted stock).

#### Awards to be Granted to Non-Employee Directors

Each non-employee director who is in the service of Eagle Financial Bancorp, Inc. on the date of the 2018 annual stockholder meeting will automatically be granted the following stock options and restricted stock awards, as of the date of the 2018 annual stockholder meeting, provided that stockholders approve the 2018 Equity Incentive Plan:

Restricted Stock Awards		
Name of Non-Employee Director	Dollar Value (\$) <sup>(1)</sup>	Number of Awards
James W. Braun	41,280	2,580
Guy W. Cagney	41,280	2,580
Steven J. Dulle	41,280	2,580
Adam B. Goetzman	41,280	2,580
Steven C. Kehoe	41,280	2,580
Non-Employee Directors as a Group (5 persons)	206,400	12,900

- (1) Amounts are based on the fair market value of Eagle Financial Bancorp, Inc. common stock on July 26, 2018 of \$16.00 per share. The actual value of the awards is not determinable since their value will depend upon the fair market value of Eagle Financial Bancorp, Inc. common stock on the date of grant.

Stock Option Awards		
Name of Non-Employee Director	Dollar Value (\$) <sup>(1)</sup>	Number of Awards
James W. Braun	N/A	6,451
Guy W. Cagney	N/A	6,451
Steven J. Dulle	N/A	6,451
Adam B. Goetzman	N/A	6,451
Steven C. Kehoe	N/A	6,451
Non-Employee Directors as a Group (5 persons)	N/A	32,255

- (1) Amounts are not determinable, as the actual value of the stock options realized will depend on the extent to which the fair market value of Eagle Financial Bancorp, Inc. common stock exceeds the exercise price of the stock option on the date of exercise.

It is expected that the stock option and restricted stock awards will vest over a five-year period, with 20% becoming vested after the completion of one year of service following the date of grant and then 20% percent becoming vested each year of continued service thereafter for the next four years. The exercise price of the stock options will equal the fair market value of Eagle Financial Bancorp, Inc. common stock on the actual date of grant. Notwithstanding the foregoing, these awards would vest upon death, disability or involuntary termination of employment following a change in control.

The Compensation Committee reviewed survey data regarding awards made to directors of other financial institutions that had undertaken a mutual-to-stock conversion and related stock offering. The Compensation Committee believes the proposed awards are reasonable and intended to align the economic interest of the directors with that of other stockholders, consistent with prevailing compensation practices in the competitive marketplace for similarly-situated financial institutions.

Any future grants to employees and directors under the 2018 Equity Incentive Plan will be determined in the discretion of the Compensation Committee.

### **Clawback Policy**

The 2018 Equity Incentive Plan provides that if Eagle Financial Bancorp, Inc. is required to prepare an accounting restatement due to its material noncompliance, as a result of misconduct, with any financial reporting requirement under the federal securities laws, any participant who is subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 or who is subject to clawback under Section 954 of the Dodd-Frank Act must reimburse Eagle Financial Bancorp, Inc. with the required amount of any payment in settlement of an award earned or accrued during the 12-month period following the first public issuance or filing with the Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement. In addition, awards granted under the 2018 Equity Incentive Plan are subject to any clawback policy adopted by the Board of Directors.

### **Required Vote and Recommendation of the Board**

In order to approve the 2018 Equity Incentive Plan, the proposal must receive the affirmative vote of a majority of the votes cast, either in person or by proxy, at the annual meeting, without regard to broker non-votes or proxies marked ABSTAIN.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE  
2018 EQUITY INCENTIVE PLAN**

### Proposal 3 — Ratification of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors has appointed BKD to be the Company's independent registered public accounting firm for the year ending December 31, 2018, subject to ratification by shareholders. A representative of BKD expected to be present at the annual meeting to respond to appropriate questions from shareholders and will have the opportunity to make a statement should he or she desire to do so.

If the ratification of the appointment of BKD is not approved by a majority of the votes cast by shareholders at the annual meeting, other independent registered public accounting firms may be considered by the Audit Committee of the Board of Directors.

Even if the selection of BKD is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such change is in the best interest of the Company and its shareholders.

**The Board of Directors recommends a vote "FOR" the ratification of BKD, LLP as independent registered public accounting firm for the year ending December 31, 2018.**

Set forth below is certain information concerning aggregate fees billed for professional services rendered by BKD during the fiscal years ended December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
Audit Fees . . . . .	\$ 92,663	\$48,500
Audit-Related Fees . . . . .	\$125,810	\$ —
Tax Fees . . . . .	\$ 19,400	\$ 6,700
All Other Fees . . . . .	\$ —	\$ —

**Audit Fees.** The aggregate fees billed to us for professional services rendered for the audit of our annual consolidated financial statements, review of the consolidated financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided in connection with our engagement were \$92,663 and \$48,500 during the years ended December 31, 2017 and 2016, respectively.

**Audit Related Fees.** During the year ended December 31, 2017 audit-related fees of \$125,810 were billed, all of which consisted of fees for services related to the mutual-to-stock conversion of Eagle Savings Bank and our stock offering, including review of the registration statement and prospectus, the issuance of consents, participation in drafting sessions, the preparation of accounting opinions, assistance with responses to regulatory accounting comments and the preparation of a comfort letter. During the year ended December 31, 2016, no audit-related fees were billed.

**Tax Fees.** The aggregate fees billed to us for professional services rendered for tax preparation, tax consultation and tax compliance were \$19,400 and \$6,700 during the years ended December 31, 2017 and 2016, respectively.

**All Other Fees.** There were no other fees billed during the years ended December 31, 2017 and 2016, respectively.

#### **Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm**

The Audit Committee has considered whether the provision of non-audit services, which relate primarily to tax compliance services and tax advice rendered and services performed in connection with the mutual-to-stock conversion of Eagle Savings Bank and our related stock offering, was compatible with maintaining the independence of BKD, LLP. The Audit Committee concluded that performing such services did not affect the independence of BKD, LLP in performing its function as our independent registered public accounting firm.

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent registered public accounting firm, either by approving an engagement prior to the engagement or pursuant to a pre-approval policy with respect to particular services. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may delegate pre-approval authority to one or more members of the Audit Committee when expedition of services is necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The audit-related fees and all other fees described above were approved as part of our engagement of BKD, LLP.



## REPORT OF THE AUDIT COMMITTEE

The Company's management is responsible for the Company's internal controls and financial reporting process. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements and issuing an opinion on the conformity of those financial statements with U.S. generally accepted accounting principles. The Audit Committee oversees the Company's internal controls and financial reporting process on behalf of the Board of Directors.

In this context, the Audit Committee has met and held discussions with management and the independent registered public accounting firm. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed pursuant to applicable requirements of the Public Company Accounting Oversight Board.

In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board and has discussed with the independent registered public accounting firm the firm's independence from the Company and its management. In concluding that the registered public accounting firm is independent, the Audit Committee considered, among other factors, whether the non-audit services provided by the firm were compatible with its independence.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for their audit. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examination, their consideration of the Company's internal controls, and the overall quality of the Company's financial reporting.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent registered public accounting firm who, in its report, express an opinion on the conformity of the Company's consolidated financial statements to U.S. generally accepted accounting principles. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions with management and the independent registered public accounting firm do not assure that the Company's consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles, that the audit of the Company's consolidated financial statements has been carried out in accordance with generally accepted auditing standards or that the Company's independent registered public accounting firm is "independent."

In reliance on the reviews and discussions referred to above, the Audit Committee has recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal years ended December 31, 2017 and 2016 for filing with the SEC. The Audit Committee also has approved, subject to shareholder ratification, the selection of BKD, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018.

### **Audit Committee of the Board of Directors of Eagle Financial Bancorp, Inc.**

Steven C. Kehoe (Chair)  
Steven J. Dulle  
Adam B. Goetzman

## Stock Ownership of Certain Beneficial Owners

The following table provides information as of July 2, 2018, with respect to persons known by the Company to be the beneficial owners of more than 5% of the Company's outstanding common stock. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investing power. Percentages are based on 1,612,808 shares of Company common stock issued and outstanding as of July 2, 2018.

<u>Name and Address</u>	<u>Number of Shares Owned</u>	<u>Percent of Common Stock Owned</u>
Eagle Savings Bank Employee Stock Ownership Plan Trust <sup>(1)</sup> . . . . . Community Bank of Pleasant Hill, dba First Trust of MidAmerica 1901 Frederic Avenue, Suite 100 St. Joseph, Missouri 64501	129,024	8.0%

- (1) Under the terms of the ESOP, the ESOP trustee will vote shares allocated to participants' accounts in the manner directed by the participants. The ESOP trustee, subject to its fiduciary duties, will vote unallocated shares and allocated shares for which no timely voting instructions are received in the same proportion as shares for which the trustee has received proper voting instructions from participants. At July 2, 2018, 6,451 shares were allocated, and 122,573 shares were unallocated.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who own more than 10% of any registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than 10% shareholders are required by regulation to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on the Company's review of copies of the reports it has received and written representations provided to it from the individuals required to file the reports, the Company believes that each of its executive officers and directors has complied with applicable reporting requirements for transactions in Eagle Financial common stock during the year ended December 31, 2017.

### Transactions with Related Persons

**Loans and Extensions of Credit.** The Sarbanes-Oxley Act of 2002 generally prohibits publicly traded companies from making loans to their executive officers and directors, but it contains a specific exemption from such prohibition for loans made by federally insured financial institutions, such as Eagle Savings Bank, to their executive officers and directors in compliance with federal banking regulations. At December 31, 2017, total outstanding loans to directors and executive officers totaled \$23,000, with an additional \$27,000 in available credit on such loans. At December 31, 2017, all of our loans to directors and executive officers were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Eagle Savings Bank, and did not involve more than the normal risk of collectability or present other unfavorable features. These loans were performing according to their original terms at December 31, 2017, and were made in compliance with federal banking regulations.

### Shareholder Communications

The Company encourages shareholder communications to the Board of Directors and/or individual directors. All communications from shareholders should be addressed to Eagle Financial Bancorp, Inc. 6415 Bridgetown Road, Cincinnati, Ohio, 45248. Communications to the Board of Directors should be in the care of Patricia L. Walter, Corporate Secretary. Communications to individual directors should be sent to such director at the Company's address. Shareholders who wish to communicate with a Committee of the Board should send their communications to the care of the Chair of the particular committee, with a

copy to Adam B. Goetzman, the Chair of the Nominating and Corporate Governance Committee of the Board of Directors. It is in the discretion of the Nominating and Corporate Governance Committee whether any communication sent to the full Board should be brought before the full Board.

#### Miscellaneous

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company. Additionally, directors, officers and other employees of the Company may solicit proxies personally or by telephone without receiving additional compensation. The Company will pay Laurel Hill Advisory Group, LLC, a proxy solicitation firm, a fee of \$6,000 to assist the Company in soliciting proxies.

The Company's Annual Report to Shareholders has been included with this proxy statement. Any shareholder who has not received a copy of the Annual Report may obtain a copy by writing to the Corporate Secretary of the Company. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated by reference into this proxy statement.

If you and others who share your address own your shares in "street name," your broker or other holder of record may be sending only one annual report and proxy statement to your address. This practice, known as "householding," is designed to reduce our printing and postage costs. However, if a shareholder residing at such an address wishes to receive a separate annual report or proxy statement in the future, he or she should contact the broker or other holder of record. If you own your shares in "street name" and are receiving multiple copies of our annual report and proxy statement, you can request householding by contacting your broker or other holder of record.

Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed envelope.

BY ORDER OF THE BOARD OF DIRECTORS



Patricia L. Walter  
*Corporate Secretary*

Cincinnati, Ohio  
August 8, 2018

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## EAGLE FINANCIAL BANCORP, INC.

## 2018 EQUITY INCENTIVE PLAN

ARTICLE 1 — GENERAL

**Section 1.1 Purpose, Effective Date and Term.** The purpose of the Eagle Financial Bancorp, Inc. 2018 Equity Incentive Plan (the “Plan”) is to promote the long-term financial success of Eagle Financial Bancorp, Inc. (the “Company”), and its Subsidiaries, including Eagle Savings Bank (the “Bank”), by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interests with those of the Company’s stockholders through the ownership of additional common stock of the Company. The Plan also provides eligible Participants with an opportunity to acquire an ownership interest, or otherwise increase their ownership interest, in the Company as an incentive for them to remain in the service of the Company and the Bank. The “Effective Date” of the Plan shall be the date the Plan satisfies the applicable stockholder approval requirements. The Plan shall remain in effect as long as any Awards are outstanding; *provided, however*, that no Awards may be granted under the Plan after the day immediately prior to the ten-year anniversary of the Effective Date.

**Section 1.2 Administration.** The Plan shall be administered by the Compensation Committee of the Company’s Board of Directors (the “Committee”), in accordance with Section 5.1.

**Section 1.3 Participation.** Each Employee or Director of the Company or any Subsidiary of the Company who is granted an Award in accordance with the terms of the Plan shall be a “Participant” in the Plan. The grant of Awards shall be limited to Employees and Directors of the Company or any Subsidiary.

**Section 1.4 Definitions.** Capitalized terms used in this Plan are defined in Article 8 and elsewhere in this Plan.

ARTICLE 2 — AWARDS

**Section 2.1 General.** Any Award under the Plan may be granted singularly or in combination with another Award (or Awards). Each Award under the Plan shall be subject to the terms and conditions of the Plan and such additional terms, conditions, limitations and restrictions as the Committee shall provide with respect to such Award and as evidenced in the Award Agreement. Subject to the provisions of Section 2.6, an Award may be granted as an alternative to or replacement of an existing Award under the Plan or any other plan of the Company or any Subsidiary or as the form of payment for grants or rights earned or due under any other compensation plan or arrangement of the Company or its Subsidiaries, including without limitation the plan of any entity acquired by the Company or any Subsidiary. The types of Awards that may be granted under the Plan include:

(a) *Stock Options.* A Stock Option means a grant under Section 2.2 that represents the right to purchase shares of Stock at an Exercise Price established by the Committee. Any Stock Option may be either an Incentive Stock Option (an “ISO”) that is intended to satisfy the requirements applicable to an “Incentive Stock Option” described in Code Section 422(b), or a Non-Qualified Stock Option (a “Non-Qualified Option”) that is not intended to be an ISO; *provided, however*, that no ISOs may be granted: (i) after the day immediately prior to the ten-year anniversary of the Effective Date or the date the Plan is approved by the Board, whichever is earlier; or (ii) to a non-employee. Unless otherwise specifically provided by its terms, any Stock Option granted to an Employee under this Plan shall be an ISO to the maximum extent permitted. Any ISO granted under this Plan that does not qualify as an ISO for any reason (whether at the time of grant or as the result of a subsequent event) shall be deemed to be a Non-Qualified Option. In addition, any ISO granted under this Plan may be unilaterally modified by the Committee to disqualify such Stock Option from ISO treatment such that it shall become a Non-Qualified Option; *provided, however*, that any such modification shall be ineffective if it causes the Award to be subject to Code Section 409A (unless, as modified, the Award complies with Code Section 409A).

(b) *Restricted Stock Awards.* A Restricted Stock Award means a grant of shares of Stock under Section 2.3 for no consideration or such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan, subject to a vesting schedule.

## **Section 2.2 Stock Options.**

(a) *Grant of Stock Options.* Each Stock Option shall be evidenced by an Award Agreement that shall: (i) specify the number of Stock Options covered by the Award; (ii) specify the date of grant of the Stock Option; (iii) specify the vesting period or conditions to vesting; (iv) the Exercise Price; and (v) contain such other terms and conditions not inconsistent with the Plan, including the effect of termination of a Participant's employment or Service with the Company as the Committee may, in its discretion, prescribe.

(b) *Terms and Conditions.* A Stock Option shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee. In no event, however, shall a Stock Option expire later than ten (10) years after the date of its grant (or five (5) years with respect to ISOs granted to an Employee who is a 10% Stockholder). The "Exercise Price" of each Stock Option shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant (or, if greater, the par value of a share of Stock); *provided, however*, that the Exercise Price of an ISO shall not be less than 110% of Fair Market Value of a share of Stock on the date of grant if granted to a 10% Stockholder; *provided further*, that the Exercise Price may be higher or lower in the case of Stock Options granted or exchanged in replacement of existing Awards held by an Employee or Director of, or service provider to, an acquired entity.

(c) *Method of Exercise.* Subject to the other terms and conditions hereof, a Participant may exercise any Stock Option, to the extent such Stock Option is vested, by giving written notice of exercise to the Company, provided, however, that in no event shall a Stock Option be exercisable for a fractional share. The date of exercise of a Stock Option shall be the later of: (i) the date on which the Company receives such written notice; and (ii) the date on which the Participant pays the applicable Exercise Price pursuant to this Section 2.2(c). The payment of the Exercise Price of a Stock Option shall be by cash or, subject to limitations imposed by applicable law, by such other means as the Committee may from time to time permit, including: (i) by tendering, either actually or constructively by attestation, shares of Stock valued at Fair Market Value as of the day of exercise; (ii) by irrevocably authorizing a third party, acceptable to the Committee, to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Stock Option and to remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise; (iii) by a net settlement of the Stock Option, using a portion of the shares obtained on exercise in payment of the Exercise Price of the Stock Option (and if applicable, any required tax withholding, to the extent permitted under the Plan); (iv) by personal, certified or cashier's check; (v) by other property deemed acceptable by the Committee; or (vi) by any combination thereof. The total number of shares that may be acquired upon the exercise of a Stock Option shall be rounded down to the nearest whole share, with cash-in-lieu paid by the Company, at its discretion, for the value of any fractional share.

(d) *Prohibition of Cash Buy-Outs of Underwater Stock Options.* Under no circumstances will any underwater Stock Options which were granted under the Plan be bought back by the Company without stockholder approval.

## **Section 2.3 Restricted Stock.**

(a) *Grant of Restricted Stock.* Each Restricted Stock Award shall be evidenced by an Award Agreement that shall: (i) specify the number of shares of Stock covered by the Restricted Stock Award; (ii) specify the date of grant of the Restricted Stock Award; (iii) specify the vesting period; and (iv) contain such other terms and conditions not inconsistent with the Plan, including the effect of termination of a Participant's employment or Service with the Company. All Restricted Stock Awards shall be in the form of issued and outstanding shares of Stock that, at the discretion of the Committee, shall be either: (x) registered in the name of the Participant and held by or on behalf of the Company, together with a stock power executed by the Participant in favor of the Company, pending the vesting or forfeiture of the Restricted Stock; or (y) registered in the name of, and delivered to, the Participant.

In any event, the certificates evidencing the Restricted Stock Award shall at all times prior to the applicable vesting date bear the following legend:

The Stock evidenced hereby is subject to the terms of an Award Agreement with Eagle Financial Bancorp, Inc. dated [Date], made pursuant to the terms of the Eagle Financial Bancorp, Inc. 2018 Equity Incentive Plan, copies of which are on file at the executive offices of Eagle Financial Bancorp, Inc., and may not be sold, encumbered, hypothecated or otherwise transferred except in accordance with the terms of such Plan and Award Agreement,

or such other restrictive legend as the Committee, in its discretion, may specify. Notwithstanding the foregoing, the Company may in its sole discretion issue Restricted Stock in any other approved format (e.g., *electronically*) in order to facilitate the paperless transfer of such Awards. In the event Restricted Stock is not issued in certificate form, the Company and the transfer agent shall maintain appropriate bookkeeping entries that evidence Participants' ownership of such Awards. Restricted Stock that is not issued in certificate form shall be subject to the same terms and conditions of the Plan as certificated shares, including the restrictions on transferability and the provision of a stock power executed by the Participant in favor of the Company, until the satisfaction of the conditions to which the Restricted Stock Award is subject.

(b) *Terms and Conditions.* Each Restricted Stock Award shall be subject to the following terms and conditions:

(i) *Dividends.* Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Agreement, any dividends or distributions declared and paid with respect to shares of Stock subject to the Restricted Stock Award shall be immediately distributed to the Participant. If the Committee determines to delay the distribution of dividends to a Participant until the vesting of an Award of Restricted Stock, the Committee shall cause the dividend (and any earnings thereon) to be distributed to the Participant no later than two and one-half months following the date on which the Restricted Stock vests.

(ii) *Voting Rights.* Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Agreement, a Participant shall have voting rights related to the unvested, non-forfeited Restricted Stock and such voting rights shall be exercised by the Participant in his or her discretion.

(iii) *Tender Offers and Merger Elections.* Each Participant to whom a Restricted Stock Award is granted shall have the right to respond, or to direct the response, with respect to the related shares of Restricted Stock, to any tender offer, exchange offer, cash/stock merger consideration election or other offer made to, or elections made by, the holders of shares of Stock. Such a direction for any such shares of Restricted Stock shall be given by proxy or ballot (if the Participant is the beneficial owner of the shares of Restricted Stock for voting purposes) or by completing and filing, with the inspector of elections, the trustee or such other person who shall be independent of the Company as the Committee shall designate in the direction (if the Participant is not such a beneficial owner), a written direction in the form and manner prescribed by the Committee. If no such direction is given, then the shares of Restricted Stock shall not be tendered.

(iv) The conditions for grant or vesting and the other provisions of Restricted Stock Awards need not be the same with respect to each recipient.

**Section 2.4 Vesting of Awards.** The Committee shall specify the vesting schedule or conditions of each Award. Unless the Committee specifies a different vesting schedule at the time of grant, Awards under the Plan awarded to an Employee shall be granted with a vesting rate not exceeding twenty percent (20%) per year, with the first installment vesting no earlier than the one-year anniversary of the date of grant. Unless the Committee specifies a different vesting schedule at the time of grant, each Award granted to a Director shall fully vest on the one-year anniversary following the date on which the Award was granted. If the right to become vested in an Award under the Plan (including the right to exercise a Stock Option) is conditioned on the completion of a specified period of Service with the Company or its Subsidiaries, without it being

granted in lieu of, or in exchange for, other compensation, then the required period of Service for full vesting shall be determined by the Committee and evidenced in the Award Agreement (subject to acceleration of vesting, to the extent permitted by the Committee or set forth in the Award Agreement, in the event of the Participant's death, Disability or Involuntary Termination following a Change in Control). Notwithstanding anything to the contrary herein, except to the extent specified in Section 4.1(c), at least ninety-five percent (95%) of all Awards under the Plan shall be subject to a vesting requirement of at least one year of Service following the grant of the Award unless accelerated due to death, Disability or Involuntary Termination following a Change in Control.

**Section 2.5 Deferred Compensation.** If any Award would be considered "deferred compensation" as defined under Code Section 409A ("Deferred Compensation"), the Committee reserves the absolute right (including the right to delegate such right) to unilaterally amend the Plan or the Award Agreement, without the consent of the Participant, to maintain exemption from, or to comply with, Code Section 409A. Any amendment by the Committee to the Plan or an Award Agreement pursuant to this Section shall maintain, to the extent practicable, the original intent of the applicable provision without violating Code Section 409A. A Participant's acceptance of any Award under the Plan constitutes acknowledgement and consent to such rights of the Committee, without further consideration or action. Any discretionary authority retained by the Committee pursuant to the terms of this Plan or pursuant to an Award Agreement shall not be applicable to an Award which is determined to constitute Deferred Compensation, if such discretionary authority would contravene Code Section 409A.

**Section 2.6 Prohibition Against Option Repricing.** Except for adjustments pursuant to Section 3.4, and reductions of the Exercise Price approved by the Company's stockholders, neither the Committee nor the Board shall have the right or authority to make any adjustment or amendment that reduces or would have the effect of reducing the Exercise Price of a Stock Option previously granted under the Plan, whether through amendment, cancellation (including cancellation in exchange for a cash payment in excess of the Stock Option's in-the-money value or in exchange for Options or other Awards) or replacement grants, or other means.

**Section 2.7. Effect of Termination of Service on Awards.** The Committee shall establish the effect of a Termination of Service on the continuation of rights and benefits available under an Award and, in so doing, may make distinctions based upon, among other things, the cause of Termination of Service and type of Award. Unless otherwise specified by the Committee and set forth in an Award Agreement between the Company and the Participant or as set forth in an employment or severance agreement entered into by and between the Company and/or the Bank and an Employee, the following provisions shall apply to each Award granted under this Plan:

(a) Upon a Participant's Termination of Service for any reason other than due to Disability, death, Retirement or termination for Cause, Stock Options shall be exercisable only as to those shares that were immediately exercisable by such Participant at the date of termination, and Stock Options may be exercised only for a period of three (3) months following termination and any Restricted Stock Award that has not vested as of the date of Termination of Service shall expire and be forfeited.

(b) In the event of a Termination of Service for Cause, all Stock Options granted to a Participant that have not been exercised and all Restricted Stock Awards granted to a Participant that have not vested shall expire and be forfeited.

(c) Upon Termination of Service for reason of Disability or death, all Stock Options shall be exercisable as to all shares subject to an outstanding Award, whether or not then exercisable, and all Restricted Stock Awards shall vest as to all shares subject to an outstanding Award, whether or not otherwise immediately vested, at the date of Termination of Service. Stock Options may be exercised for a period of one year following Termination of Service due to death or Disability or the remaining unexpired term of the Stock Option, if less; *provided, however*, that no Stock Option shall be eligible for treatment as an ISO in the event such Stock Option is exercised more than one year following Termination of Service due to Disability and *provided, further*, in order to obtain ISO treatment for Stock Options exercised by heirs or devisees of an optionee, the optionee's death must have occurred while employed or within three months of Termination of Service. In the event of Termination of Service due to Retirement, a Participant's vested Stock Options shall be exercisable for one year



following Termination of Service, provided that no Stock Option shall be eligible for treatment as an ISO in the event such Stock Option is exercised more than three months following Termination of Service due to Retirement and any Stock Option or Restricted Stock Award that has not vested as of the date of Termination of Service shall expire and be forfeited.

(d) Notwithstanding anything herein to the contrary, no Stock Option shall be exercisable beyond the last day of the original term of such Stock Option.

(e) Notwithstanding the provisions of this Section 2.7, the effect of a Change in Control on the vesting/exercisability of Stock Options and Restricted Stock Awards is as set forth in Article 4.

### **ARTICLE 3 — SHARES SUBJECT TO PLAN**

**Section 3.1 Available Shares.** The shares of Stock with respect to which Awards may be made under the Plan shall be shares currently authorized but unissued, currently held or, to the extent permitted by applicable law, subsequently acquired by the Company as treasury shares, including shares purchased in the open market or in private transactions.

#### **Section 3.2 Share Limitations.**

(a) *Share Reserve.* Subject to the following provisions of this Section 3.2, the maximum number of shares of Stock that may be delivered to Participants and their beneficiaries under the Plan shall be equal to 225,792 shares of Stock. The maximum number of shares of Stock that may be delivered pursuant to the exercise of Stock Options (all of which may be granted as ISOs) is One Hundred Sixty-One Thousand Two Hundred Eighty (161,280) shares of Stock. The maximum number of shares of Stock that may be issued as Restricted Stock Awards is Sixty-Four Thousand Five Hundred Twelve (64,512) shares of Stock. The aggregate number of shares available for grant under this Plan and the number of shares of Stock subject to outstanding awards shall be subject to adjustment as provided in Section 3.4.

(b) *Computation of Shares Available.* For purposes of this Section 3.2, the number of shares of Stock available for the grant of additional Stock Options or Restricted Stock Awards shall be reduced by the number of shares of Stock previously granted, subject to the following: (i) to the extent any shares of Stock covered by an Award (including Restricted Stock Awards) under the Plan are not delivered to a Participant or beneficiary for any reason, including because the Award is forfeited or canceled or because a Stock Option is not exercised, then such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan. To the extent: (i) a Stock Option is exercised by using an actual or constructive exchange of shares of Stock to pay the Exercise Price; or (ii) shares of Stock are withheld to satisfy withholding taxes upon exercise or vesting of an Award granted hereunder; or (iii) shares are withheld to satisfy the exercise price of Stock Options in a net settlement of Stock Options, then the number of shares of Stock available shall be reduced by the gross number of Stock Options exercised rather than by the net number of shares of Stock issued.

#### **Section 3.3 Limitations on Grants to Employees and Directors.**

##### *(a) Employee Awards.*

(i) *Stock Options — Employees.* The maximum number of shares of Stock, in the aggregate, that may be covered by a Stock Option granted to any one Employee under the Plan shall be Forty Thousand Three Hundred Twenty (40,320) shares, all of which may be granted during any calendar year. This maximum amount represents approximately twenty-five percent (25%) of the maximum number of shares of Stock that may be delivered pursuant to Stock Options under Section 3.2.

(ii) *Restricted Stock Awards — Employees.* The maximum number of shares of Stock, in the aggregate, that may be subject to Restricted Stock Awards granted to any one Employee under the Plan shall be Sixteen Thousand One Hundred Twenty-Eight (16,128) shares, all of which may be granted during any calendar year. This maximum amount represents approximately twenty-five percent (25%) of the maximum number of shares of Stock that may be issued as Restricted Stock Awards.

(b) *Director Awards.*

(i) *Stock Options — Aggregate Limit.* Individual non-employee Directors may be granted Stock Options of up to Eight Thousand Sixty-Four (8,064) shares, in the aggregate, all of which may be granted during any calendar year and, in addition, all non-employee Directors, in the aggregate, may be granted up to Forty-Eight Thousand Three Hundred Eighty-Four (48,384) shares all of which may be granted during any calendar year. These maximum amounts represent approximately five percent (5%) and thirty percent (30%), respectively, of the maximum number of shares of Stock that may be delivered pursuant to Stock Options under Section 3.2.

(ii) *Restricted Stock Awards — Aggregate Limit.* Individual non-employee Directors may be granted Restricted Stock Awards of up to Three Thousand Two Hundred Twenty-Five (3,225) shares, in the aggregate, all of which may be granted during any calendar year and, in addition, all non-employee Directors, in the aggregate, may be granted up to Nineteen Thousand Three Hundred Fifty (19,350) shares all of which may be granted during any calendar year. These maximum amounts represent approximately five percent (5%) and thirty percent (30%), respectively, of the maximum number of shares of Stock that may be delivered pursuant to Restricted Stock Awards under Section 3.2.

(iii) *Initial Grants to Non-Employee Directors.* Each non-employee Director who is in the Service of the Company and/or a Subsidiary on the Effective Date (the date of the 2018 Company annual stockholder meeting at which stockholders approve the Plan (“2018 Annual Meeting”)) shall automatically be granted an Award of Stock Options and Restricted Stock as follows:

(A) *Stock Options — Non-Employee Directors.* Each non-employee Director who is in the Service of the Company and/or Subsidiary immediately following the 2018 Annual Meeting shall receive, on the Effective Date, a grant of Six Thousand Four Hundred Fifty-One (6,451) Stock Options, and this amount represents approximately four percent (4%) of the maximum number of shares of Stock that may be delivered as Stock Options under Section 3.2.

(B) *Restricted Stock Awards — Non-Employee Directors.* Each non-employee Director who is in the Service of the Company and/or Subsidiary immediately following the 2018 Annual Meeting shall receive, on the Effective Date, a grant of Two Thousand Five Hundred Eighty (2,580) shares of Restricted Stock, and this amount represents approximately four percent (4%) of the maximum number of shares of Stock that may be delivered as Restricted Stock Awards under Section 3.2.

(c) The aggregate number of shares available for grant under this Plan and the number of shares subject to outstanding Awards, including the limit on the number of Awards available for grant under this Plan described in this Section 3.3, shall be subject to adjustment as provided in Section 3.4.

**Section 3.4 Corporate Transactions.**

(a) *General.* In the event any recapitalization, forward or reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of shares of Stock or other securities, stock dividend or other special and nonrecurring dividend or distribution (whether in the form of cash, securities or other property), liquidation, dissolution, or other similar corporate transaction or event, affects the shares of Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan and/or under any Award granted under the Plan, then the Committee shall, in an equitable manner, adjust any or all of: (i) the number and kind of securities deemed to be available thereafter for grants of Stock Options or Restricted Stock Awards in the aggregate to all Participants and individually to any one Participant; (ii) the number and kind of securities that may be delivered or deliverable in respect of outstanding Stock Options and Restricted Stock Awards; and (iii) the Exercise Price of Stock Options. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Stock Options and Restricted Stock Awards (including, without limitation, cancellation of Stock Options and Restricted Stock Awards in exchange for the in-the-money value, if any, of the vested portion thereof, or substitution or exchange of Stock Options and Restricted Stock Awards

using stock of a successor or other entity) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any parent or Subsidiary or the financial statements of the Company or any parent or Subsidiary, or in response to changes in applicable laws, regulations, or accounting principles.

(b) *Merger in which Company is Not Surviving Entity.* In the event of any merger, consolidation, or other business reorganization (including, but not limited to, a Change in Control) in which the Company is not the surviving entity, unless otherwise determined by the Committee at any time at or after grant and prior to the consummation of such merger, consolidation or other business reorganization, any Stock Options granted under the Plan which remain outstanding shall be converted into Stock Options to purchase voting common equity securities of the business entity which survives such merger, consolidation or other business reorganization having substantially the same terms and conditions as the outstanding Stock Options under this Plan and reflecting the same economic benefit (as measured by the difference between the aggregate Exercise Price and the value exchanged for outstanding shares of Stock in such merger, consolidation or other business reorganization), all as determined by the Committee prior to the consummation of such merger; provided, however, that the Committee may, at any time prior to the consummation of such merger, consolidation or other business reorganization, direct that all, but not less than all, outstanding Stock Options be canceled as of the effective date of such merger, consolidation or other business reorganization in exchange for a cash payment per share of Stock equal to the excess (if any) of the value exchanged for an outstanding share of Stock in such merger, consolidation or other business reorganization over the Exercise Price of the Stock Option being canceled; provided, further, that in the event the Exercise Price of outstanding Stock Options exceed the value to be exchanged for an outstanding share of Stock (an “Underwater Stock Option”) in such merger, consolidation or other business reorganization, the Committee may, in its discretion, cancel and terminate such Underwater Stock Options without the consent of the holder of the Stock Option and without any payment to such holder.

**Section 3.5 Delivery of Shares.** Delivery of shares of Stock or other amounts under the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other provision of the Plan, the Company shall have no obligation to deliver any shares of Stock or make any other distribution of benefits under the Plan unless such delivery or distribution complies with all applicable laws (including, the requirements of the Securities Act), and the applicable requirements of any Exchange or similar entity.

(b) *Certificates.* To the extent that the Plan provides for the issuance of shares of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any Exchange.

#### **ARTICLE 4 — CHANGE IN CONTROL**

**Section 4.1 Consequence of a Change in Control.** Subject to the provisions of Section 2.4 (relating to vesting and acceleration) and Section 3.4 (relating to the adjustment of shares), and except as otherwise provided in the Plan or as determined by the Committee and set forth in the terms of any Award Agreement or as set forth in an employment, change in control, or severance agreement entered into by and between the Company and/or the Bank and an Employee:

(a) At the time of an Involuntary Termination at or following a Change in Control, all Stock Options then held by the Participant shall become fully earned and exercisable (subject to the expiration provisions otherwise applicable to the Stock Option). All Stock Options may be exercised for a period of one year following the Participant’s Involuntary Termination, provided, however, that no Stock Option shall be eligible for treatment as an ISO in the event such Stock Option is exercised more than three (3) months following such Involuntary Termination. To the extent not specified herein or in the Award Agreement, the Committee shall have the discretion to determine the treatment of outstanding unvested Awards, provided, however, that any such Awards will be deemed earned and shall vest if not assumed by a successor entity.

(b) At the time of an Involuntary Termination at or following a Change in Control, all Awards of Restricted Stock described in Section 2.1(b) shall become fully earned and vested immediately.

**Section 4.2 Definition of Change in Control.** For purposes of this Agreement, the term “Change in Control” shall mean the consummation by the Company or the Bank, in a single transaction or series of related transactions, of any of the following:

(a) Merger: The Company or the Bank merges into or consolidates with another entity, or merges another bank or corporation into the Company or the Bank, and as a result, less than a majority of the combined voting power of the resulting corporation immediately after the merger or consolidation is held by persons who were stockholders of the Company or the Bank immediately before the merger or consolidation;

(b) Acquisition of Significant Share Ownership: A person or persons acting in concert has or have become the beneficial owner of 25% or more of a class of the Company’s or the Bank’s Voting Securities; provided, however, this clause (b) shall not apply to beneficial ownership of the Company’s or the Bank’s voting shares held in a fiduciary capacity by an entity of which the Company directly or indirectly beneficially owns 50% or more of its outstanding Voting Securities;

(c) Change in Board Composition: During any period of two consecutive years, individuals who constitute the Company’s or the Bank’s Board of Directors at the beginning of the two-year period cease for any reason to constitute at least a majority of the Company’s or the Bank’s Board of Directors; provided, however, that for purposes of this clause (c), each director who is first elected by the board (or first nominated by the board for election by the stockholders) by a vote of at least two-thirds (2/3) of the directors who were directors at the beginning of the two-year period shall be deemed to have also been a director at the beginning of such period or who is appointed as a director as a result of a directive, supervisory agreement or order issued by the primary federal regulator of the Company or the Bank or by the Federal Deposit Insurance Corporation shall be deemed to have also been a director at the beginning of such period; or

(d) Sale of Assets: The Company or the Bank sells to a third party all or substantially all of its assets.

Notwithstanding the foregoing, in the event that an Award constitutes Deferred Compensation, and the settlement of, or distribution of benefits under, such Award is to be triggered solely by a Change in Control, then with respect to such Award, a Change in Control shall be defined as required under Code Section 409A, as in effect at the time of such transaction.

## **ARTICLE 5 — COMMITTEE**

**Section 5.1 Administration.** The Plan shall be administered by the members of the Compensation Committee of the Company who are Disinterested Board Members. If the Committee consists of fewer than three Disinterested Board Members, then the Board shall appoint to the Committee such additional Disinterested Board Members as shall be necessary to provide for a Committee consisting of at least three Disinterested Board Members. Any members of the Committee who do not qualify as Disinterested Board Members shall abstain from participating in any discussion or decision to make or administer Awards that are made to Participants who at the time of consideration for such Award are persons subject to the short-swing profit rules of Section 16 of the Exchange Act. The Board (or if necessary to maintain compliance with the applicable listing standards, those members of the Board who are “independent directors” under the corporate governance statutes or rules of any national Exchange on which the Company lists, has listed or seeks to list its securities) may, in their discretion, take any action and exercise any power, privilege or discretion conferred on the Committee under the Plan with the same force and effect under the Plan as if done or exercised by the Committee.

**Section 5.2 Powers of Committee.** The administration of the Plan by the Committee shall be subject to the following:

(a) The Committee will have the authority and discretion to select from among the Company’s and its Subsidiaries’ Employees and Directors who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, to

establish the terms, conditions, features (including automatic exercise in accordance with Section 7.18 hereof), restrictions (including without limitation, provisions relating to non-competition, non-solicitation and confidentiality), and other provisions of such Awards (subject to the restrictions imposed by Article 6), to cancel or suspend Awards and to reduce, eliminate or accelerate any restrictions or vesting requirements applicable to an Award at any time after the grant of the Award or to extend the time period to exercise a Stock Option, provided that such extension is consistent with Code Section 409A. Notwithstanding the foregoing, the Committee will not have the authority or discretion to accelerate the vesting requirements applicable to an Award to avoid the one-year minimum vesting requirement pursuant to Section 2.4 (except to the extent permitted pursuant to Section 2.4 hereof).

(b) The Committee will have the authority and discretion to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(c) The Committee will have the authority to define terms not otherwise defined herein.

(d) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons.

(e) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the charter and bylaws of the Company and applicable corporate law.

(f) The Committee will have the authority to: (i) suspend a Participant's right to exercise a Stock Option during a blackout period (or similar restricted period) or to exercise in a particular manner (i.e., such as a "cashless exercise" or "broker-assisted exercise") to the extent that the Committee deems it necessary or in the best interests of the Company in order to comply with the securities laws and regulations issued by the SEC (the "Blackout Period"); and (ii) to extend the period to exercise a Stock Option by a period of time equal to the Blackout Period, provided that such extension does not violate Section 409A of the Code, the Incentive Stock Option requirements or applicable laws and regulations.

**Section 5.3 Delegation by Committee.** Except to the extent prohibited by applicable law, the applicable rules of an Exchange upon which the Company lists its shares or the Plan, or as necessary to comply with the exemptive provisions of Rule 16b-3 promulgated under the Exchange Act, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it, including:

(a) delegating to a committee of one or more members of the Board who are not "non-employee directors," within the meaning of Rule 16b-3, the authority to grant Awards under the Plan to eligible persons who are not then subject to Section 16 of the Exchange Act; (b) delegating to a committee of one or more members of the Board who would be eligible to serve on the Compensation Committee of the Company pursuant to the listing requirements imposed by any national securities exchange on which the Company lists, has listed or seeks to list its securities, the authority to grant awards under the Plan; or (c) to the extent permitted by applicable law, the Board or Committee may also appoint a committee, composed of one or more senior executive officers of the Company, that may authorize Awards to Employees (who are not subject to Section 16 of the Exchange Act) within parameters specified by the Board or Committee and consistent with any limitations imposed by applicable law, the Committee or the Board. The acts of such delegates shall be treated hereunder as acts of the Committee and such delegates shall report regularly to the Committee regarding the delegated duties and responsibilities and any Awards so granted. Any such allocation or delegation may be revoked by the Committee at any time.

**Section 5.4 Information to be Furnished to Committee.** As may be permitted by applicable law, the Company and its Subsidiaries shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and its Subsidiaries as to a Participant's employment, termination of employment, leave of absence, reemployment and compensation shall be conclusive on all persons unless determined by the Committee to be manifestly incorrect. Subject to applicable law, Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

**Section 5.5 Committee Action.** The Committee shall hold such meetings, and may make such administrative rules and regulations, as it may deem proper. A majority of the members of the Committee shall constitute a quorum, and the action of a majority of the members of the Committee present at a meeting at which a quorum is present, as well as actions taken pursuant to the unanimous written consent of all of the members of the Committee without holding a meeting, shall be deemed to be actions of the Committee. Subject to Section 5.1, all actions of the Committee shall be final and conclusive and shall be binding upon the Company, Participants and all other interested parties. Any person dealing with the Committee shall be fully protected in relying upon any written notice, instruction, direction or other communication signed by a member of the Committee or by a representative of the Committee authorized to sign the same in its behalf.

#### **ARTICLE 6 — AMENDMENT AND TERMINATION**

**Section 6.1 General.** The Board may, as permitted by law, at any time, amend or terminate the Plan, and may amend any Award Agreement, provided that no amendment or termination (except as provided in Section 2.5, Section 3.4 and Section 6.2) may cause the Award to violate Code Section 409A, may cause the repricing of a Stock Option, or, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), adversely impair the rights of any Participant or beneficiary under any Award granted under the Plan prior to the date such amendment is adopted by the Board; *provided, however*, that, no amendment may (a) materially increase the benefits accruing to Participants under the Plan, (b) materially increase the aggregate number of securities which may be issued under the Plan, other than pursuant to Section 3.4, or (c) materially modify the requirements for participation in the Plan, unless the amendment under (a), (b) or (c) above is approved by the Company's stockholders.

**Section 6.2 Amendment to Conform to Law and Accounting Changes.** Notwithstanding any provision in this Plan or any Award Agreement to the contrary, the Committee may amend the Plan or any Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of: (i) conforming the Plan or the Award Agreement to any present or future law relating to plans of this or similar nature (including, but not limited to, Code Section 409A); or (ii) avoiding an accounting treatment resulting from an accounting pronouncement or interpretation thereof issued by the SEC or Financial Accounting Standards Board subsequent to the adoption of the Plan or the making of the Award affected thereby, which, in the sole discretion of the Committee, may materially and adversely affect the financial condition or results of operations of the Company. By accepting an Award under this Plan, each Participant agrees and consents to any amendment made pursuant to this Section 6.2 or Section 2.5 to any Award granted under the Plan without further consideration or action.

#### **ARTICLE 7 — GENERAL TERMS**

##### **Section 7.1 No Implied Rights.**

(a) *No Rights to Specific Assets.* Neither a Participant nor any other person shall by reason of participation in the Plan acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including any specific funds, assets, or other property which the Company or any Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the shares of Stock or amounts, if any, payable or distributable under the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person.

(b) *No Contractual Right to Employment or Future Awards.* The Plan does not constitute a contract of employment, and selection as a Participant will not give any participating Employee the right to be retained in the employ of the Company or any Subsidiary or any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. No individual shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to receive a future Award under the Plan.

(c) *No Rights as a Stockholder.* Except as otherwise provided in the Plan or in the Award Agreement, no Award under the Plan shall confer upon the holder thereof any rights as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

**Section 7.2 Transferability.** Except as otherwise so provided by the Committee, ISOs under the Plan are not transferable except: (i) as designated by the Participant by will or by the laws of descent and distribution; (ii) to a trust established by the Participant, if under Code Section 671 and applicable state law, the Participant is considered the sole beneficial owner of the Stock Option while held in trust; or (iii) between spouses incident to a divorce or pursuant to a domestic relations order, provided, however, in the case of a transfer within the meaning of this paragraph (iii), the Stock Option shall not qualify as an ISO as of the day of such transfer. The Committee shall have the discretion to permit the transfer of vested Stock Options (other than ISOs) under the Plan; *provided, however*, that such transfers shall be limited to Immediate Family Members of Participants, trusts and partnerships established for the primary benefit of such family members or to charitable organizations, and; *provided, further*, that such transfers are not made for consideration to the Participant.

Awards of Restricted Stock shall not be transferable prior to the time that such Awards vest in the Participant.

**Section 7.3 Designation of Beneficiaries.** A Participant hereunder may file with the Company a written designation of a beneficiary or beneficiaries under this Plan and may from time to time revoke or amend any such designation (“Beneficiary Designation”). Any designation of beneficiary under this Plan shall be controlling over any other disposition, testamentary or otherwise (unless such disposition is pursuant to a domestic relations order); *provided, however*, that if the Committee is in doubt as to the entitlement of any such beneficiary to any Award, the Committee may determine to recognize only the legal representative of the Participant, in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone.

**Section 7.4 Non-Exclusivity.** Neither the adoption of this Plan by the Board nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as either may deem desirable, including, without limitation, the granting of Restricted Stock Awards or Stock Options and such arrangements may be either generally applicable or applicable only in specific cases.

**Section 7.5 Award Agreement.** Each Award granted under the Plan shall be evidenced by an Award Agreement signed by the Participant. A copy of the Award Agreement, in any medium chosen by the Committee, shall be provided (or made available electronically) to the Participant.

**Section 7.6 Form and Time of Elections/Notification Under Code Section 83(b).** Unless otherwise specified herein, each election required or permitted to be made by any Participant or other person entitled to benefits under the Plan, and any permitted modification or revocation thereof, shall be filed with the Company at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require. Notwithstanding anything herein to the contrary, the Committee may, on the date of grant or at a later date, as applicable, prohibit an individual from making an election under Code Section 83(b). If the Committee has not prohibited an individual from making this election, an individual who makes this election shall notify the Committee of the election within ten (10) days of filing notice of the election with the Internal Revenue Service. This requirement is in addition to any filing and notification required under the regulations issued under the authority of Code Section 83(b).

**Section 7.7 Evidence.** Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information upon which the person is acting considers pertinent and reliable, and signed, made or presented by the proper party or parties.

**Section 7.8 Tax Withholding.** Where a Participant is entitled to receive shares of Stock upon the vesting or exercise of an Award, the Company shall have the right to require such Participant to pay to the Company the amount of any tax that the Company is required to withhold with respect to such vesting or exercise, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of shares of Stock to cover the minimum amount required to be withheld. To the extent determined by the Committee, a Participant shall have the right to direct the Company to satisfy the minimum amount (or an amount up to a Participant’s highest marginal tax rate provided such withholding does not trigger liability accounting under FASB ASC Topic 718 or its successor) required for federal, state and local tax withholding by: (i) with respect to a Stock Option, reducing the number of shares of Stock subject to the Stock Option

(without issuance of such shares of Stock to the Stock Option holder) by a number equal to the quotient of (a) the total minimum amount of required tax withholding divided by (b) the excess of the Fair Market Value of a share of Stock on the exercise date over the Exercise Price per share of Stock; and (ii) with respect to Restricted Stock Awards, withholding a number of shares (based on the Fair Market Value on the vesting date) otherwise vesting that would satisfy the minimum amount of required tax withholding (or an amount up to a Participant's highest marginal rate provided such withholding does not trigger liability accounting under FASB ASC Topic 718 or its successor). Provided there are no adverse accounting consequences to the Company (a requirement to have liability classification of an award under FASB ASC Topic 718 is an adverse consequence), a Participant who is not required to have taxes withheld may request to the Company to withhold in accordance with the preceding sentence as if the Award were subject to minimum tax withholding requirements or up to such Participant's highest marginal tax rate.

**Section 7.9 Action by Company or Subsidiary.** Any action required or permitted to be taken by the Company or any Subsidiary shall be by resolution of its board of directors, or by action of one or more members of the Board (including a committee of the Board) who are duly authorized to act for the Board, or (except to the extent prohibited by applicable law or applicable rules of the Exchange on which the Company lists its securities) by a duly authorized officer of the Company or such Subsidiary.

**Section 7.10 Successors.** All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business, stock, and/or assets of the Company.

**Section 7.11 Indemnification.** To the fullest extent permitted by law and the Company's governing documents, each person who is or shall have been a member of the Committee, or of the Board, or an officer of the Company to whom authority was delegated in accordance with Section 5.3, or an Employee of the Company, shall be indemnified and held harmless by the Company against and from any loss (including amounts paid in settlement), cost, liability or expense (including reasonable attorneys' fees) that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability, or expense is a result of his or her own willful misconduct or except as expressly provided by statute or regulation. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's charter or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless. The foregoing right to indemnification shall include the right to be paid by the Company the expenses incurred in defending any such proceeding in advance of its final disposition, provided, however, that, if required by applicable law, an advancement of expenses shall be made only upon delivery to the Company of an undertaking, by or on behalf of such persons to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such person is not entitled to be indemnified for such expenses.

**Section 7.12 No Fractional Shares.** Unless otherwise permitted by the Committee, no fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash or other property shall be issued or paid in lieu of fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated by rounding down.

**Section 7.13 Governing Law.** The Plan, all Awards granted hereunder, and all actions taken in connection herewith shall be governed by and construed in accordance with the laws of the State of Ohio without reference to principles of conflict of laws, except as superseded by applicable federal law. The federal and state courts located in the State of Ohio, shall have exclusive jurisdiction over any claim, action, complaint or lawsuit brought under the terms of the Plan. By accepting any award under this Plan, each Participant and any other person claiming any rights under the Plan agrees to submit himself or herself and any legal action that the Participant brings under the Plan, to the sole jurisdiction of such courts for the adjudication and resolution of any such disputes.



**Section 7.14 Benefits Under Other Plans.** Except as otherwise provided by the Committee or as set forth in a Qualified Retirement Plan, Awards to a Participant (including the grant and the receipt of benefits) under the Plan shall be disregarded for purposes of determining the Participant's benefits under, or contributions to, any Qualified Retirement Plan, non-qualified plan and any other benefit plans maintained by the Participant's employer. The term "Qualified Retirement Plan" means any plan of the Company or a Subsidiary that is intended to be qualified under Code Section 401(a).

**Section 7.15 Validity.** If any provision of this Plan is determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision has never been included herein.

**Section 7.16 Notice.** Unless otherwise provided in an Award Agreement, all written notices and all other written communications to the Company provided for in the Plan or in any Award Agreement, shall be delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid (provided that international mail shall be sent via overnight or two-day delivery), or sent by facsimile, email or prepaid overnight courier to the Company at its principal executive office. Such notices, demands, claims and other communications shall be deemed given:

(a) in the case of delivery by overnight service with guaranteed next day delivery, the next day or the day designated for delivery;

(b) in the case of certified or registered U.S. mail, five (5) days after deposit in the U.S. mail; or

(c) in the case of facsimile or email, the date upon which the transmitting party received confirmation of receipt; *provided, however*, that in no event shall any such communications be deemed to be given later than the date they are actually received, provided they are actually received.

In the event a communication is not received, it shall only be deemed received upon the showing of an original of the applicable receipt, registration or confirmation from the applicable delivery service. Communications that are to be delivered by U.S. mail or by overnight service to the Company shall be directed to the attention of the Corporate Secretary, unless otherwise provided in the Participant's Award Agreement.

**Section 7.17 Forfeiture Events.**

(a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting conditions of an Award. Such events include, but are not limited to, termination of employment for cause, termination of the Participant's provision of Services to the Company or any Subsidiary, violation of material Company or Subsidiary policies, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct of the Participant that is detrimental to the business or reputation of the Company or any Subsidiary.

(b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the federal securities laws, any Participant who is subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 or who is subject to clawback under Section 954 of the Dodd-Frank Act shall reimburse the Company the amount of any payment in settlement of an Award earned or accrued during the twelve month period following the first public issuance or filing with the SEC (whichever first occurred) of the financial document embodying such financial reporting requirement.

In addition, Awards granted hereunder are subject to any clawback policy adopted by the Board from time to time.

**Section 7.18 Automatic Exercise.** In the sole discretion of the Committee exercised in accordance with Section 5.2(a) above, any Stock Options that are exercisable but unexercised as of the day immediately before the tenth anniversary of the date of grant may be automatically exercised, in accordance with procedures established for this purpose by the Committee, but only if the exercise price is less than the Fair

Market Value of a share of Stock on such date and the automatic exercise will result in the issuance of at least one (1) whole share of Stock to the Participant after payment of the exercise price and any applicable minimum tax withholding requirements. Payment of the exercise price and any applicable tax withholding requirements shall be made by a net settlement of the Stock Option whereby the number of shares of Stock to be issued upon exercise are reduced by a number of shares having a Fair Market Value on the date of exercise equal to the exercise price and any applicable minimum tax withholding.

**Section 7.19 Regulatory Requirements.** The grant and settlement of Awards under this Plan shall be conditioned upon and subject to compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. 1828(k), and the rules and regulations promulgated thereunder.

## **ARTICLE 8 — DEFINED TERMS; CONSTRUCTION**

**Section 8.1** In addition to the other definitions contained herein, unless otherwise specifically provided in an Award Agreement, the following definitions shall apply:

(a) “10% Stockholder” means an individual who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company.

(b) “Award” means any Stock Option or Restricted Stock Award or any or all of them, or any other right or interest relating to stock or cash, granted to a Participant under the Plan.

(c) “Award Agreement” means the document (in whatever medium prescribed by the Committee) which evidences the terms and conditions of an Award under the Plan. Such document is referred to as an agreement, regardless of whether a Participant’s signature is required.

(d) “Board” means the Board of Directors of the Company.

(e) If the Participant is subject to a written employment agreement (or other similar written agreement) with the Company or a Subsidiary that provides a definition of termination for “Cause,” then, for purposes of this Plan, the term “Cause” shall have meaning set forth in such agreement. In the absence of such a definition, “Cause” means termination because of a Participant’s personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, material breach of the Bank’s Code of Ethics, material violation of the Sarbanes-Oxley requirements for officers of public companies that in the reasonable opinion of the Chief Executive Officer of the Bank or the Board will likely cause substantial financial harm or substantial injury to the reputation of the Bank, willfully engaging in actions that in the reasonable opinion of the Board will likely cause substantial financial harm or substantial injury to the business reputation of the Bank, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than routine traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of the contract.

(f) “Change in Control” has the meaning ascribed to it in Section 4.2.

(g) “Code” means the Internal Revenue Code of 1986, as amended, and any rules, regulations and guidance promulgated thereunder, as modified from time to time.

(h) “Code Section 409A” means the provisions of Section 409A of the Code and any rules, regulations and guidance promulgated thereunder, as modified from time to time.

(i) “Committee” means the Committee acting under Article 5.

(j) “Director” means a member of the Board of Directors of the Company or a Subsidiary. A “Director Emeritus” shall mean a former member of the Board of Directors of the Company or a Subsidiary but who continues to be associated with the Company or a Subsidiary as an adviser.

(k) If the Participant is subject to a written employment agreement (or other similar written agreement) with the Company or a Subsidiary that provides a definition of “Disability” or “Disabled,” then, for purposes of this Plan, the terms “Disability” or “Disabled” shall have meaning set forth in such agreement. In the absence of such a definition, “Disability” shall be defined in accordance with the Bank’s long-term disability plan. To the extent that an Award hereunder is subject to Code Section 409A, “Disability” or “Disabled” shall mean that a Participant: (i) is unable to engage in any

substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering Employees. Except to the extent prohibited under Code Section 409A, if applicable, the Committee shall have discretion to determine if a termination due to Disability has occurred.

(l) “Disinterested Board Member” means a member of the Board who: (i) is not a current Employee of the Company or a Subsidiary; (ii) is not a former employee of the Company or a Subsidiary who receives compensation for prior Services (other than benefits under a tax-qualified retirement plan) during the taxable year; (iii) has not been an officer of the Company or a Subsidiary; (iv) does not receive compensation from the Company or a Subsidiary, either directly or indirectly, for services as a consultant or in any capacity other than as a Director except in an amount for which disclosure would not be required pursuant to Item 404 of SEC Regulation S-K in accordance with the proxy solicitation rules of the SEC, as amended or any successor provision thereto; and (v) does not possess an interest in any other transaction, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(a) of SEC Regulation S-K under the proxy solicitation rules of the SEC, as amended or any successor provision thereto. The term Disinterested Board Member shall be interpreted in such manner as shall be necessary to conform to the requirements of Rule 16b-3 promulgated under the Exchange Act and the corporate governance standards imposed on compensation committees under the listing requirements imposed by any Exchange on which the Company lists or seeks to list its securities.

(m) [Reserved].

(n) “Employee” means any person employed by the Company or any Subsidiary. Directors who are also employed by the Company or a Subsidiary shall be considered Employees under the Plan.

(o) “Exchange” means any national securities exchange on which the Stock may from time to time be listed or traded.

(p) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.

(q) “Exercise Price” means the price established with respect to a Stock Option pursuant to Section 2.2.

(r) “Fair Market Value” on any date, means: (i) if the Stock is listed on an Exchange, the closing sales price on such Exchange or over such system on such date or, in the absence of reported sales on such date, the closing sales price on the immediately preceding date on which sales were reported; or (ii) if the Stock is not listed on a securities exchange, “Fair Market Value” shall mean a price determined by the Committee in good faith on the basis of objective criteria consistent with the requirements of Code Section 422 and applicable provisions of Section 409A.

(s) A termination of employment by an Employee Participant shall be deemed a termination of employment for “Good Reason” as a result of the Participant’s resignation from the employment of the Company or any Subsidiary upon the occurrence of any of the following events:

(i) a material diminution in Participant’s base compensation;

(ii) a material diminution in Participant’s authority, duties or responsibilities;

(iii) a change in the geographic location at which Participant must perform his or her duties that is more than thirty-five (35) miles from the location of Participant’s principal workplace on the date of this Agreement; or

(iv) in the event a Participant is a party to an employment, change in control, severance or similar agreement that provides a definition for “Good Reason” or a substantially similar term, then the occurrence of any event set forth in such definition.

(t) “Immediate Family Member” means with respect to any Participant: (i) any of the Participant’s children, stepchildren, grandchildren, parents, stepparents, grandparents, spouses, former spouses, siblings, nieces, nephews, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law or sisters-in-law, including relationships created by adoption; (ii) any natural person sharing the Participant’s household (other than as a tenant or employee, directly or indirectly, of the Participant); (iii) a trust in which any combination of the Participant and persons described in section (i) and (ii) above own more than fifty percent (50%) of the beneficial interests; (iv) a foundation in which any combination of the Participant and persons described in sections (i) and (ii) above control management of the assets; or (v) any other corporation, partnership, limited liability company or other entity in which any combination of the Participant and persons described in sections (i) and (ii) above control more than fifty percent (50%) of the voting interests.

(u) “Involuntary Termination” means the Termination of Service of a Participant by the Company or Subsidiary (other than termination for Cause) or termination of employment by an Employee Participant for Good Reason.

(v) “ISO” has the meaning ascribed to it in Section 2.1(a).

(w) “Non-Qualified Option” means the right to purchase shares of Stock that is either: (i) granted to a Participant who is not an Employee; or (ii) granted to an Employee and either is not designated by the Committee to be an ISO or does not satisfy the requirements of Section 422 of the Code.

(x) “Participant” means any individual who has received, and currently holds, an outstanding Award under the Plan.

(y) [Reserved].

(z) “Restricted Stock” or “Restricted Stock Award” has the meaning ascribed to it in Sections 2.1(b) and 2.3.

(aa) [Reserved].

(bb) “Restriction Period” has the meaning set forth in Section 2.4(b)(iii).

(cc) “Retirement” means, unless otherwise specified in an Award Agreement, retirement from employment or service on or after the attainment of age 65 (or age 70 as a Director). An Employee who is also a Director shall not be deemed to have terminated due to Retirement for purposes of vesting of Awards and exercise of Stock Options until both Service as an Employee and Service as a Director has ceased. A non-employee Director will be deemed to have terminated due to Retirement under the provisions of this Plan only if the non-employee Director has terminated Service on the Board(s) of Directors and any Subsidiary or affiliate in accordance with applicable Company policy, following the provision of written notice to such Board(s) of Directors of the non-employee Director’s intention to retire. A non-employee Director who continues in Service as a Director Emeritus or advisory director shall be deemed to be in Service of the Employer for purposes of vesting of Awards and exercise of Stock Options.

(dd) “SEC” means the United States Securities and Exchange Commission.

(ee) “Securities Act” means the Securities Act of 1933, as amended from time to time.

(ff) “Service” means service as an Employee or non-employee Director of the Company or a Subsidiary, as the case may be, and shall include service as a Director Emeritus or advisory director. Service shall not be deemed interrupted in the case of sick leave, military leave or any other absence approved by the Company or a Subsidiary, in the case of transferees between payroll locations or between the Company, a Subsidiary or a successor.

(gg) “Stock” means the common stock of the Company, \$0.01 par value per share.

(hh) “Stock Option” has the meaning ascribed to it in Section 2.1(a) and 2.2.

(ii) “Subsidiary” means any corporation, affiliate, bank or other entity which would be a subsidiary corporation with respect to the Company as defined in Code Section 424(f) and, other than with respect to an ISO, shall also mean any partnership or joint venture in which the Company and/or other Subsidiary owns more than 50% of the capital or profits interests.

(jj) “Termination of Service” means the first day occurring on or after a grant date on which the Participant ceases to be an Employee or Director (including a Director Emeritus or advisory director) of the Company or any Subsidiary, regardless of the reason for such cessation, subject to the following:

(i) The Participant’s cessation as an Employee shall not be deemed to occur by reason of the transfer of the Participant between the Company and a Subsidiary or between two Subsidiaries.

(ii) The Participant’s cessation as an Employee shall not be deemed to occur by reason of the Participant’s being on a bona fide leave of absence from the Company or a Subsidiary approved by the Company or Subsidiary otherwise receiving the Participant’s Services, provided such leave of absence does not exceed six months, or if longer, so long as the Employee retains a right to reemployment with the Company or Subsidiary under an applicable statute or by contract. For these purposes, a leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that the Employee will return to perform Services for the Company or Subsidiary. If the period of leave exceeds six months and the Employee does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first day immediately following such six month period. For purposes of this sub-section, to the extent applicable, an Employee’s leave of absence shall be interpreted by the Committee in a manner consistent with Treasury Regulation Section 1.409A-1(h)(1).

(iii) If, as a result of a sale or other transaction, the Subsidiary for whom Participant is employed (or to whom the Participant is providing Services) ceases to be a Subsidiary, and the Participant is not, following the transaction, an Employee of the Company or an entity that is then a Subsidiary, then the occurrence of such transaction shall be treated as the Participant’s Termination of Service caused by the Participant being discharged by the entity for whom the Participant is employed or to whom the Participant is providing Services.

(iv) Except to the extent Section 409A of the Code may be applicable to an Award, and subject to the foregoing paragraphs of this sub-section, the Committee shall have discretion to determine if a Termination of Service has occurred and the date on which it occurred. In the event that any Award under the Plan constitutes Deferred Compensation (as defined in Section 2.5 hereof), the term Termination of Service shall be interpreted by the Committee in a manner consistent with the definition of “Separation from Service” as defined under Code Section 409A and under Treasury Regulation Section 1.409A-1(h)(ii). For purposes of this Plan, a “Separation from Service” shall have occurred if the Bank and Participant reasonably anticipate that no further Services will be performed by the Participant after the date of the Termination of Service (whether as an employee or as an independent contractor) or the level of further Services performed will be less than 50% of the average level of bona fide Services in the 36 months immediately preceding the Termination of Service. If a Participant is a “Specified Employee,” as defined in Code Section 409A and any payment to be made hereunder shall be determined to be subject to Code Section 409A, then if required by Code Section 409A, such payment or a portion of such payment (to the minimum extent possible) shall be delayed and shall be paid on the first day of the seventh month following Participant’s Separation from Service.

(v) With respect to a Participant who is a Director, cessation as a Director will not be deemed to have occurred if the Participant continues as a Director Emeritus or advisory director. With respect to a Participant who is both an Employee and a Director, termination of employment as an Employee shall not constitute a Termination of Service for purposes of the Plan so long as the Participant continues to provide Service as a Director, Director Emeritus or advisory director.

(kk) “Voting Securities” means any securities which ordinarily possess the power to vote in the election of directors without the happening of any pre-condition or contingency.

**Section 8.2** In this Plan, unless otherwise stated or the context otherwise requires, the following uses apply:

(a) actions permitted under this Plan may be taken at any time and from time to time in the actor's reasonable discretion;

(b) references to a statute shall refer to the statute and any successor statute, and to all regulations promulgated under or implementing the statute or its successor, as in effect at the relevant time;

(c) in computing periods from a specified date to a later specified date, the words "from" and "commencing on" (and the like) mean "from and including," and the words "to," "until" and "ending on" (and the like) mean "to, but excluding";

(d) references to a governmental or quasi-governmental agency, authority or instrumentality shall also refer to a regulatory body that succeeds to the functions of the agency, authority or instrumentality;

(e) indications of time of day mean Eastern Time;

(f) "including" means "including, but not limited to";

(g) all references to sections, schedules and exhibits are to sections, schedules and exhibits in or to this Plan unless otherwise specified;

(h) all words used in this Plan will be construed to be of such gender or number as the circumstances and context require;

(i) the captions and headings of articles, sections, schedules and exhibits appearing in or attached to this Plan have been inserted solely for convenience of reference and shall not be considered a part of this Plan nor shall any of them affect the meaning or interpretation of this Plan or any of its provisions;

(j) any reference to a document or set of documents in this Plan, and the rights and obligations of the parties under any such documents, shall mean such document or documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof; and

(k) all accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles in the United States.

**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, 2017.

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: **001-38162**

**EAGLE FINANCIAL BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**82-1340349**

(I.R.S. Employer  
Identification Number)

**6415 Bridgetown Road, Cincinnati, Ohio**

(Address of principal executive offices)

**45248**

(Zip Code)

Registrant's telephone number, including area code: **(513) 574-0700**

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

**Title of each class**

Common Stock, \$0.01 par value

**Name of each exchange on which registered**

The NASDAQ Stock Market, LLC

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 7(a)(2)(B) of the Securities Act.

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 voting and non-voting common equity held by non-affiliates of the Registrant as of the last business day of the Registrant's last completed second fiscal quarter was \$0.

As of March 23, 2018, there were issued and outstanding 1,612,808 shares of the Registrant's Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE:**

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## PART I

### ITEM 1. Business

#### Eagle Financial Bancorp, Inc.

Eagle Financial Bancorp, Inc. is a Maryland corporation and owns 100% of the common stock of Eagle Savings Bank (the “Bank”). On July 20, 2017, the Company completed its public offering of common stock in connection with the mutual-to-stock conversion of the Bank, selling 1,572,808 shares of common stock at \$10.00 per share and raising \$15.7 million of gross proceeds. Since the completion of the stock offering, the Company has not engaged in any significant business activity other than owning the common stock of and having deposits in the Bank.

The Company’s only significant asset is its investment in Eagle Savings Bank. At December 31, 2017, Eagle Financial Bancorp, Inc. had consolidated assets of \$131.1 million, total deposits of \$101.1 million, and stockholders’ equity of \$27.3 million. Our executive office is located at 6415 Bridgetown Road, Cincinnati, Ohio 45248, and our telephone number at this address is (513) 574-0700.

#### Eagle Savings Bank

Eagle Savings Bank is an Ohio chartered stock savings and loan association that was originally organized in 1882 under the name The Price Hill Eagle Loan and Building Company No. 1 in the community of East Price Hill for the purposes of promoting savings and home ownership. The Bank changed its name to Eagle Savings Bank in 1996. We conduct our business from our main office and two branch offices. All of our offices are located in Hamilton County, Ohio. Our primary deposit-taking market includes the local communities surrounding our bank offices. Our primary lending market is Hamilton County, Ohio, and the adjoining counties of Butler, Warren and Clermont Counties in Ohio, Boone, Kenton and Campbell Counties in Kentucky, and Dearborn County in Indiana.

Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential real estate loans, commercial real estate and land loans, construction loans and home equity loans and lines of credit. To a lesser extent, we also make commercial business loans, multi-family real estate loans and other consumer loans. We also emphasize our mortgage banking operations.

We offer a variety of deposit accounts, including checking accounts, savings accounts, money market demand accounts and certificate of deposit accounts. We utilize advances from the Federal Home Loan Bank of Cincinnati (the “FHLB-Cincinnati”) for asset/liability management purposes and, from time to time, for additional funding for our operations.

Eagle Savings Bank is subject to comprehensive regulation and examination by its primary federal regulator, the Federal Deposit Insurance Corporation (the “FDIC”), and by its state regulator, the Ohio Division of Financial Institutions (the “ODFI”).

Our executive office is located at 6415 Bridgetown Road, Cincinnati, Ohio 45248, and our telephone number at this address is (513) 574-0700. Our website address is [www.eaglesavings.com](http://www.eaglesavings.com). Information on our website is not incorporated into this Annual Report and should not be considered part of this Annual Report.

#### Market Area

We conduct our operations from our three full-service offices in Cincinnati, Ohio. Our main office is located in the Bridgetown area of Cincinnati, Ohio, and our two branch offices are in Delhi Township and the Hyde Park neighborhood of Cincinnati. Our primary deposit-taking market includes the local communities surrounding our bank offices. Our primary lending market is Hamilton County, Ohio, and the adjoining counties of Butler, Warren and Clermont Counties in Ohio, Boone, Kenton and Campbell Counties in Kentucky, and Dearborn County in Indiana.

Our primary market area is a part of the Cincinnati metropolitan statistical area (“MSA”) and is both urban and suburban in nature. According to the U.S. Census Bureau, the Cincinnati MSA had a total population of approximately 2.1 million in 2010. Our primary market area economy is comprised of a number of employment sectors including business and professional services, healthcare, wholesale/retail, government, and finance/insurance/real estate. Based on data from the U.S. Bureau of Labor Statistics, for December 2017, unemployment rates were 3.8%, 5.0% and 4.4% in Hamilton County, the State of Ohio and the United States as a whole, respectively.

According to SNL Financial LC, the number of households in Hamilton County, the Cincinnati MSA, Ohio and the United States increased by 0.2%, 0.4%, 0.3% and 0.8%, respectively, from 2010 to 2017. Between 2017 and 2022, the number of households in Hamilton County, the Cincinnati MSA, Ohio and the United States are projected to increase by 0.3%, 0.4%, 0.3% and 0.8%, respectively.

## **Competition**

We face competition within our market area both in making loans and attracting deposits. Our market area has a concentration of financial institutions that include large money center and regional banks, community banks and credit unions. We also face competition from commercial banks, savings institutions, mortgage banking firms, consumer finance companies and credit unions and, with respect to deposits, from money market funds, brokerage firms, mutual funds and insurance companies. As of June 30, 2017, based on the most recent available FDIC data, our market share of deposits represented 0.12% of FDIC-insured deposits in Hamilton County, ranking us 17<sup>th</sup> in market share of deposits.

Strong competition within our market area may limit our growth and profitability. The financial services industry could become even more competitive as a result of new legislative, regulatory and technological changes and continued industry consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures than we do. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services than we can as well as better pricing for those products and services.

## **Lending Activities**

**General.** Our principal lending activity is originating one- to four-family residential real estate loans, commercial real estate loans, construction loans, and home equity loans and lines of credit. To a lesser extent, we also originate commercial business loans, multi-family real estate loans and other consumer loans. We plan to grow and diversify our loan portfolio by increasing our commercial business lending, our commercial real estate lending, and our home equity loans and lines of credit.

Commercial real estate loans generally carry greater credit risk than loans secured by owner occupied one- to four-family real estate, and these risks will increase if we succeed in our plan to increase this type of lending. Given their larger balances and the complexity of the underlying collateral, commercial real estate loans generally expose a lender to greater credit risk than loans secured by owner occupied one- to four-family real estate. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential real estate loan.

Increasing our portfolio of home equity loans and lines of credit will increase our credit risk. Most of our home equity loans and lines of credit are secured by real estate in Hamilton County, Ohio and contiguous counties. We generally originate home equity loans and lines of credit with loan-to-value ratios of up to 90% when combined with the principal balance of the existing first mortgage loan. Declines in real estate values could cause some of our home equity loans to be adequately collateralized, which would expose us to greater risk of loss in the event that we seek to recover on defaulted loans by selling the real estate collateral.

Beginning in 2001, we began to increase the number of loans that we originate for sale to the secondary market. We currently originate most of our fixed-rate one- to four-family residential real estate loans for sale to the FHLB-Cincinnati through the MPP. During 2017 we originated \$82.8 million one- to four-family residential real estate loans, and sold \$66.8 million of such loans primarily to the FHLB-Cincinnati through the MPP. See “— Loan Originations, Participations, Purchases and Sales” below for more information regarding our sale of loans through the MPP. We currently employ five residential mortgage loan originators, and we intend to hire up to six new commission-based mortgage lenders over the next three years, as well as additional support staff as needed. Our mortgage banking infrastructure and risk management systems will allow us to safely manage a significantly larger volume of loans.

Our mortgage banking business is subject to risks that could negatively affect our non-interest income. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues. Under the terms of the MPP, we are required to maintain a Lender Risk Account (“LRA”). The LRA consists of amounts withheld from the loan sale proceeds by the FHLB-Cincinnati for absorbing potential losses on the loans we sell. These withheld funds are an asset to the Company as they are scheduled to be paid to the Company in future years, net of any credit losses on the loans sold. If there are higher than expected losses on the loans we have sold to the FHLB-Cincinnati through the MPP, the amount of the LRA would be reduced through a charge to earnings, which would reduce our earnings.

In addition, our loans sold in the secondary market have agreements that contain representations and warranties related to, among other things, the origination and characteristics of the mortgage loans. We may be required to repurchase mortgage loans that we have sold in cases of borrower default or breaches of these representations and warranties. If we are required to repurchase mortgage loans or provide indemnification or other recourse, this could significantly increase our costs and thereby affect our future earnings.

**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated.

	At December 31,			
	2017		2016	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
One- to four-family residential:				
Owner occupied . . . . .	\$ 53,682	51.10%	\$41,914	46.75%
Non-owner occupied . . . . .	7,082	6.74	5,743	6.41
Commercial real estate and land . . . . .	13,739	13.08	13,631	15.21
Home equity and other consumer <sup>(1)</sup> . . . . .	12,570	11.97	14,593	16.28
Residential construction . . . . .	10,362	9.86	9,468	10.56
Multi-family real estate . . . . .	2,084	1.98	2,513	2.80
Commercial . . . . .	5,536	5.27	1,779	1.99
Total gross loans receivable . . . . .	105,055	100.00%	89,641	100.00%
Deferred loan costs . . . . .	66		98	
Loans in process . . . . .	(7,411)		(5,554)	
Allowance for loan losses . . . . .	(1,181)		(1,137)	
Total loans receivable, net . . . . .	\$ 96,529		\$83,048	

(1) At December 31, 2017 and 2016, other consumer loans totaled \$14,000 and \$32,000, respectively.

**Contractual Maturities.** The following table summarizes the scheduled repayments, based on scheduled principal amortization, of our loan portfolio at December 31, 2017. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in the year ending December 31, 2018. Maturities do not reflect the impact of prepayments.

	One- to four-family residential, owner occupied	One- to four family residential, non-owner occupied	Commercial real estate and land	Home equity and other consumer	Residential construction	Multi- family real estate	Commercial	Total
	(In thousands)							
Due During the Years Ending December 31,								
2018 . . . . .	\$ 1,273	\$ 144	\$ 650	\$ 996	\$10,362	\$ 46	\$ 834	\$ 14,305
2019 . . . . .	1,325	152	680	1,046	—	48	867	4,118
2020 . . . . .	1,379	159	713	1,100	—	50	903	4,304
2021 to 2022 . . . . .	2,930	344	1,528	2,369	—	108	1,916	9,195
2023 to 2027 . . . . .	8,441	1,030	4,499	7,059	—	316	1,016	22,361
2028 to 2032 . . . . .	10,316	1,329	5,669	—	—	396	—	17,710
2033 and beyond . . . . .	28,018	3,924	—	—	—	1,120	—	33,062
Total . . . . .	<u>\$53,682</u>	<u>\$7,082</u>	<u>\$13,739</u>	<u>\$12,570</u>	<u>\$10,362</u>	<u>\$2,084</u>	<u>\$5,536</u>	<u>\$105,055</u>

**Fixed- and Adjustable-Rate Loan Schedule.** The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2017 that are contractually due after December 31, 2018.

	Due After December 31, 2018		
	Fixed	Adjustable	Total
	(In thousands)		
One- to four-family residential:			
Owner occupied . . . . .	\$42,834	\$ 9,575	\$52,409
Non-owner occupied . . . . .	3,830	3,108	6,938
Commercial real estate and land . . . . .	4,355	8,734	13,089
Home equity and other consumer . . . . .	795	10,779	11,574
Residential construction . . . . .	—	—	—
Multi-family real estate . . . . .	132	1,906	2,038
Commercial . . . . .	3,304	1,398	4,702
Total . . . . .	<u>\$55,250</u>	<u>\$35,500</u>	<u>\$90,750</u>

**Loan Approval Procedures and Authority.** Pursuant to applicable law, the aggregate amount of loans that we are permitted to make to any one borrower or a group of related borrowers is generally limited to 15% of Eagle Savings Bank's unimpaired capital and surplus. We may lend an additional amount to one person up to 10% of unimpaired capital and unimpaired surplus, to the extent that such amount is secured by readily marketable collateral, which is defined to include certain financial instruments and bullion, but generally does not include real estate. In addition, we have established an in-house limit that is less than the legal limits on loans to one borrower. At December 31, 2017, our largest credit relationship commitment totaled \$3.3 million and was secured by business equipment and had an outstanding balance of \$2.1 million. Our second largest relationship at December 31, 2017 totaled \$2.7 million and was secured by commercial real estate. At December 31, 2017, all of these loans were performing in accordance with their terms.

Our lending is subject to written underwriting standards and origination procedures. Decisions on loan applications are made on the basis of detailed applications submitted by the prospective borrower and property valuations (consistent with our appraisal policy) prepared by outside independent licensed appraisers approved by our board of directors as well as internal evaluations, where permitted by regulations. The loan applications are designed primarily to determine the borrower's ability to repay the requested loan, and the more significant items on the application are verified through use of credit reports, financial statements and tax returns.

Generally, we require title insurance on our mortgage loans as well as fire and extended coverage casualty insurance in amounts at least equal to the principal amount of the loan or the value of improvements on the property, depending on the type of loan. We also require flood insurance if the property is determined to be in a flood zone area.

Our President and Chief Executive Officer and our Residential Lending Manager each have approval authority for up to \$453,100 for residential mortgage loans. They may combine their authority such that together they can approve residential loans of up to \$906,200. Our President and Chief Executive Officer and our Vice President of Commercial Lending each have approval authority for up to \$453,100 for all secured commercial loans. They may combine their authority such that together they can approve commercial loans of up to \$906,200. For unsecured credit, the President and Chief Executive Officer has an authority of \$50,000 and the Vice President of Commercial Lending has an authority of \$150,000. They may combine their authority such that together they may approve unsecured loans up to \$200,000. Any loans in excess of these prescribed limits require the approval of the board of directors. All loans to one borrower will be aggregated for determining the limits as described above.

***One- to Four-Family Residential Real Estate Lending.*** The focus of our lending program has historically been the origination of one- to four-family residential real estate loans. At December 31, 2017, we had \$60.8 million of loans secured by one- to four-family real estate, representing 57.8% of our total loan portfolio. We originate both fixed-rate and adjustable-rate residential mortgage loans. At December 31, 2017, the one- to four-family residential mortgage loans held in our portfolio were comprised of 78.9% fixed-rate loans, and 21.1% adjustable-rate loans.

Our one- to four-family residential real estate loans are generally underwritten according to Fannie Mae and Freddie Mac guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency for Fannie Mae, which is currently \$453,100 for single-family homes in our market area. We also originate loans above the lending limit for conforming loans, which are referred to as “jumbo loans.” We also offer FHA loans, which we originate for sale on a servicing-released, non-recourse basis in accordance with FHA guidelines. Although we are an approved Title II Direct Endorsement Mortgagee with the FHA, we currently use a third-party underwriter with expertise in this type of lending. Currently, our lead mortgage loan processor is in the process of training to become a Direct Endorsement Underwriter. Virtually all of our one- to four-family residential real estate loans are secured by properties located in our market area.

We generally limit the loan-to-value ratios of our one- to four-family residential mortgage loans to 80% of the purchase price or appraised value, whichever is lower. In addition, we may make one- to four-family residential mortgage loans with loan-to-value ratios between 80% and 95% of the purchase price or appraised value, whichever is less, where the borrower obtains private mortgage insurance. FHA loans may be made with loan-to-value ratios up to 96.5% of the purchase price or appraised value, whichever is less.

Our one- to four-family residential real estate loans typically have terms of 15 or 30 years. Our adjustable-rate one- to four-family residential real estate loans generally have fixed rates for initial terms of five, seven or ten years, and adjust annually thereafter at a margin. In recent years, this margin has been 2.75% over the weekly average yield on U.S. treasury securities adjusted to a constant maturity of one year. The maximum amount by which the interest rate may be increased or decreased is generally 2% per adjustment period and the lifetime interest rate cap is generally 4% or 6% over the initial interest rate of the loan. Adjustable-rate one-to four-family residential real estate loans are originated on a servicing retained basis.

In the past we originated loans on non-owner occupied one- to four-family properties. At December 31, 2017, we had \$7.1 million of loans secured by non-owner occupied one- to four-family residential real estate, representing 6.7% of our total loan portfolio and 11.7% of our total one- to four-family real estate portfolio. We do not intend to make such loans in the future.

Since 2001, we have originated an increasing amount of our one- to four-family residential real estate loans for sale to the secondary market. During 2017, we sold approximately 80.7% of the one- to four-family residential real estate loans we originated to the secondary market. These sales were primarily

through the FHLB-Cincinnati's MPP. See “— Loan Originations, Participations, Purchases and Sales” below for additional information regarding our sale of loans through the MPP. We intend to grow our mortgage banking operations in the future. See “Management's Discussion and Analysis of Financial Condition and Results of Operations — Business Strategy” for a further discussion of our strategy to increase mortgage banking.

The one- to four-family residential real estate loans that we retain for our portfolio include shorter-term fixed-rate loans, adjustable-rate loans, jumbo loans and other non-conforming loans that have mitigating strengths that make the loan an appropriate risk.

We do not offer “interest only” mortgage loans on permanent one- to four-family residential real estate loans (where the borrower pays interest 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 the loan, resulting in an increased principal balance during the life of the loan. We do not currently offer “subprime loans” on one- to four-family residential real estate loans (*i.e.*, generally loans with credit scores less than 660). In addition, we do not intend to offer interest only, Option ARM or subprime loans in the future.

We also originate home equity lines of credit and fixed-term home equity loans. See “— Home Equity Loans and Lines of Credit, and Other Consumer Lending”, below.

**Commercial Real Estate, Land and Multi-Family Residential Lending.** In recent years, we have sought to increase our commercial real estate loans. Our commercial real estate loans are secured primarily by office buildings, retail and mixed-use properties, and light industrial properties located in our primary market area. To a lesser extent, we also make multi-family loans secured primarily by residential apartment buildings and land loans primarily secured by land located in our primary market area. At December 31, 2017, we had \$13.7 million in commercial real estate and land loans and \$2.1 million in multi-family real estate loans, representing 13.1% and 2.0% of our total loan portfolio, respectively.

Most of our commercial and multi-family real estate loans have a maximum term of up to 30 years. The interest rates on commercial real estate and multi-family loans are generally fixed for an initial period of one to five years and adjust annually thereafter based on the One Year Treasury Rate. The maximum loan-to-value ratio of our commercial real estate and multi-family real estate loans is generally 80% or less. For properties on which there will be a third party junior lien, the maximum loan-to-value ratio is 70%. All loan-to-value ratios are subject to our underwriting procedures and guidelines. At December 31, 2017, our largest commercial real estate loan totaled \$2.1 million and was secured by business equipment. At that date, our largest multi-family real estate loan totaled \$480,000 and was secured by an apartment complex. At December 31, 2017, both of these loans were performing in accordance with their terms.

Set forth below is information regarding our commercial real estate total loans at December 31, 2017.

<u>Type of Loan</u>	<u>Number of Loans</u>	<u>Total Loan Balances</u> (Dollars in thousands)
Joint Home/Business . . . . .	1	\$ 47
Land . . . . .	12	1,707
Storage . . . . .	3	1,115
Office . . . . .	11	2,853
Owner occupied commercial real estate . . . . .	19	5,594
Restaurant . . . . .	2	807
Retail . . . . .	9	1,616
Total . . . . .	<u>57</u>	<u>\$13,739</u>

We consider a number of factors in originating commercial and multi-family real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's

experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service). All commercial real estate and multi-family loans are appraised by outside independent appraisers approved by the board of directors. Personal guarantees are generally obtained from the principals of commercial and multi-family real estate borrowers.

Raw land loans have a 5 year maturity with a 25 year amortization. The maximum loan-to-value of these loans is 60% of the lesser of the appraised value or the purchase price of the property.

At December 31, 2017, we had \$1.7 million of total land loans outstanding. Included in this was one loan for the acquisition and development of a one- to four-family residential development project. This loan had a \$1.1 million commitment, of which \$344,000 had been disbursed at December 31, 2017. This was our largest land loan, and was performing in accordance with its terms at December 31, 2017.

Loans secured by commercial real estate, raw land and multi-family real estate generally involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans. Repayment of commercial real estate loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such properties, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Furthermore, the repayment of loans secured by multi-family residential real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the borrower's ability to repay the loan may be impaired. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

**Commercial Business Lending.** At December 31, 2017, we had \$5.5 million of commercial business loans, representing 5.3% of our total loan portfolio. With the proceeds from the offering, we intend to increase of emphasis on commercial business lending. We offer regular lines of credit and revolving lines of credit with terms of up to 12 months to small businesses in our market area to finance short-term working capital needs such as accounts receivable and inventory. Our commercial lines of credit are typically adjustable-rate generally based on the prime rate, as published in *The Wall Street Journal*, plus a margin. We generally obtain personal guarantees with respect to all commercial business lines of credit. We also offer term loans of five to seven years.

We typically originate commercial business loans on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, the experience and stability of the borrower's management team, earnings projections and the underlying assumptions, and the value and marketability of any collateral securing the loan. Commercial business loans are generally secured by a variety of collateral, primarily accounts receivable, inventory and equipment. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment in our market area. Therefore, commercial business loans that we originate have greater credit risk than one- to four-family residential real estate loans or, generally, consumer loans. In addition, commercial business loans often result in larger outstanding balances to single borrowers, or related groups of borrowers, and also generally require substantially greater evaluation and oversight efforts.

**Home Equity Loans and Lines of Credit, and Other Consumer Lending.** At December 31, 2017, we had \$12.6 million, or 12.0% of our loan portfolio, in home equity loans and lines of credit. We intend to increase our portfolio of home equity loans and lines of credit in proportion to the increase in our total loan portfolio in 2018.

Our home equity lines of credit and fixed-term equity loans are secured by owner occupied residential property. Home equity lines of credit are variable rate, and are approved with a maximum maturity of up to 10 years. Fixed-term home equity loans are generally originated in accordance with the same standards as



one- to four-family residential mortgage loans. We extend home equity lines of credit and fixed-term equity loans on owner occupied property regardless of whether we hold the first mortgage. We do not extend home equity lines of credit unless the combined loan-to-value ratio of the first mortgage and the home equity line of credit or fixed-term equity loan is 90% or less.

Home equity lines of credit and fixed-term equity loans have greater risk than one- to four-family residential real estate loans secured by first mortgages. Our interest is generally subordinated to the interest of the institution holding the first mortgage. Even where we hold the first mortgage, we face the risk that the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and costs of foreclosure. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Home equity loans and lines of credit and other consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering these loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

From time to time we may make consumer loans other than home equity loans and lines of credit, generally as an accommodation to existing customers. At December 31, 2017, we had \$14,000 in other consumer loans.

**Construction Lending.** We originate construction loans, primarily for one- to four-family residential properties. At December 31, 2017, \$10.4 million, or 9.9%, of our total loan portfolio, consisted of construction loans, all of which were secured by one- to four-family residential real estate. At December 31, 2017, the unadvanced portion of one- to four-family residential construction loans totaled \$6.2 million. Using the proceeds from the offering, we intend to expand our construction lending for one- to four-family residential properties. From time to time we may also consider making construction loans for commercial real estate properties, including multi-family properties, if attractive opportunities arise.

Construction loans for one- to four-family residential properties are originated with a maximum loan to value ratio of 80% and are generally "interest-only" loans during the construction period which typically does not exceed 12 months. After this time period, the loan converts to permanent, amortizing financing following the completion of construction. We generally require that a commitment for permanent financing be in place prior to closing the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs or that we may take possession of a partially completed project. In addition, the ultimate sale or rental of the property may not occur as anticipated.

At December 31, 2017, our largest construction loan had a principal balance of \$792,000. This loan was performing in accordance with its terms at December 31, 2017.

#### **Loan Originations, Participations, Purchases and Sales.**

Most of our loan originations are generated by our loan personnel and from referrals from existing customers and real estate brokers. All loans we originate are underwritten pursuant to our policies and procedures. While we originate both fixed- and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and pricing levels established by competing banks, thrifts, credit unions, and mortgage banking companies. Our volume of loan originations is influenced significantly by market interest rates, and, accordingly, the volume of our loan originations can vary from period to period.

Since 2001, and consistent with our interest rate risk strategy in the low interest rate environment, we have sold on a servicing-released basis most of the fixed-rate conforming one- to four-family residential mortgage loans that we have originated. We currently sell most of these loans to the FHLB-Cincinnati through the MPP. During 2017 we originated \$82.8 million fixed-rate and adjustable rate one- to four-family residential real estate loans, and sold \$66.8 million of such loans primarily to the FHLB-Cincinnati through the MPP. As part of our business strategy, we intend to expand our mortgage banking activity by adding up to six new commission-based mortgage lenders over the next three years. We believe that our mortgage banking infrastructure and risk management systems will allow us to safely manage a significantly larger volume of loans.

Under the terms of the MPP, we are required to maintain a Lender Risk Account (“LRA”). The LRA consists of amounts withheld from the loan sale proceeds by the FHLB-Cincinnati for absorbing inherent losses that are probable on the loans we sell. These withheld funds are an asset to the Company as they are scheduled to be paid to the Company in future years, net of any credit losses on the loans sold. The funds withheld to settle these potential losses totaled \$5.8 million at December 31, 2017; however, these receivables are recorded at fair value, which includes consideration of inherent losses that are probable and net present value discounts. The carrying value of the LRA totaled \$3.2 million at December 31, 2017.

We have developed certain processes and procedures to monitor and mitigate the risks associated with our mortgage banking activities, including:

- independent daily pricing to establish profitability targets;
- a central rate lock desk to mitigate risk of pair off fees;
- selling loans pursuant to mandatory delivery contracts to eliminate warehouse and pipeline risk;
- underwriting review of each file to avoid loan repurchases for non-compliance with underwriting requirements; and
- quality control performed by an independent third party vendor.

From time to time, we may purchase loan participations secured by properties within and outside of our primary lending market area in which we are not the lead lender. In these circumstances, we follow our customary loan underwriting and approval policies. At December 31, 2017, we had six participation loans totaling \$3.5 million in which we were not the lead lender. We also have sold portions of loans from time to time that exceeded our loans-to-one borrower legal lending limit and for risk diversification. At December 31, 2017 we had two participation loans totaling \$1.9 million in which we were the lead lender, \$1.2 million of which were sold.

The following table sets forth our loan origination, purchase, sale and principal repayment activity during the years indicated.

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Total gross loans, including loans held for sale, at beginning of year . . . . .	\$ 92,373	\$ 86,335
<b>Loans originated:</b>		
One- to four-family residential:		
Owner occupied . . . . .	82,773	94,440
Non-owner occupied . . . . .	—	—
Multifamily real estate . . . . .	460	—
Residential construction . . . . .	16,502	9,439
Commercial real estate and land . . . . .	2,660	1,131
Commercial . . . . .	7,818	1,559
Home equity and other consumer . . . . .	7,291	9,061
Total loans originated . . . . .	<u>117,504</u>	<u>115,630</u>
<b>Loans purchased:</b>		
One- to four-family residential:		
Owner occupied . . . . .	—	—
Non-owner occupied . . . . .	—	—
Multifamily real estate . . . . .	—	—
Residential construction . . . . .	—	—
Commercial real estate and land . . . . .	—	1,176
Commercial . . . . .	47	—
Home equity and other consumer . . . . .	—	—
Total loans purchased . . . . .	<u>47</u>	<u>1,176</u>
<b>Loans sold:</b>		
One- to four-family residential:		
Owner occupied . . . . .	(66,773)	(81,741)
Non-owner occupied . . . . .	—	—
Multifamily real estate . . . . .	—	—
Residential construction . . . . .	—	—
Commercial real estate and land . . . . .	—	(74)
Commercial . . . . .	(605)	—
Home equity and other consumer . . . . .	—	—
Total loans sold . . . . .	<u>(67,378)</u>	<u>(81,815)</u>
<b>Other:</b>		
Principal repayments . . . . .	(34,155)	(28,953)
Net loan activity . . . . .	<u>16,018</u>	<u>6,038</u>
Total gross loans, including loans held for sale, at end of year . . . . .	<u>\$108,391</u>	<u>\$ 92,373</u>

**Delinquencies, Classified Assets and Non-Performing Assets**

**Delinquency Procedures.** When a borrower fails to make a required monthly payment by the due date, a late notice is generated stating the payment and late charges due. Our policies provide that a late notice be sent when a loan is 15 days past due. In addition, we may call the borrower when the loan is 30 days past due, and we attempt to cooperate with the borrower to determine the reason for nonpayment and to work

with the borrower to establish a repayment schedule that will cure the delinquency. Once the loan is considered in default, generally at 90 days past due, a certified letter is generally sent to the borrower explaining that the entire balance of the loan is due and payable, the loan is placed on non-accrual status, and additional efforts are made to contact the borrower. If the borrower does not respond, we generally consider initiating foreclosure proceedings when the loan is 90 to 120 days past due. If the loan is reinstated, foreclosure proceedings will be discontinued and the borrower will be permitted to continue to make payments. In certain instances, we may modify the loan or grant a limited exemption from loan payments to allow the borrower to reorganize his or her financial affairs.

When we acquire real estate as a result of foreclosure or by deed in lieu of foreclosure, the real estate is classified as foreclosed real estate until it is sold. The real estate is recorded at estimated fair value at the date of acquisition less estimated costs to sell, and any write-down resulting from the acquisition is charged to the allowance for loan losses. Subsequent decreases in the value of the property are charged to operations through the creation of a valuation allowance. After acquisition, all costs in maintaining the property are expensed as incurred. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

**Troubled Debt Restructurings.** We occasionally modify loans to help a borrower stay current on his or her loan and to avoid foreclosure. We consider modifications only after analyzing the borrower's current repayment capacity, evaluating the strength of any guarantors based on documented current financial information, and assessing the current value of any collateral pledged. We generally do not forgive principal or interest on loans, but may do so if it is in our best interest and increases the likelihood that we can collect the remaining principal balance. We may modify the terms of loans to lower interest rates (which may be at below market rates), to provide for fixed interest rates on loans where fixed rates are otherwise not available, or to provide for interest-only terms. These modifications are made only when there is a reasonable and attainable workout plan that has been agreed to by the borrower and that is in our best interests. At December 31, 2017, we had six loans totaling \$573,000 that were classified as troubled debt restructurings. Troubled debt restructurings may also be included in non-accrual loans if they are not performing in accordance with their modified terms or had been performing in accordance with their modified terms for less than six months since the date of restructuring.

At December 31, 2017 and during the twelve months then ended, there were no non-accruing troubled debt restructurings. For the year ended December 31, 2017, we recognized \$30,000 of interest income on such loans, the same amount that would have been recorded on the loans under their original terms.

**Delinquent Loans.** The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	Loans Delinquent For				Total	
	30 – 89 Days		90 Days and Over		Number	Amount
	Number	Amount	Number	Amount		
	(Dollars in thousands)					
<u>At December 31, 2017</u>						
One- to four-family residential:						
Owner occupied . . . . .	2	\$173	8	\$634	10	\$ 807
Non-owner occupied . . . . .	—	—	—	—	—	—
Commercial real estate and land . . . . .	—	—	1	157	1	157
Home equity and other consumer . . . . .	3	39	—	—	3	39
Residential construction . . . . .	—	—	—	—	—	—
Multi-family real estate . . . . .	—	—	—	—	—	—
Commercial . . . . .	—	—	—	—	—	—
Total . . . . .	<u>5</u>	<u>\$212</u>	<u>9</u>	<u>\$791</u>	<u>14</u>	<u>\$1,003</u>

Loans Delinquent For					
30 – 89 Days		90 Days and Over		Total	
Number	Amount	Number	Amount	Number	Amount

(Dollars in thousands)

At December 31, 2016

One- to four-family residential:

Owner occupied . . . . .	6	\$469	—	\$—	6	\$469
Non-owner occupied . . . . .	—	—	—	—	—	—
Commercial real estate and land . . . . .	1	207	—	—	1	207
Home equity and other consumer . . . . .	4	104	1	50	5	154
Residential construction . . . . .	—	—	—	—	—	—
Multi-family real estate . . . . .	—	—	—	—	—	—
Commercial . . . . .	—	—	—	—	—	—
Total . . . . .	<u>11</u>	<u>\$780</u>	<u>1</u>	<u>\$50</u>	<u>12</u>	<u>\$830</u>

**Classified Assets.** Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the FDIC to be of lesser quality, as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific allowance for loan losses is not warranted. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention” by management.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover losses that were both probable and reasonable to estimate. General allowances represent allowances which have been established to cover accrued losses associated with lending activities that were both probable and reasonable to estimate, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific allowances.

In connection with the filing of our periodic regulatory reports and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations. Loans are listed on the “watch list” initially because of emerging financial weaknesses even though the loan is currently performing as agreed, or delinquency status, or if the loan possesses weaknesses although currently performing. Management reviews the status of each loan on our watch list on a quarterly basis with the board of directors. If a loan deteriorates in asset quality, the classification is changed to “special mention,” “substandard,” “doubtful” or “loss” depending on the circumstances and the evaluation. Generally, loans 90 days or more past due are placed on nonaccrual status and classified “substandard.”

On the basis of this review of our assets, our classified loans, special mention loans, and foreclosed real estate held for sale at the dates indicated were as follows:

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
Classified loans:		
Substandard . . . . .	\$2,491	\$1,737
Doubtful assets . . . . .	—	—
Loss assets . . . . .	—	—
Total classified assets . . . . .	<u>\$2,491</u>	<u>\$1,737</u>
Special mention loans . . . . .	<u>\$ —</u>	<u>\$ 99</u>
Foreclosed real estate held for sale . . . . .	<u>\$ —</u>	<u>\$ 55</u>

**Non-Performing Assets.** The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	(Dollars in thousands)	
Non-accrual loans:		
One- to four-family residential:		
Owner occupied . . . . .	\$ 634	\$ —
Non-owner occupied . . . . .	—	—
Commercial real estate and land . . . . .	157	—
Home equity and other consumer . . . . .	—	50
Residential construction . . . . .	—	—
Multi-family real estate . . . . .	—	—
Commercial . . . . .	—	—
Total . . . . .	<u>791</u>	<u>50</u>
Accruing loans 90 days or more past due:		
One- to four-family residential:		
Owner occupied . . . . .	\$ —	\$ —
Non-owner occupied . . . . .	—	—
Commercial real estate and land . . . . .	—	—
Home equity and other consumer . . . . .	—	—
Residential construction . . . . .	—	—
Multi-family real estate . . . . .	—	—
Commercial . . . . .	—	—
Total loans 90 days or more past due . . . . .	<u>—</u>	<u>—</u>
Accruing troubled debt restructurings:		
One- to four-family residential:		
Owner occupied . . . . .	\$ 77	\$ 80
Non-owner occupied . . . . .	196	319
Commercial real estate and land . . . . .	—	—
Home equity and other consumer . . . . .	—	—
Residential construction . . . . .	—	—
Multi-family real estate . . . . .	—	4
Commercial . . . . .	300	330
Total . . . . .	<u>\$ 573</u>	<u>\$ 733</u>
Total non-performing loans . . . . .	<u>\$1,364</u>	<u>\$ 783</u>
Foreclosed real estate . . . . .	—	55
Total non-performing assets . . . . .	<u>\$1,364</u>	<u>\$ 838</u>
Ratios:		
Total non-performing loans to total loans . . . . .	1.30%	0.87%
Total non-performing assets to total assets . . . . .	1.04%	0.72%
Non-performing assets excluding accruing troubled debt restructurings to total assets . . . . .	0.60%	0.09%
Non-performing loans excluding accruing troubled debt restructurings to total loans . . . . .	0.75%	0.06%

For the year ended December 31, 2017, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was \$18,000. Interest income recognized on such loans for the year ended December 31, 2017 was \$3,000.

***Other Loans of Concern.*** There were no other loans at December 31, 2017 that are not already disclosed where there is information about possible credit problems of borrowers that caused management to have serious doubts about the ability of the borrowers to comply with present loan repayment terms and that may result in disclosure of such loans in the future.

## **Allowance for Loan Losses**

***Analysis and Determination of the Allowance for Loan Losses.*** Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) allocated allowances for identified impaired loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

We identify loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans, and other loans about which management may have concerns about collectability. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan, as well as a shortfall in collateral value, could result in our charging off the loan or the portion of the loan that was impaired.

Among other factors, we consider current general economic conditions, including current housing price depreciation, in determining the appropriateness of the allowance for loan losses for our residential real estate portfolio. We use evidence obtained from our own loan portfolio as well as published housing data on our local markets from third party sources we believe to be reliable as a basis for assumptions about the impact of housing depreciation.

Substantially all of our loans are secured by collateral. Loans 90 days past due and other classified loans are evaluated for impairment and general or specific allowances are established. Typically for a non-performing real estate loan in the process of collection, the value of the underlying collateral is estimated using either the original independent appraisal, adjusted for current economic conditions and other factors, or a new independent appraisal or evaluation, and related general or specific allowances for loan losses are adjusted on a quarterly basis. If a non-performing real estate loan is in the process of foreclosure and/or there are serious doubts about further collectability of principal or interest, and there is uncertainty about the value of the underlying collateral, we will order a new independent appraisal or evaluation if it has not already been obtained. Any shortfall would result in immediately charging off the portion of the loan that was impaired.

***Allocated Allowances for Identified Problem Loans.*** We establish an allocated allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral less estimated selling expenses. Factors in identifying a specific problem loan include: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

***General Valuation Allowance on the Remainder of the Loan Portfolio.*** We establish a general allowance for loans that are not classified as impaired to recognize the probable incurred losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience for the last three years, delinquency trends and management's evaluation of the collectability of the loan portfolio. The allowance may be adjusted for

significant qualitative factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary market area, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current real estate environment.

As an integral part of their examination process, the FDIC and the ODFI will periodically review our allowance for loan losses. Such agencies may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

**Allowance for Loan Losses.** The following table sets forth activity in our allowance for loan losses for the years indicated.

	At or For the Years Ended December 31,	
	2017	2016
	(Dollars in thousands)	
Balance at beginning of year . . . . .	\$1,137	\$ 1,036
Charge-offs:		
One- to four-family residential:		
Owner occupied . . . . .	—	(35)
Non-owner occupied . . . . .	(9)	—
Commercial real estate and land . . . . .	(73)	—
Home equity and other consumer . . . . .	—	—
Residential construction . . . . .	—	—
Multi-family real estate . . . . .	—	—
Commercial . . . . .	—	—
Total charge-offs . . . . .	<u>(82)</u>	<u>(35)</u>
Recoveries:		
One- to four-family residential:		
Owner occupied . . . . .	5	11
Non-owner occupied . . . . .	—	—
Commercial real estate and land . . . . .	—	—
Home equity and other consumer . . . . .	—	—
Residential construction . . . . .	—	—
Multi-family real estate . . . . .	—	—
Commercial . . . . .	19	42
Total recoveries . . . . .	<u>24</u>	<u>53</u>
Net recoveries (charge-offs) . . . . .	<u>(58)</u>	<u>18</u>
Provision for loan losses . . . . .	102	83
Balance at end of year . . . . .	<u>\$1,181</u>	<u>\$ 1,137</u>
Ratios:		
Net (charge-offs) recoveries to average loans outstanding . . . . .	(0.06)%	0.02%
Allowance for loan losses to non-performing loans at end of year . . . . .	86.58%	145.21%
Allowance for loan losses to total loans at end of year . . . . .	1.12%	1.27%

There were \$58,000 in net loan charge-offs for the year ended December 31, 2017 and \$18,000 in net loan recoveries during the year ended December 2016, respectively.

**Allocation of Allowance for Loan Losses.** The following table sets forth the allowance for loan losses allocated by loan category, the percent of allowance to total allowance by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.



At December 31,

	2017			2016		
	Allowance for Loan Losses	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Allowance for Loan Losses	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
(Dollars in thousands)						
One- to four-family residential:						
Owner occupied . . . . .	\$ 283	23.96%	51.10%	\$ 166	14.60%	46.75%
Non-owner occupied . . . . .	122	10.33	6.74	175	15.39	6.41
Commercial real estate and land . .	199	16.85	13.08	164	14.42	15.21
Home equity and other consumer . . . . .	276	23.37	11.97	341	29.99	16.28
Residential construction . . . . .	116	9.82	9.86	88	7.74	10.56
Multi-family real estate . . . . .	25	2.12	1.98	30	2.64	2.80
Commercial . . . . .	160	13.55	5.27	173	15.22	1.99
Total allocated allowance . . . . .	1,181	100.00	100.00	1,137	100.00	100.00
Unallocated allowance . . . . .	—	—	—	—	—	—
Total allowance for loan losses . .	\$1,181	100.00%	100.00%	\$1,137	100.00%	100.00%

At December 31, 2017 and 2016, our allowance for loan losses represented 1.12% and 1.27% of total loans and 86.58% and 145.21% of non-performing loans. Although we believe that we use 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, the existing allowance for loan losses may not be adequate and management may determine that increases in the allowance are necessary if the quality of any portion of our loan portfolio deteriorates as a result. Furthermore, as an integral part of its examination process, the FDIC and ODFI will periodically review our allowance for loan losses. The FDIC and ODFI may require that we increase our allowance based on its judgments of information available to it at the time of its examination. The regulatory agencies are not, however, directly involved in the determination of the allowance for loan losses, and decisions to increase and decrease the allowance are the responsibility of Eagle Savings Bank management. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

The Financial Accounting Standards Board has adopted a new accounting standard that will affect our allowance for loan losses, effective for Eagle Financial Bancorp, Inc. and Eagle Savings Bank for fiscal year 2021. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which would likely require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

### Investment Activities

**General.** Our investment policy is established by the board of directors. The objectives of the policy are to: (i) ensure adequate liquidity for loan demand and deposit fluctuations, and to allow us to alter our liquidity position to meet both day-to-day and long-term changes in assets and liabilities; (ii) manage interest rate risk in accordance with our interest rate risk policy; (iii) provide collateral for pledging requirements; (iv) maximize return on our investments; and (v) maintain a balance of high quality diversified investments to minimize risk.

Our investment committee, consisting of our President and Chief Executive Officer, our Executive Vice President, and our Vice President, Chief Financial Officer and Treasurer, is responsible for implementing our investment policy, including approval of investment strategies and monitoring investment performance. The board of directors regularly reviews our investment strategies and the market value of our investment portfolio. Historically we have invested in short term funds and interest-earning deposits as well as bank owned life insurance. Investment in longer term securities has not been part of our core investment strategy. Subject to ongoing asset/liability management and possible short-term investment of the proceeds of the offering until we can deploy the proceeds into higher earning assets, we do not expect to emphasize long-term investment in securities in the future.

We account for investment securities in accordance with Accounting Standards Codification Topic 320, "Investments — Debt and Equity Securities." Accounting Standards Codification 320 requires that investments be categorized as held-to maturity, trading, or available for sale.

Federally chartered savings institutions have authority to invest in various types of assets, including government-sponsored enterprise obligations, securities of various federal agencies, residential mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, corporate debt instruments, debt instruments of municipalities and Fannie Mae and Freddie Mac equity securities. At December 31, 2017, other than stock in the FHLB-Cincinnati, we held no investment securities in our portfolio; and accordingly, there is no corresponding table setting forth maturities and yields at such date.

**Federal Home Loan Bank Stock.** We hold common stock of the FHLB-Cincinnati in connection with our FHLB borrowing activities totaling \$736,000 and \$728,000 at December 31, 2017 and 2016. The FHLB-Cincinnati common stock is carried at cost and classified as restricted equity securities. We may be required to purchase additional FHLB-Cincinnati stock if we increase our FHLB-Cincinnati advances in the future.

## Sources of Funds

**General.** Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also utilize advances from the FHLB-Cincinnati for asset/liability management purposes and, from time to time, for additional funding for our operations. In addition, we receive funds from scheduled loan payments, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

**Deposits.** Our deposits are generated primarily from our primary market area. We offer a selection of deposit accounts, including non-interest-bearing and interest-bearing checking accounts, statement savings accounts, variable rate money market accounts, and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. We have not in the past used, and currently do not hold, any brokered deposits. At December 31, 2017, our core deposits, which are deposits other than certificates of deposit, were \$59.4 million, representing 58.8% of total deposits.

We participate in the National CD Rateline Program as a wholesale source for certificates of deposit to supplement deposits generated through our retail banking operations. The Rateline Program provides an internet based listing service which connects financial institutions such as Eagle Savings Bank with other financial institutions for jumbo certificates of deposit. Deposits obtained through the Rateline Program are not considered to be brokered deposits. At December 31, 2017, approximately \$2.2 million of our certificates of deposit, representing 2.2% of our total deposits, had been obtained through the Rateline Program. At December 31, 2017, these certificates of deposit had an average term to maturity of 16 months. Early withdrawal of these deposits is not permitted, which makes these accounts a more stable source of funds.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. The flow of deposits is influenced significantly

by general economic conditions, changes in interest rates and competition. The variety of deposit accounts that we offer allows us to be competitive in generating deposits and to respond with flexibility to changes in our customers' demands. Our ability to generate deposits is affected by the competitive market in which we operate, which includes numerous financial institutions of varying sizes offering a wide range of products. We believe that deposits are a stable source of funds, but our ability to attract and maintain deposits at favorable rates will be affected by market conditions, including competition and prevailing interest rates.

The following table sets forth the distribution of our average total deposit accounts, by account type, for the years indicated.

	For the Years Ended December 31,					
	2017			2016		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)					
Non-interest-bearing checking . . . . .	\$ 4,180	4.08%	—%	\$ 4,621	4.77%	—%
Interest-bearing checking . . . . .	18,870	18.45	.13	15,733	16.22	0.26
Savings . . . . .	16,241	15.88	.15	14,152	14.59	0.15
Money market demand . . . . .	20,683	20.22	.23	20,587	21.23	0.32
Certificates of deposit . . . . .	42,314	41.37	1.34	41,879	43.19	1.34
Total deposits . . . . .	<u>\$102,288</u>	<u>100.00%</u>	<u>0.65%</u>	<u>\$96,972</u>	<u>100.00%</u>	<u>0.71%</u>

The following table sets forth our deposit activities for the years indicated.

	At or For the Years Ended December 31,	
	2017	2016
	(In thousands)	
Beginning balance . . . . .	\$100,044	\$ 92,450
Net deposits before interest expense . . . . .	412	6,905
Interest expense . . . . .	662	689
Net increase in deposits . . . . .	1,074	7,594
Ending balance . . . . .	<u>\$101,118</u>	<u>\$100,044</u>

The following table sets forth all our certificates of deposit classified by interest rate as of the dates indicated.

Interest Rate:	At December 31,	
	2017	2016
	(In thousands)	
Less than 1.00% . . . . .	\$11,421	\$14,476
1.00% – 1.99% . . . . .	26,895	23,507
2.00 – 2.99% . . . . .	3,387	3,337
3.00 – 3.99% . . . . .	—	—
Total . . . . .	<u>\$41,703</u>	<u>\$41,320</u>

**Maturities of Certificates of Deposit Accounts.** The following table sets forth the amount and maturities of all our certificates of deposit by interest rate at December 31, 2017.

	At December 31, 2017					Percentage of Total Certificate Accounts
	Period to Maturity				Total	
	Less Than or Equal to One Year	Over One Year to Two Years	Over Two Years to Three Years	Over Three Years		
	(Dollars in thousands)					
<b>Interest Rate:</b>						
Less than 1.00% . . . . .	\$ 9,654	\$1,620	\$ 147	\$ —	\$11,421	27.39%
1.00% – 1.99% . . . . .	7,229	7,819	5,057	6,790	26,895	64.49
2.00% – 2.99% . . . . .	2,237	—	1,002	148	3,387	8.12
Total . . . . .	<u>\$19,120</u>	<u>\$9,439</u>	<u>\$6,206</u>	<u>\$6,938</u>	<u>\$41,703</u>	<u>100.00%</u>

As of December 31, 2017, the aggregate amount of our outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$19.2 million. The following table sets forth the maturity of those certificates as of December 31, 2017.

	At December 31, 2017
	(In thousands)
Three months or less . . . . .	\$ 1,783
Over three months through six months . . . . .	3,270
Over six months through one year . . . . .	2,653
Over one year to three years . . . . .	8,269
Over three years . . . . .	3,260
Total . . . . .	<u>\$19,235</u>

**Borrowings.** From time to time we obtain advances from the FHLB-Cincinnati upon the security of our capital stock in the FHLB-Cincinnati and certain of our mortgage loans. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. To the extent such borrowings have different terms to reprice than our deposits, they can change our interest rate risk profile. See Note 8 to the Financial Statements for additional information on the maturity of our FHLB-Cincinnati advances. At December 31, 2017, we had \$9,000 in outstanding advances from the FHLB-Cincinnati. At December 31, 2017, based on available collateral, our ownership of FHLB stock, and based upon our internal policy, we had access to additional FHLB-Cincinnati advances of up to \$29.8 million, and an additional \$10.0 million on a line of credit with the FHLB-Cincinnati.

The following table sets forth information concerning balances and interest rates on our borrowings at and for the years shown:

	At or For the Years Ended December 31,	
	2017	2016
	(Dollars in thousands)	
FHLB advances:		
Balance at end of year . . . . .	\$ 9	\$ 28
Average balance during year . . . . .	\$ 18	\$ 777
Maximum outstanding at any month end . . . . .	\$ 27	\$3,050
Weighted average interest rate at end of year . . . . .	3.33%	3.33%
Average interest rate during year . . . . .	3.33%	4.25%

**Subsidiary Activities**

Eagle Savings Bank is the only subsidiary of Eagle Financial Bancorp, Inc. Eagle Savings Bank has no subsidiaries.

**Expense and Tax Allocation Agreements**

Eagle Savings Bank has entered into an agreement with Eagle Financial Bancorp, Inc. to provide it with certain administrative support services, whereby Eagle Savings Bank is compensated at not less than the fair market value of the services provided. In addition, Eagle Savings Bank and Eagle Financial Bancorp, Inc. have entered into an agreement establishing a method for allocating and for reimbursing the payment of their consolidated tax liability.

**Employees**

As of December 31, 2017 we had 28 full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

## REGULATION AND SUPERVISION

### General

As an Ohio-chartered savings and loan association, Eagle Savings Bank is subject to supervision and regulation by the ODFI and the FDIC. This regulation and supervision establish a comprehensive framework of activities in which Eagle Savings Bank may engage and are intended primarily for protection of depositors and the FDIC's Deposit Insurance Fund, and not for the protection of stockholders. Under this system of regulation, depository institutions are periodically examined to determine whether they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates and are otherwise in safe and sound financial condition and comply with applicable law and regulations. Eagle Savings Bank is also regulated to a lesser extent by the Federal Reserve Board, which governs the reserves to be maintained against certain deposits and other matters. Eagle Savings Bank must comply with federal consumer protection regulations issued by the Consumer Financial Protection Bureau ("CFPB"). Eagle Savings Bank is a member of and owns stock in the FHLB-Cincinnati, which is one of the eleven regional banks in the Federal Home Loan Bank System.

As a savings and loan holding company, Eagle Financial Bancorp, Inc. is subject to examination and supervision by, and reporting to, the Federal Reserve Board. Eagle Financial Bancorp, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Set forth below are certain material regulatory requirements that are applicable to Eagle Savings Bank and Eagle Financial Bancorp, Inc. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on Eagle Savings Bank and Eagle Financial Bancorp, Inc. Any change in these laws or regulations could have a material adverse impact on Eagle Financial Bancorp, Inc., and Eagle Savings Bank and their operations.

### Ohio Regulation

Prior to 2018, Ohio-chartered banks, savings banks and savings and loan associations were governed by three different sets of Ohio laws. Effective January 1, 2018, the Ohio Legislature amended Ohio's banking laws so that Ohio-chartered banks, savings banks and savings and loan associations are under one common form of charter. Sections of the code that formerly governed savings and loan associations and savings banks were eliminated. Accordingly, Eagle Savings Bank is now governed by the same statutory framework as Ohio banks and savings banks. However, under the new laws, a savings and loan associations may elect to continue to be classified as a savings and loan association if the savings and loan association continues to hold the required amount of qualified thrift investments. As a result of Eagle Savings Bank making such an election, Eagle Savings Bank is subject to the same Ohio laws as banks and savings banks, but Eagle Financial Bancorp, Inc. continues to be regulated as a savings and loan holding company for purposes of federal law.

There were numerous other amendments to the banking code, including, among other things, the following:

- providing that Ohio financial institutions should have "competitive parity" with other types of nationally-chartered financial institutions that operate in Ohio. This change generally allows Ohio financial institutions to undertake the same business activities of national banks, with some exceptions;
- clarifying the extent to which the Ohio general corporation law applies to Ohio financial institutions;
- strengthening individual financial institutions directors' defenses against personal liability by specifically incorporating the common defenses provided by Ohio corporate law to directors for actions taken to further the best interest of the financial institution or in reliance in good faith on the financial institution's management, staff or other experts; and
- clarifying that the enforcement authority for Ohio banking law is limited to banking regulators and does not extend to private parties.

The ODFI is responsible for the regulation and supervision of Ohio savings associations in accordance with the laws of the State of Ohio. Ohio law prescribes the permissible investments and activities of Ohio savings and loan associations. Pursuant to federal law, the ability of Ohio associations to engage in state-authorized investments and activities is subject to oversight and approval by the FDIC if such investments or activities are not permissible for a federally chartered savings bank.

The approval of the ODFI is required for certain expansion proposals, such as the establishment of branches and acquisitions of other depository institutions. Dividend payments to stockholders may also require ODFI approval under certain circumstances.

The ODFI may initiate certain supervisory measures or formal enforcement actions against Ohio savings associations. Ultimately, if the grounds provided by law exist, the ODFI may place an Ohio association in conservatorship or receivership.

The ODFI conducts regular examinations of Eagle Savings Bank. Such examinations are often conducted jointly with the FDIC. The ODFI imposes assessments on Ohio savings associations based on their asset size to cover the cost of supervision and examination.

### **Federal Regulation**

The FDIC is the primary federal regulator for Eagle Savings Bank. As such, it has authority to examine Eagle Savings Bank and must approve such matters as the establishment of branch offices and mergers in which Eagle Savings Bank is the resulting institution. In addition, federal statutes and regulations, some of which are discussed below, greatly affect the operations of FDIC-insured depository institutions, including savings associations.

**Capital Requirements.** Federal regulations require 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 ratio of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The current capital requirements were effective January 1, 2015 and are the result of a final rule implementing recommendations of the international Basel Committee on Banking Supervision and certain requirements of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”).

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. Common equity Tier 1 capital is generally defined as common stockholders’ equity and retained earnings. Unrealized gains and losses on certain “available for sale” securities holdings are also included in common equity Tier 1 capital unless the institution has exercised a one-time opt out election regarding the treatment of accumulated other comprehensive income. Eagle Savings Bank elected to exercise its one-time option to opt out. 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, including 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 institution’s allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution’s capital adequacy, the FDIC takes into consideration not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

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 asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in. It is currently at 1.875%, and will be fully phased in at 2.5% on January 1, 2019.

The FDIC also has authority to establish enhanced individual minimum capital requirements in appropriate cases upon determination that an institution's capital level is, or is likely to become, inadequate in light of particular circumstances.

***Standards for Safety and Soundness.*** As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and cover problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. The agencies have also established standards for safeguarding customer information. 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.

***Investment Activities.*** Subject to certain exceptions, Federal law generally limits the equity investment authority of state savings associations to equity investments of the type and in the amount authorized for federal savings associations, notwithstanding state law. In addition, a state savings association may only engage as principal in other state-authorized activities that are permissible for federal savings associations if it meets all applicable capital requirements and by the FDIC determines that such activities or investments do not pose a significant risk to the Deposit Insurance Fund.

***Interstate Banking and Branching.*** Federal law permits well capitalized and well managed bank holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, banks are permitted to establish de novo branches on an interstate basis to the extent that branching is authorized by the law of the host state for the banks chartered by that state.

***Prompt Corrective Regulatory Action.*** Federal law requires, among other things, that the FDIC and other federal bank regulators take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The FDIC has adopted regulations to implement the prompt corrective action legislation. The regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. 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%.

At each successive lower undercapitalized capital category, an insured depository institution may be subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends, and restrictions on the acceptance of brokered deposits. Furthermore, an insured depository institution that is classified in one of the undercapitalized categories, is required to submit a capital restoration plan to the appropriate federal banking agency. An undercapitalized institution's compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to



achieve the status of adequately capitalized. If an “undercapitalized” institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” “Significantly undercapitalized” institutions must comply with one or more of a number of additional restrictions, including but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. “Critically undercapitalized” institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

***Loans-to-One-Borrower.*** Pursuant to federal law, a state savings association may not make a loan or extension of credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and unimpaired surplus. An additional amount may be lent, equal to 10% of unimpaired capital and unimpaired surplus, if the loan is secured by readily marketable collateral, which is generally defined to include certain financial instruments and bullion (but does not include real estate).

***Qualified Thrift Lender Test.*** Federal law requires savings associations to satisfy a qualified thrift lender (“QTL”) test under which an association must either qualify as a “domestic building and loan” as defined by the Internal Revenue Code or maintain at least 65% of its “portfolio assets” in “qualified thrift investments for at least nine out of every twelve months. “Qualified thrift investments” consist primarily of residential mortgages and related investments, including mortgage-backed and related securities. “Portfolio assets” generally means total assets less specified liquid assets up to 20% of total assets, goodwill and other intangible assets and the value of property used to conduct business. A savings association that fails the QTL test must operate under specified restrictions. The Dodd-Frank Act made noncompliance with the QTL test also subject to agency enforcement action for a violation of law. As of December 31, 2017, Eagle Savings Bank maintained 75.9% of its portfolio assets in qualified thrift investments and, therefore, met the QTL test.

***Transactions with Affiliates and Regulation W of the Federal Reserve Regulations.*** Transactions between insured depository institutions and their affiliates are governed by federal law. An affiliate is any company or entity that controls, is controlled by or is under common control with the institution. In a holding company context, the parent holding company and any companies that are controlled by the parent holding company are affiliates of the savings association (although subsidiaries of the savings associations itself are generally not considered affiliates). Generally, federal law limits the extent to which a savings association or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10.0% of such institution’s capital stock and surplus and such transactions with all affiliates to an amount equal to 20.0% of such institution’s capital stock and surplus. The term “covered transaction” includes the making of loans to, purchase of assets from and issuance of a guarantee on behalf of an affiliate and other specified transactions. In addition, loans or other extensions of credit by an institution to an affiliate are required to be collateralized in accordance with the requirements set forth in federal law. “Covered transactions,” as well as to certain specified other transactions, are required to be on terms substantially the same, or at least as favorable, to the institution as those provided to a non-affiliate.

***Capital Distributions.*** FDIC regulations govern capital distributions by a state savings association, which include cash dividends, stock repurchases and other transactions charged to the institution’s capital account. A state savings association must file an application with the FDIC for approval of a capital distribution if:

- the total capital distributions for that calendar year (including the proposed distribution) exceed the sum of the savings association’s net income for that year to date plus the savings association’s retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized (as defined for prompt corrective action purposes) following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory-imposed condition; or
- the savings association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a holding company, such as Eagle Savings Bank, must file a notice with the Federal Reserve Board at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The FDIC or the Federal Reserve Board may disapprove an application or notice if:

- the savings association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation, agreement with a federal banking regulatory agency or condition imposed in connection with an application or notice.

Federal law also restricts a savings association's loans to its insiders, i.e., executive officers, directors and stockholders (i.e., control of 10% or more of a class of voting stock). Loans to insiders of an institution and certain related interests of such persons, may not exceed specified limits. Loans to insiders are also generally required to be made on terms substantially the same as offered in comparable transactions to other persons, subject to an exception for loan programs open to the institution's employees, and prior board approval is required for certain such loans. In addition, the aggregate amount of extensions of credit by an institution to its insiders cannot exceed the institution's unimpaired capital and surplus. Federal law places additional restrictions on an institution's loans to its executive officers.

**Enforcement.** The FDIC has extensive enforcement authority over insured state savings associations, including Eagle Savings Bank. The enforcement authority includes, among others, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations, breaches of fiduciary duty and unsafe or unsound practices. The Federal Deposit Insurance Corporation may also appoint itself as conservator or receiver for an insured state non-member bank under specified circumstances, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; (4) insufficient capital; or (5) the incurrence of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance.

**Federal Insurance of Deposit Accounts.** Eagle Savings Bank is a member of the FDIC's Deposit Insurance Fund. Deposit accounts in Eagle Savings Bank are insured up to a maximum of \$250,000 for each separately insured depositor. The Federal Deposit Insurance Corporation imposes deposit insurance assessments. Under the Federal Deposit Insurance Corporation's risk-based assessment system, insured institutions were initially assigned to risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depended upon the category to which it is assigned and certain adjustments specified by Federal Deposit Insurance Corporation regulations, with less risky institutions paying lower rates. Assessment rates (inclusive of possible adjustments) ranged from 2½ to 45 basis points of each institution's total assets less tangible capital. The Federal Deposit Insurance Corporation's current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution's volume of deposits. Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories. Assessments for most institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund reserve ratio achieving 1.15%, the assessment range (inclusive of possible adjustments) was reduced for institutions of less than \$10 billion in total assets to 1.5 basis points to 30 basis points, also effective July 1, 2016. The Dodd-Frank Act specifies that banks of greater than \$10 billion in assets be required to bear the burden of raising the reserve ratio from 1.15% to 1.35%. Such institutions are subject to an annual surcharge of 4.5 basis points of total assets exceeding \$10 billion. This surcharge will remain in place until the earlier of the Deposit Insurance Fund reaching the 1.35% ratio or December 31, 2018, at which point a shortfall assessment would be applied. The FDIC, exercising discretion provided to it by the Dodd-Frank Act, has established a long-term goal of achieving a 2% reverse ratio for the Deposit Insurance Fund.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Future insurance assessment rates cannot be predicted.

In addition to the FDIC assessments, the Financing Corporation (“FICO”) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2017, the annualized FICO assessment was equal to 0.34 basis points of total assets less tangible capital.

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 regulatory condition imposed in writing.

**Privacy Regulations.** Federal regulations generally require that Eagle Savings Bank disclose its privacy policy, including identifying with whom it shares a customer’s “non-public personal information,” to customers at the time of establishing the customer relationship and annually thereafter. In addition, Eagle Savings Bank is required to provide its customers with the ability to “opt-out” of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. Eagle Savings Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

**Community Reinvestment Act.** Under the Community Reinvestment Act, or CRA, as implemented by federal regulations, a depository institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for depository institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA does require the FDIC, in connection with its examination of a state savings association, to assess the institution’s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the institution, including applications to establish branches and acquire other institutions by merger. The CRA requires a written evaluation of an institution’s CRA performance utilizing a four-tiered descriptive rating system. Eagle Savings Bank’s latest CRA rating was “Satisfactory.”

**USA Patriot Act.** Eagle Savings Bank is subject to the USA PATRIOT Act, which gives federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act contains provisions intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents, and parties registered under the Commodity Exchange Act.

## **Other Laws and Regulations**

Interest and other charges collected or contracted for by Eagle Savings Bank are subject to state usury laws and federal laws concerning interest rates. Lending operations are also subject to state and federal laws and regulations applicable to credit transactions, such as the:

- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination in extending credit on the basis of race, religion, sex, creed or other specified factors;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; and
- Truth in Lending Act, establishing customer disclosure requirements with respect to certain loans.

The deposit operations of Eagle Savings Bank are subject to, among others, the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Check Clearing for the 21<sup>st</sup> Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Truth in Savings Act, establishing customer disclosure requirements for certain deposit accounts.

The Dodd-Frank Act transferred regulation-writing authority for federal financial consumer protection laws to the CFPB. However, institutions with under \$10.0 billion of total assets, such as Eagle Savings Bank, continue to be examined for compliance with such laws and regulations by their federal bank regulator, which is the FDIC in Eagle Savings Bank’s case.

### **Federal Reserve System**

The Federal Reserve Board regulations require depository institutions to maintain non-interest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$122.3 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3.0%, and for amounts greater than \$122.3 million the reserve requirement is 10.0% (which may be adjusted annually by the Federal Reserve Board to between 8.0% and 14.0%). The first \$16.0 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. Eagle Savings Bank is in compliance with these requirements.

### **Federal Home Loan Bank System**

Eagle Savings Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Members of the Federal Home Loan Bank are required to acquire and hold shares of capital stock in the Federal Home Loan Bank. Eagle Savings Bank was in compliance with this requirement at December 31, 2017.

### **Holding Company Regulation**

Eagle Financial Bancorp, Inc. is a unitary savings and loan holding company subject to regulation and supervision by the Federal Reserve Board. The Federal Reserve Board has enforcement authority over Eagle Financial Bancorp, Inc. and any non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a risk to Eagle Savings Bank.

As a savings and loan holding company, the activities of Eagle Financial Bancorp, Inc. is limited to those activities permitted for financial holding companies (if Eagle Financial Bancorp, Inc. meets the necessary requirements to be a financial holding company and makes the required election) or multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, incidental to a financial activity or complementary to financial activities. Such activities include lending and other activities permitted for bank holding companies, insurance and underwriting equity securities. Multiple savings and loan holding companies are authorized to engage in activities specified by federal regulation, including activities permitted for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, with appropriate Federal Reserve Board approvals.

Federal law prohibits a savings and loan holding company from, directly or indirectly, or through one or more subsidiaries, acquiring more than 5% of another savings institution or savings and loan holding company without prior written approval of the Federal Reserve Board and from acquiring or retaining control of any depository institution not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider such factors as the financial and managerial resources and future prospects of the company and institution involved, the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors. A savings and loan holding company may not acquire a savings institution in another state and hold the target institution as a separate subsidiary unless it is a supervisory acquisition under Section 13(k) of the Federal Deposit Insurance Act or the law of the state in which the target is located authorizes such acquisitions by out-of-state companies.

The Dodd-Frank Act codified the “source of strength” doctrine. That longstanding policy of the Federal Reserve Board requires bank holding companies to serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. The policy statement also provides for regulatory consultation prior to a holding company paying dividends or redeeming or repurchasing regulatory capital instruments under certain circumstances.

The Federal Deposit Insurance Act makes depository institutions liable to the FDIC for losses suffered or anticipated by the insurance fund in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. That law would have potential applicability if Eagle Financial Bancorp, Inc. ever held as a separate subsidiary a depository institution in addition to Eagle Savings Bank.

### **Federal Securities Laws**

Eagle Financial Bancorp, Inc.’s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Eagle Financial Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in the stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate’s sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

### **Emerging Growth Company Status**

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than \$1.07 billion during its most recently completed fiscal year qualifies as an “emerging growth company.” We qualify as an “emerging growth company” and believe that we will continue to qualify as an “emerging growth company” for five years from the completion of our initial public offering on July 20, 2017.

Subject to certain conditions set forth in the JOBS Act, as an “emerging growth company” we are not required to, among other things, (i) provide an auditor’s attestation report on our system of internal controls over financial reporting, (ii) provide all of the compensation disclosure that may be required of

non-emerging growth public companies under the Dodd-Frank Act, (iii) hold non-binding stockholder votes regarding annual executive compensation or executive compensation payable in connection with a merger or similar corporate transaction, (iv) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (v) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our initial public offering or until we are no longer an "emerging growth company," whichever is earlier. However, we will not be subject to the auditor attestation requirement or additional executive compensation disclosure, regardless of the exemptions, so long as we remain a "smaller reporting company" under Securities and Exchange Commission regulations (generally less than \$75 million of voting and non-voting equity held by non-affiliates).

We could remain an "emerging growth company" for up to five years, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (b) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

### **Change in Control Regulations**

Under the Change in Bank Control Act, no person may acquire control of a savings and loan holding company, such as Eagle Financial Bancorp, Inc. unless the Federal Reserve Board has been given 60 days prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the institution's directors, or a determination by the regulator that the acquirer has the power, directly or indirectly, to exercise a controlling influence over the management or policies of the institution. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as is the case with Eagle Financial Bancorp, Inc., the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

The approval of the ODFI is also necessary for acquisitions of control of Ohio savings associations.

In addition, federal law provides that no company may acquire control of a savings and loan holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination and regulation by the Federal Reserve Board.

## TAXATION

### Federal Taxation

**General.** Eagle Financial Bancorp, Inc. and Eagle Savings Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to Eagle Financial Bancorp, Inc. and Eagle Savings Bank.

**Method of Accounting.** For federal income tax purposes, Eagle Savings Bank currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31<sup>th</sup> for filing its federal income tax returns. Eagle Financial Bancorp, Inc. and Eagle Savings Bank will file a consolidated federal income tax return. Eagle Savings Bank is not currently under audit with respect to its federal income tax return. The Small Business Protection Act of 1996 eliminated the use of the percentage of taxable income method of accounting for income taxes on bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

**Minimum Tax.** The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, less an exemption amount, referred to as “alternative minimum taxable income.” The alternative minimum tax is payable to the extent tax computed this way exceeds tax computed by applying the regular tax rates to regular taxable income. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. At December 31, 2016, Eagle Savings Bank is not subject to the alternative minimum tax and will not be subject to the alternative minimum tax until it exceeds the gross income threshold. At December 31, 2017, Eagle Savings Bank had no minimum tax credit carryforward.

**Net Operating Loss Carryovers.** Generally, a financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2017, Eagle Savings Bank had no federal net operating loss carryforwards.

**Capital Loss Carryovers.** A corporation cannot recognize capital losses in excess of capital gains generated. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which carried and is used to offset any capital gains. Any undeducted loss remaining after the five year carryover period is not deductible. At December 31, 2017, Eagle Savings Bank had no capital loss carryovers.

**Corporate Dividends.** We may generally exclude from our income 100% of dividends received from Eagle Savings Bank as a member of the same affiliated group of corporations.

### State Taxation

Eagle Financial Bancorp, Inc. and Eagle Savings Bank are subject to Ohio taxation in the same general manner as other financial institutions. In particular, Eagle Financial Bancorp, Inc. and Eagle Savings Bank will file a consolidated Ohio Financial Institutions Tax (FIT) return. The FIT is based upon the net worth of the consolidated group. For Ohio FIT purposes, savings institutions are currently taxed at a rate equal to 0.8% of taxable net worth. Eagle Savings Bank is not currently under audit with respect to its Ohio FIT returns.

As a Maryland business corporation, Eagle Financial Bancorp, Inc. will be required to file an annual personal property tax return with the State of Maryland. Eagle Savings Bank’s state income tax returns have not been audited in recent years.

**ITEM 1A. Risk Factors**

Not required for smaller reporting companies.

**ITEM 1B. Unresolved Staff Comments**

Not applicable.

**ITEM 2. Properties**

At December 31, 2017, the net book value of our properties was \$3.9 million, and the net book value of our furniture, fixtures and equipment (including computer software) was \$436,000. The following table sets forth information regarding our offices.

Location	Leased or Owned	Year Acquired or Leased	Net Book Value of Real Property (In thousands)
<b>Main Office:</b>			
6415 Bridgetown Road Cincinnati, OH 45248 . . . . .	Owned	2003	\$2,530
<b>Branch Offices:</b>			
5681 Rapid Run Rapid Run Plaza (at Neeb Rd.) Cincinnati, OH 45238 . . . . .	Leased	2009	30
3420 Edwards Road Cincinnati, OH 45208 . . . . .	Owned	2014	1,365

We believe that our current facilities are adequate to meet our present and foreseeable needs, other than modest and customary repair and replacement needs.

**ITEM 3. Legal Proceedings**

At December 31, 2017, we were not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which, in the aggregate, involve amounts which management believes are immaterial to our financial condition, our results of operations and our cash flows.

**ITEM 4. Mine Safety Disclosures.**

None.



## PART II

### ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our shares of common stock are traded on the NASDAQ Capital Market under the symbol “EFBI”. The approximate number of holders of record of Eagle Financial Bancorp, Inc.’s common stock as of March 23, 2018 was 212. Certain shares of Eagle Financial Bancorp, Inc. are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. Eagle Financial Bancorp, Inc. began trading on the NASDAQ Capital Market on July 21, 2017.

	Price Per Share	
	2017	
	High	Low
Fourth quarter . . . . .	\$19.50	\$15.62
Third quarter . . . . .	19.57	14.92

Eagle Financial Bancorp, Inc. has never paid a cash dividend. The Board of Directors has the authority to declare cash dividends on shares of common stock, subject to statutory and regulatory requirements. In determining whether and in what amount to pay a cash dividend, the Board takes into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that cash dividends will ever be paid or that, if paid, will not be reduced.

The available sources of funds for the payment of a cash dividend in the future are interest and principal payments with respect to Eagle Financial Bancorp, Inc.’s loan to the Employee Stock Ownership Plan, and dividends from Eagle Savings Bank.

Under the rules of the FDIC and the Federal Reserve Board, Eagle Savings Bank is not permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. For information concerning additional federal laws and regulations regarding the ability of Eagle Savings Bank to make capital distributions, including the payment of dividends to Eagle Financial Bancorp, Inc., see “Item 1 — Business — Taxation — Federal Taxation” and “Item 1 — Business — Supervision and Regulation.”

Unlike Eagle Savings Bank, the Company is not restricted by FDIC regulations on the payment of dividends to its shareholders. However, in connection with the FDIC’s conditional approval of Eagle Savings Bank’s conversion, Eagle Financial Bancorp, Inc. made a commitment to the FDIC that Eagle Financial Bancorp, Inc. will not declare any distributions of capital to stockholders, including cash dividends or returns of capital, during the 12-month period following the closing of the conversion, except with the written approval of the Federal Reserve Board. In addition, for three years after the conversion, Eagle Savings Bank may not make any distributions of capital to Eagle Financial Bancorp, Inc. without the prior written approval of the FDIC if such action would cause Eagle Savings Bank’s leverage and total capital ratios to fall below 8.0 percent and 12.0 percent, respectively. Maryland law also restricts the amount of dividends Eagle Financial Bancorp, Inc. may pay on its common stock. Under Maryland law, Eagle Financial Bancorp, Inc. may only pay a dividend on its common stock if, after giving effect to such dividend, (i) it would be able to pay its indebtedness as the indebtedness comes due in the usual course of business and (ii) its total assets exceed the sum of its liabilities and the amount needed, if Eagle Financial Bancorp, Inc. were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of any holders of capital stock who have a preference in the event of dissolution. However, even if Eagle Financial Bancorp, Inc.’s assets are less than the amount necessary to satisfy the requirement set forth above, Eagle Financial Bancorp, Inc. may pay dividends from: (i) its net earnings for the fiscal year in which the distribution is made; (ii) its net earnings for the preceding fiscal year; or (iii) the sum of its net earnings for the preceding eight fiscal quarters. The payment of dividends by Eagle Financial Bancorp, Inc. is also subject to limitations that are imposed by applicable regulation. The holders of common stock of

Eagle Financial Bancorp, Inc. will be entitled to receive and share equally in dividends as may be declared by our board of directors out of funds legally available therefor. If Eagle Financial Bancorp, Inc. issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends. In addition, the Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Federal Reserve Board guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Eagle Financial Bancorp, Inc. to pay dividends or otherwise engage in capital distributions.

At December 31, 2017, Eagle Financial Bancorp, Inc. did not have any equity compensation plans. Eagle Financial Bancorp, Inc. did not repurchase any of its shares during the year ended December 31, 2017.

#### **ITEM 6. Selected Financial Data**

The following tables set forth selected consolidated historical financial and other data of Eagle Financial Bancorp, Inc. and subsidiary at or for the year ended December 31, 2017. Selected historical financial and other data at or for the year ended December 31, 2016 are for Eagle Savings Bank. The following information is only a summary, and should be read in conjunction with the business and financial information contained elsewhere in this annual report. The information at and for the years ended December 31, 2017 and 2016 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of Eagle Financial Bancorp, Inc. and subsidiary beginning at page 47 of this annual report.

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	(In thousands)	
<b>Selected Financial Condition Data:</b>		
Total assets . . . . .	\$131,082	\$115,973
Cash and cash equivalents . . . . .	15,350	19,589
Interest-bearing time deposits in other banks . . . . .	5,079	346
Loans held for sale . . . . .	3,336	2,732
Loans, net . . . . .	96,529	83,048
Premises and equipment at depreciated cost . . . . .	4,361	4,340
Bank-owned life insurance . . . . .	1,912	1,865
FHLB lender risk account receivable . . . . .	3,168	2,698
Deposits . . . . .	101,118	100,044
FHLB advances . . . . .	9	28
Total shareholders' equity . . . . .	27,377	13,477

**For the Years Ended December 31,**  
**2017**                      **2016**  
**(In thousands)**

**Selected Operations Data:**

Interest and dividend income . . . . .	\$4,256	\$3,803
Interest expense . . . . .	<u>663</u>	<u>722</u>
Net interest income . . . . .	3,593	3,081
Provision for loan losses . . . . .	<u>102</u>	<u>83</u>
Net interest income after provision for loan losses . . . . .	3,491	2,998
Non-interest income . . . . .	2,172	3,306
Non-interest expense . . . . .	<u>5,405</u>	<u>4,579</u>
Income before income taxes . . . . .	258	1,725
Income tax (benefit) . . . . .	<u>(82)</u>	<u>265</u>
Net Income . . . . .	<u>\$ 340</u>	<u>\$1,460</u>

**At or For the Years Ended  
December 31,**  
**2017**                      **2016**

**Selected Financial Ratios and Other Data:**

**Performance Ratios:**

Return on average assets . . . . .	0.28%	1.30%
Return on average equity . . . . .	1.82%	11.29%
Interest rate spread <sup>(1)</sup> . . . . .	3.22%	2.94%
Net interest margin <sup>(2)</sup> . . . . .	3.30%	3.02%
Efficiency ratio <sup>(3)</sup> . . . . .	93.76%	71.69%
Non-interest expense to average total assets . . . . .	4.37%	4.07%
Average interest-earning assets to average interest-bearing liabilities . . . . .	111.08%	109.68%
Average equity to average total assets . . . . .	15.10%	11.49%

**Asset Quality Ratios:**

Non-performing assets to total assets . . . . .	1.04%	0.72%
Non-performing loans to total loans . . . . .	1.30%	0.87%
Non-performing assets excluding accruing troubled debt restructurings to total assets . . . . .	0.60%	0.09%
Non-performing loans excluding accruing troubled debt restructurings to total loans . . . . .	0.75%	0.06%
Allowance for loan losses to non-performing loans . . . . .	86.58%	145.21%
Allowance for loan losses to total loans . . . . .	1.12%	1.27%

**Capital Ratios:**

Total capital (to risk-weighted assets) . . . . .	18.0%	14.1%
Common equity Tier 1 capital (to risk-weighted assets) . . . . .	17.0%	13.0%
Tier 1 capital (to risk-weighted assets) . . . . .	17.0%	13.0%
Tier 1 capital (to average assets) . . . . .	15.6%	11.2%

**Other Data:**

Number of full service offices . . . . .	3	3
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- (1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.
- (2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.
- (3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

## **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This section is intended to help investors understand the financial performance of Eagle Financial Bancorp, Inc. and its subsidiary through a discussion of the factors affecting our financial condition at December 31, 2017 and 2016 and our results of operations for the years ended December 31, 2017 and 2016. This section should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements that appear beginning on page 47 of this annual report.

### **Overview**

Eagle Savings Bank provides financial services to individuals and businesses from our main office and two branch offices in Cincinnati, Ohio. Our primary deposit-taking market includes the local communities surrounding our bank offices. Our primary lending market is Hamilton County, Ohio, and the adjoining counties of Butler, Warren and Clermont Counties in Ohio, Boone, Kenton and Campbell Counties in Kentucky, and Dearborn County in Indiana.

Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential real estate loans, commercial real estate and land loans, home equity loans and lines of credit and construction loans. To a lesser extent, we also make commercial business loans, multi-family real estate loans and other consumer loans. At December 31, 2017, \$60.8 million, or 57.8% of our total loan portfolio, was comprised of one- to four-family residential real estate loans. At that same date, \$13.7 million, or 13.1% of our total loan portfolio, was comprised of commercial real estate and land loans, and \$12.6 million, or 12.0% of our total loan portfolio, was comprised of consumer loans, all but \$14,000 of which were home equity loans and lines of credit.

During the past year, we have hired new senior officers and credit support staff to support the managed growth of our lending operations using the proceeds of the offering. We intend to increase our commercial real estate, adjustable rate one- to four-family loans, construction and home equity lending. We consider these areas to be part of our core competencies and historical strengths.

We also emphasize mortgage banking with four mortgage loan officers. Our revenue from gain on sales of loans was \$1.9 million and \$2.1 million for the years ended December 31, 2017 and 2016, respectively. We intend to expand our mortgage lending business, including the addition of up to six new commission-based mortgage lenders over the next three years.

We offer a variety of deposit accounts, including checking accounts, savings accounts, money market demand accounts and certificate of deposit accounts. We utilize advances from the FHLB-Cincinnati for liquidity and for asset/liability management purposes. At December 31, 2017, we had \$9,000 in advances outstanding with the FHLB-Cincinnati.

Our results of operations depend primarily on our net interest income and our noninterest income, including from our mortgage banking operations. Net interest income is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our results of operations also are affected by our provisions for loan losses, non-interest income and non-interest expense.

Our non-interest income currently consists primarily of gain on sale of mortgage loans, checking account service fee income, interchange fees from debit card transactions and income from bank owned life insurance. Non-interest expense currently consists primarily of expenses related to compensation and employee benefits, occupancy and equipment, data processing, legal and other professional expenses, franchise taxes, advertising expense, federal deposit insurance premiums, prepayment penalties on FHLB-Cincinnati advances, impairment losses on foreclosed real estate and other operating expenses.

We invest in bank-owned life insurance to provide us with a funding source to offset some of the costs of our supplemental retirement plan obligations. Bank owned life insurance provides us with non-interest income that is nontaxable. Federal regulations generally limit our investment in bank owned life insurance to 25% of our Tier 1 capital. At December 31, 2017, this limit was \$5.0 million, and we had invested \$1.9 million in bank-owned life insurance.

## Business Strategy

Our current business strategy is to operate as a well-capitalized and profitable community bank dedicated to serving the needs of our consumer and business customers, and offering personalized and efficient customer service. We are a very small financial institution, and we believe that managing prudent yet consistent asset growth in order to increase revenue is critical to our long-term success. Following the conversion and offering, we have focused on increasing our portfolio of shorter term, higher yielding loans, continuing to grow our mortgage banking operations and increasing our “core” deposit base.

Highlights of our business strategy include:

- ***Continuing to expand our mortgage banking operations.*** Since 2001, we have expanded our mortgage banking operations, and we intend to further increase this part of our business. In 2017, we originated \$82.8 million of one- to four-family residential loans, of which we sold \$66.8 million to the secondary market, compared to \$94.4 million of such loans originated in fiscal 2016, of which \$81.7 million were sold. We currently employ five residential mortgage loan originators. We intend to hire another five or six new loan officers over the next three years, as well as additional support staff, in order to continue to increase our mortgage banking operations. These loans are currently primarily sold to the FHLB-Cincinnati, although we are approved for sale of loans to Freddie Mac and expect to increase our sale of residential mortgage loans to other third parties in the future. Although we have no specific plans to do so at this time, we may seek to add one or more loan production offices in attractive areas in our lending market should the opportunity arise in the future.
- ***Growing our portfolios of shorter term, higher yielding loans, including commercial business loans, commercial real estate loans, adjustable rate one- to four-family loans, construction loans, and home equity loans and lines of credit.*** With the proceeds from the offering, we intend to leverage our existing lending capabilities to grow our portfolios of commercial real estate, commercial business, adjustable rate one- to four-family loans, construction loans and home equity loans and lines of credit. These types of loans generally have shorter terms and higher yields than loans secured by one- to four-family residential properties. Increasing the percentage of such loans in our portfolio will help increase our net interest income and assist us in managing interest rate risk. Commercial real estate, adjustable rate one- to four-family loans, construction and home equity lending are part of our core competencies and historical strengths. The additional capital raised in the stock offering will also allow us to leverage our existing infrastructure and lending team to increase our commercial real estate, commercial business, construction and home equity lending. See “Business of Eagle Savings Bank — Lending Activities.
- ***Increasing our “core” deposit base.*** We are seeking to increase our core deposit base, particularly checking accounts. Core deposits include all deposit account types except certificates of deposit. Core deposits are our least costly source of funds and our least rate sensitive deposits, and improve our interest rate spread and interest rate risk. These deposits also represent our best opportunity to develop customer relationships that enable us to cross-sell our full complement of products and services. In addition, core deposits contribute non-interest income from account-related fees and services and are generally less sensitive to withdrawal when interest rates fluctuate. In recent years, we have significantly expanded and improved the products and services we offer our retail and business deposit customers who maintain core deposit accounts and have improved our infrastructure for electronic banking services, including online banking, mobile banking, bill pay, and e-statements. The deposit infrastructure we have established can accommodate significant increases in retail and business deposit accounts without additional capital expenditure. We expect that our increased commercial lending will help us increase our business deposit customers.
- ***Implementing a managed growth strategy while maintaining high asset quality.*** We emphasize a disciplined credit culture based on sound underwriting standards and credit administration, market knowledge, close ties to our customers and experienced loan officers. At December 31, 2017, our non-performing assets equaled 1.04% of total assets. We intend to pursue a managed growth strategy for the foreseeable future, with the goal of improving the profitability of our

business through increased net interest income and non-interest income from our mortgage banking operations. However, we intend to maintain strict, quality-oriented loan underwriting and credit monitoring processes as we grow our operations.

- ***Remaining a community-oriented institution.*** We were organized in 1882 and have been operating continuously in and around our market since that time. We have trained our employees to focus on high quality service in order to maintain and build a loyal customer base. We believe that the establishment and funding of The Eagle Savings Bank Charitable Foundation will further promote our relationships and exposure in our market area through our support of charitable organizations operating in our local community now and in the future.

These strategies are intended to guide our investment of the net proceeds from the offering. We intend to continue to pursue our business strategy with the proceeds from the offering, subject to changes necessitated by future market conditions, regulatory restrictions and other factors.

Achieving our growth targets will require us to attract customers that currently bank at other financial institutions in our market area. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced employees, the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected.

#### **Anticipated Increase in Non-interest Expense**

Following the completion of the conversion and stock offering, our non-interest expense has increased because of the increased costs associated with operating as a public company, and the increased compensation expenses associated with the purchase of shares of common stock by our employee stock ownership plan. In addition, the possible implementation of one or more stock-based benefit plans, if approved by our stockholders would further increase our non-interest expense. Finally, we expect that we will add additional staff to meet the demands of being a public company, which will increase our compensation costs.

#### **Critical Accounting Policies**

The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be our critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company” we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represents our critical accounting policies:

***Allowance for Loan Losses.*** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the 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 revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an 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 nonclassified loans and is based on historical charge-off experience for the last three years and expected loss given default derived from our internal risk rating process. Other qualitative adjustments are made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that we 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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis 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.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

***FHLB-Cincinnati Lender Risk Account Receivable.*** Certain loan sale transactions with the FHLB-Cincinnati provide for establishment of a LRA. The LRA consists of amounts withheld from loan sale proceeds by the FHLB-Cincinnati for absorbing inherent losses that are probable on those sold loans. These withheld funds are an asset as they are scheduled to be paid to us in future years, net of any credit losses on those loans sold. The receivables are initially measured at fair value. The fair value is estimated by discounting the cash flows over the life of each master commitment contract. The accretible yield is amortized over the life of the master commitment contract. Expected cash flows are re-evaluated at each measurement date. If there is an adverse change in expected cash flows, the accretible yield would be adjusted on a prospective basis and the asset would be evaluated for impairment.

### **Comparison of Financial Condition at December 31, 2017 and December 31, 2016**

***Total Assets.*** Total assets were \$131.1 million at December 31, 2017, an increase of \$15.1 million, or 13.0%, over the \$116.0 million at December 31, 2016. The increase was primarily comprised of an increase in net loans of \$13.5 million and an increase in interest-bearing time deposits in other banks of \$4.7 million, partially offset by a decrease in cash and cash equivalents of \$4.2 million.

***Net Loans.*** Net loans increased by \$13.5 million, or 16.2%, to \$96.5 million at December 31, 2017 from \$83.0 million at December 31, 2016. During the year ended December 31, 2017, we originated \$117.5 million of loans, \$82.8 million of which were one- to four-family residential real estate loans, and sold \$66.8 million of loans in the secondary market. During the year ended December 31, 2017, one- to four-family residential real estate loans increased \$13.1 million, or 27.5%, to \$60.8 million at December 31, 2017, from \$47.7 million at December 31, 2016; multi-family loans decreased \$429,000, or 17.1%, to \$2.1 million at December 31, 2017; commercial real estate loans and land loans increased \$108,000, or 0.8%, to \$13.7 million at December 31, 2017; construction loans increased \$894,000, or 9.4%, to \$10.4 million at December 31, 2017; home equity and other consumer loans decreased \$2.0 million, or 13.9% to \$12.6 million at December 31, 2017; and commercial loans increased \$3.8 million, or 211.2% to \$5.5 million

at December 31, 2017. Increases in loan balances reflect our strategy to grow and diversify our loan portfolio, with an emphasis on increasing commercial, commercial real estate and adjustable rate one to four family loans, as a shift in strategy from our traditional portfolio focus on one- to four-family fixed rate residential loans. Such growth has been achieved amid strong competition for commercial real estate and one- to four-family residential mortgage loans in our market area in the current low interest rate environment. We primarily sell loans on a servicing released basis. We sell loans in transactions with the FHLB-Cincinnati, through its mortgage purchase program, and to other investors. We sold \$67.4 million of loans in fiscal 2017. Loans serviced for these investors were \$2.2 million at December 31, 2017. Management intends to continue this sales activity in future periods.

***Interest-Bearing Deposits in Other Banks.*** The Bank's investment in certificates of deposit in other banks increased by \$4.7 million, or 1367.9%, to a total of \$5.1 million at December 31, 2017, compared to \$346,000 at December 31, 2016.

***Foreclosed Real Estate Held for Sale, Net.*** Foreclosed assets decreased \$55,000, or 100.0%, to \$0 at December 31, 2017 from \$55,000 at December 31, 2016, as we sold \$55,000 of foreclosed properties. There were no additions to foreclosed real estate held for sale, net.

***Deposits.*** Deposits increased by \$1.1 million, or 1.1%, to \$101.1 million at December 31, 2017 from \$100.0 million at December 31, 2016. Our core deposits increased \$691,000, or 1.2%, to \$59.4 million at December 31, 2017 from \$58.7 million at December 31, 2016. Certificates of deposit increased \$383,000, or 0.9%, to \$41.7 million at December 31, 2017 from \$41.3 million at December 31, 2016. During the year ended December 31, 2017, management continued its strategy of pursuing growth in demand accounts and other lower cost core deposits. Management intends to continue its efforts to increase core deposits, with a special emphasis on growth in consumer and business demand deposits.

***Federal Home Loan Bank Advances.*** FHLB-Cincinnati advances decreased \$19,000, or 67.9%, to \$9,000 at December 31, 2017 from \$28,000 at December 31, 2016. The aggregate cost of these advances was 3.33% at December 31, 2017, compared to our cost of deposits of 0.67% at that same date.

***Shareholders' Equity.*** Total shareholders' equity increased \$13.9 million, or 102.8%, to \$27.3 million at December 31, 2017 from \$13.5 million at December 31, 2016. The increase was primarily due to \$13.4 million of net proceeds from our conversion and offering and from net income of \$340,000 during the year ended December 31, 2017.

## **Comparison of Operating Results for the Years Ended December 31, 2017 and December 31, 2016**

***General.*** Our net income for the year ended December 31, 2017 was \$340,000, compared to a net income of \$1.5 million for the year ended December 31, 2016, a decrease of \$1.1 million, or 76.7%. The decrease in net income was primarily due to a decrease in non-interest income due to the absence of benefit proceeds in excess of the cash surrender value of bank-owned life insurance of \$940,000 for the year ended December 31, 2016, and an \$826,000 increase in non-interest expense for the year ended December 31, 2017 as a result of expense related to the completion of our stock offering including a \$500,000 cash contribution to the Eagle Savings Bank Charitable Foundation. These negative changes were partially offset by a \$453,000 increase in interest and dividend income for the year ended December 31, 2017.

***Interest Income.*** Interest income increased \$453,000, or 11.9%, to \$4.3 million for the year ended December 31, 2017 from \$3.8 million for the year ended December 31, 2016. This increase was primarily attributable to a \$342,000 increase in interest income on loans and an increase of \$111,000 on other interest earning assets. The average balance of loans during the year ended December 31, 2017 increased by \$6.5 million, or 7.7%, from the average balance for the year ended December 31, 2016, while the average yield on loans increased by six basis points to 4.47% for the year ended December 31, 2017 from 4.41% for the year ended December 31, 2016. The increase in average yield on loans was due in large part to the rising interest rate environment. Interest income on interest-earning deposits, including certificates of deposit in other financial institutions and dividends on FHLB stock, increased \$111,000, or 105.7%, for the year ended December 31, 2017, as a result of an increase in the average balance of \$397,000 and by an increase in the average yield of 59 basis points, to 1.16%.



**Interest Expense.** Total interest expense decreased \$59,000, or 8.2%, to \$663,000 for the year ended December 31, 2017 from \$722,000 for the year ended December 31, 2016. Interest expense on deposit accounts decreased \$27,000, or 3.9%, to \$662,000 for the year ended December 31, 2017 from \$689,000 for the year ended December 31, 2016. The decrease was due primarily to a decrease in the average cost of total interest-bearing deposits of eight basis points to 0.67% for the year ended December 31, 2017 from 0.75% for the year ended December 31, 2016.

Interest expense on FHLB advances decreased \$32,000, or 97.0%, to \$1,000 for the year ended December 31, 2017 from \$33,000 for the year ended December 31, 2016. The average balance of advances decreased by \$759,000 to \$18,000 for the year ended December 31, 2017, compared to \$777,000 for the year ended December 31, 2016, while the average cost of these advances decreased by 92 basis points to 3.33% from 4.25%. The decrease in the average balance of advances resulted from the Bank prepaying a \$3.0 million FHLB-Cincinnati advance during the year ended December 31, 2016.

**Net Interest Income.** Net interest income increased \$512,000, or 16.6%, to \$3.6 million for the year ended December 31, 2017, compared to \$3.1 million for the year ended December 31, 2016. The increase reflected an increase in total interest and dividend income of \$453,000. Our net interest margin increased to 3.30% for the year ended December 31, 2017 from 3.02% for the year ended December 31, 2016. The interest rate spread and net interest margin were impacted by the addition to portfolio of higher yielding loans, the effect of rising interest rates on other interest bearing deposits, and the lower cost of funds for the year ended December 31, 2017, compared to the year ended December 31, 2016.

**Provision for Loan Losses.** Based on our analysis of the factors described in “Critical Accounting Policies — Allowance for Loan Losses,” we recorded a provision for loan losses of \$102,000 for the year ended December 31, 2017 and \$83,000 for the year ended December 31, 2016. The allowance for loan losses was \$1.2 million, or 1.12% of total loans, at December 31, 2017, compared to \$1.1 million, or 1.27% of total loans, at December 31, 2016. The provisions for loan losses in 2017 and 2016 were due primarily to increases in our total loan portfolio and changes in the composition of the portfolio. Total non-performing loans were \$1.4 million at December 31, 2017, compared to \$783,000 at December 31, 2016. Classified and special mention loans were \$2.5 million at December 31, 2017, compared to \$1.8 million at December 31, 2016. Total loans past due 30 days or more were \$1.0 million and \$830,000 at December 31, 2017 and 2016, respectively. Net charge-offs totaled \$58,000 for the year ended December 31, 2017, compared to \$18,000 of net recoveries for the year ended December 31, 2016.

**Non-Interest Income.** Non-interest income decreased \$1.1 million, or 34.3%, to \$2.2 million for the year ended December 31, 2017 from \$3.3 million for the year ended December 31, 2016. The decrease was primarily due to a slight decrease in the net gain on loan sales of \$201,000 for the year ended December 31, 2017, and a decrease from the benefit proceeds in excess of the cash surrender value of bank-owned life insurance of \$940,000 for the year ended December 31, 2016.

**Non-Interest Expense.** Non-interest expense increased \$826,000, or 18.0%, to \$5.4 million for the year ended December 31, 2017, compared to \$4.6 million for the year ended December 31, 2016. The increase is reflective of increases in compensation and benefits and other expenses. Compensation and benefits increased by \$832,000, or 33.8%, to \$3.3 million for the year ended December 31, 2017 from \$2.5 million for the year ended December 31, 2016. Charitable contributions increased \$498,000 to \$511,000 for the year ended December 31, 2017 from \$13,000 for the year ended December 31, 2016. The increase in compensation and benefits resulted from a full year of expense in 2017 compared to part of the year for new employees added in 2016. The increase in charitable contribution expense was the result of a \$500,000 charitable contribution made to the Eagle Savings Bank Charitable Foundation, a cost related to our conversion to a stock company that was recognized during the third quarter of 2017.

Non-interest expense can be expected to increase compared to historical expense levels because of costs associated with operating as a public company and increased compensation costs related to possible implementation of one or more stock-based benefit plans, if approved by our stockholders.

**Federal Income Taxes.** Federal income taxes decreased by \$347,000 to a tax benefit of \$82,000 for the year ended December 31, 2017, compared to tax expense of \$265,000 for the year ended December 31, 2016. The decrease in income taxes resulted from a tax reform adjustment which revalued our tax deferred assets and liabilities at 21% from 34% for the year ended December 31, 2017.

## Average Balances and Yields

The following table sets forth average balance sheets, average yields and costs, and certain other information at and for the years indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	At December 31, 2017	For the Year Ended December 31,					
		2017			2016		
	Yield/ Cost	Average Outstanding Balance	Interest	Yield/ Rate <sup>(1)</sup>	Average Outstanding Balance	Interest	Yield/ Rate <sup>(1)</sup>
(Dollars in thousands)							
<b>Interest-earning assets:</b>							
Loans, net . . . . .	4.29%	\$ 90,308	\$4,040	4.47%	\$ 83,854	\$3,698	4.41%
Other interest-earning assets . . . . .	1.56	18,690	216	1.16	18,293	105	0.57
Total interest-earning assets . . . . .	3.81	108,998	4,256	3.90	102,147	3,803	3.72
Non-interest-earning assets . . . . .		14,559			10,382		
Total assets . . . . .		<u>\$123,557</u>			<u>\$112,529</u>		
<b>Interest-bearing liabilities:</b>							
Interest-bearing checking . . . . .	0.16%	\$ 18,870	25	0.13	\$ 15,733	41	0.26
Savings . . . . .	0.15	16,241	24	0.15	14,152	21	0.15
Money market demand . . . . .	0.23	20,683	47	0.23	20,587	65	0.32
Certificates of deposit . . . . .	1.37	42,314	566	1.34	41,879	562	1.34
Total interest-bearing deposits . . . . .	0.69	98,108	662	0.67	92,351	689	0.75
FHLB advances . . . . .	3.33	18	1	3.33	777	33	4.25
Total interest-bearing liabilities . . . . .	0.69	98,126	663	0.68	93,128	722	0.78
Other non-interest-bearing liabilities . . . . .		6,768			6,473		
Total liabilities . . . . .		104,894			99,601		
Shareholders' Equity . . . . .		18,663			12,928		
Total liabilities and shareholders' equity . . . . .		<u>\$123,557</u>			<u>\$112,529</u>		
Net interest income . . . . .			<u>\$3,593</u>			<u>\$3,081</u>	
Net interest rate spread <sup>(1)</sup> . . . . .	3.12			<u>3.22%</u>			<u>2.94%</u>
Net interest-earning assets <sup>(2)</sup> . . . . .		<u>\$ 10,872</u>			<u>\$ 9,019</u>		
Net interest margin <sup>(3)</sup> . . . . .				<u>3.30%</u>			<u>3.02%</u>
Average of interest-earning assets to interest-bearing liabilities . . . . .		<u>111.08%</u>			<u>109.68%</u>		

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

(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by total interest-earning assets.

## Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Years Ended December 31, 2017 vs. 2016		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(In thousands)		
<b>Interest-earning assets:</b>			
Loans . . . . .	\$293	\$ 49	\$342
Other interest-earning assets . . . . .	1	110	111
Total interest-earning assets . . . . .	<u>294</u>	<u>159</u>	<u>453</u>
<b>Interest-bearing liabilities:</b>			
Interest-bearing checking . . . . .	7	(23)	(16)
Savings . . . . .	3	—	3
Money market demand . . . . .	1	(19)	(18)
Certificates of deposit . . . . .	4	—	4
Total deposits . . . . .	<u>15</u>	<u>(42)</u>	<u>(27)</u>
FHLB advances . . . . .	<u>(40)</u>	<u>8</u>	<u>(32)</u>
Total interest-bearing liabilities . . . . .	<u>(25)</u>	<u>(34)</u>	<u>(59)</u>
Change in net interest income . . . . .	<u>\$319</u>	<u>\$193</u>	<u>\$512</u>

### Management of Market Risk

**General.** A significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset-Liability Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors.

Our asset/liability management strategy attempts to manage the impact of changes in interest rates on net interest income, our primary source of earnings. Among the techniques we use to manage interest rate risk are:

- originating commercial real estate and multi-family, commercial business and construction loans, and home equity loans and lines of credit, all of which tend to have shorter terms to maturity or repricing and higher interest rates than one- to four-family residential real estate loans, and can generate non-interest-bearing checking accounts;
- selling substantially all of our newly-originated longer-term fixed-rate one- to four-family residential real estate loans and retaining the shorter-term fixed- and adjustable-rate one- to four-family residential real estate loans that we originate, subject to market conditions and periodic review of our asset/liability management needs; and
- increasing core deposits, including checking accounts, money market accounts and savings accounts, which are less interest rate sensitive than certificates of deposit.

Our board of directors is responsible for the review and oversight of our Asset/Liability Committee, which is comprised of our executive management team and other essential operational staff. This committee is charged with developing and implementing an asset/liability management plan, and meets at least monthly to review pricing and liquidity needs and assess our interest rate risk. We look at two types of simulations impacted by changes in interest rates, which are net portfolio value analysis and net interest income analysis.

**Net Portfolio Value.** We compute amounts by which the net present value of our cash flow from assets, liabilities and off-balance sheet items (net portfolio value or “NPV”) would change in the event of a range of assumed changes in market interest rates. We measure our interest rate risk and potential change in our NPV through the use of an internal financial model integrated with our core service provider. This model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. Historically, the model estimated the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 100 to 300 basis points in 100 basis point increments. However, given the current low level of market interest rates, an NPV calculation for an interest rate decrease of greater than 100 basis points has not been prepared. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the “Change in Interest Rates” column below.

The table below sets forth, as of December 31, 2017, the calculation of the estimated changes in our net portfolio value that would result from the specified immediate changes in interest rates.

Change in Interest Rates (basis points) <sup>(1)</sup>	Estimated NPV <sup>(2)</sup>	Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets <sup>(3)</sup>	
		Amount	Percent	NPV Ratio <sup>(4)</sup>	Increase (Decrease) (basis points)
		(Dollars in thousands)			
+300 . . . . .	\$32,526	\$(6,476)	(16.60)%	25.42%	(385)
+200 . . . . .	34,567	(4,435)	(11.37)%	26.65%	(262)
+100 . . . . .	36,700	(2,302)	(5.90)%	27.91%	(136)
— . . . . .	39,002	—	—	29.27%	—
-100 . . . . .	36,882	(2,120)	(5.44)%	27.29%	(198)

- (1) Assumes an immediate uniform change in interest rates at all maturities.
- (2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
- (3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
- (4) NPV Ratio represents NPV divided by the present value of assets.

The table above indicates that at December 31, 2017, in the event of an instantaneous parallel 100 basis point decrease in interest rates, we would experience a 5.4% decrease in net portfolio value. In the event of an instantaneous 100 basis point increase in interest rates, we would experience a 5.9% decrease in net portfolio value. The net portfolio value as calculated in our model decreases in both rising and falling interest rate environments. The value of assets move inversely to interest rates while the value of liabilities move directly with interest rates. In a rising interest rate environment, the economic value of assets would decrease while liabilities would increase. In a falling interest rate environment, the increase in economic value for deposits (i.e., the value of our liabilities) would exceed that of loans. Due to the historically low current interest rate environment, the discount rate applied to the deposits drive the economic value higher while cash flows are stable.

**Net Interest Income Analysis.** We analyze our sensitivity to changes in interest rates through our net interest income simulation model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a one-year period based on current interest rates. We then calculate what the net interest income would be for the same period under different interest rate assumptions. The following table shows the estimated impact on net interest income for the one-year period beginning December 31, 2017 resulting from potential changes in interest rates, expressed in basis points. These estimates require certain assumptions to be made,

including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain. As a result, no simulation model can precisely predict the impact of changes in interest rates on our net interest income.

Although the net interest income table below provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Rate Shift <sup>(1)</sup>	Net Interest Income Year 1 Forecast	Year 1 Change from Level
	(Dollars in thousands)	
+400 .....	\$3,589	(14.91)%
+300 .....	3,756	(10.95)%
+200 .....	3,921	(7.04)%
+100 .....	4,076	(3.37)%
Level .....	4,218	—
-100 .....	3,870	(8.25)%

(1) The calculated changes assume an immediate shock of the static yield curve.

Depending on the relationship between long- and short-term interest rates, market conditions and consumer preference, we may place greater emphasis on maximizing our net interest margin than on strictly matching the interest rate sensitivity of our assets and liabilities. We believe that the increased net income which may result from an acceptable mismatch in the actual maturity or re-pricing of our assets and liabilities can, during periods of declining or stable interest rates, provide sufficient returns to justify an increased exposure to sudden and unexpected increases in interest rates.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

### Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and proceeds from the sale of loans. We also have the ability to borrow from the FHLB-Cincinnati. At December 31, 2017, we had the capacity to increase our borrowings by approximately \$29.8 million from the FHLB-Cincinnati and an additional \$10.0 million on a line of credit with the FHLB-Cincinnati. At December 31, 2017, we had \$9,000 outstanding in advances from the FHLB-Cincinnati.

While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash used in operating activities was \$396,000 for the year ended December 31, 2017, while net cash provided by operating activities was \$150,000 for the year ended December 31, 2016, respectively. Net cash used in investing activities, which consists primarily of disbursements for loan originations, the purchase of interest-bearing time deposits in other banks, offset by principal collections on loans, was \$18.5 million for the year ended December 31, 2017, while the net cash used by investing activities was \$4.2 million for the year ended December 31, 2016, respectively. Net cash provided by financing activities, consisting primarily of the proceeds from our conversion and offering, and a net increase in deposits was \$14.6 million and \$4.6 million for the years ended December 31, 2017 and 2016, respectively.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At December 31, 2017, we exceeded all of our regulatory capital requirements with a Tier 1 leverage capital level of \$20.2 million, or 15.6% of adjusted total assets, which is above the well-capitalized required level of \$6.5 million, or 5.0%; and total risk-based capital of \$21.4 million, or 18.0% of risk-weighted assets, which is above the well-capitalized required level of \$11.9 million, or 10.0%. Accordingly, Eagle Savings Bank was categorized as well capitalized at December 31, 2017 and 2016. Management is not aware of any conditions or events since the most recent notification that would change our category.

### **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Commitments.** 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. At December 31, 2017, we had outstanding commitments to originate loans of \$23.0 million, including undisbursed funds on construction loans and funds available on undrawn lines of credit. We anticipate that we will have sufficient funds available to meet our current lending commitments. Certificates of deposit that are scheduled to mature within one year from December 31, 2017 totaled \$19.1 million. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize FHLB-Cincinnati advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

### **Recent Accounting Pronouncements**

Please refer to Note 18 to the Financial Statements for the years ended December 31, 2017 and 2016 contained elsewhere in this Annual Report for a description of recent accounting pronouncements that may affect our financial condition and results of operations.

### **Impact of Inflation and Changing Price**

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

### **ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk**

Not required for smaller reporting companies.

**ITEM 8. Financial Statements and Supplementary Data**

**Index to Financial Statements of  
Eagle Financial Bancorp, Inc.**

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## Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors and Audit Committee  
Eagle Financial Bancorp, Inc.  
Cincinnati, Ohio

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of Eagle Financial Bancorp, Inc. (Company) as of December 31, 2017 and 2016, the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BKD, LLP

### **BKD, LLP**

We have served as the Company's auditor since 2012.

Cincinnati, Ohio  
March 23, 2018



**Eagle Financial Bancorp, Inc.**

**Consolidated Balance Sheets  
December 31, 2017 and 2016**

**(Amounts in thousands, except share and per share data)**

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Cash and due from banks . . . . .	\$ 519	\$ 459
Federal Reserve Bank and Federal Home Loan Bank (FHLB) demand accounts . . . . .	14,831	19,130
Cash and cash equivalents . . . . .	15,350	19,589
Interest-bearing time deposits in other banks . . . . .	5,079	346
Loans held for sale . . . . .	3,336	2,732
Loans, net of allowance for loan losses of \$1,181 and \$1,137 for 2017 and 2016, respectively . . . . .	96,529	83,048
Premises and equipment – at depreciated cost . . . . .	4,361	4,340
FHLB stock – at cost . . . . .	736	728
Foreclosed real estate held for sale, net . . . . .	—	55
Bank-owned life insurance (BOLI) . . . . .	1,912	1,865
FHLB lender risk account receivable . . . . .	3,168	2,698
Accrued interest receivable . . . . .	287	270
Prepaid federal income taxes . . . . .	37	75
Other assets . . . . .	287	227
Total assets . . . . .	<u>\$131,082</u>	<u>\$115,973</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing . . . . .	\$ 4,032	\$ 4,816
Interest-bearing . . . . .	97,086	95,228
Total deposits . . . . .	101,118	100,044
FHLB advances . . . . .	9	28
Advances from borrowers for taxes and insurance . . . . .	866	716
Accrued interest payable . . . . .	1	1
Accrued supplemental retirement plans . . . . .	1,079	868
Deferred federal tax liability . . . . .	315	554
Other liabilities . . . . .	357	285
Total liabilities . . . . .	<u>103,745</u>	<u>102,496</u>
<b>Shareholders' Equity</b>		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized; none issued and outstanding . . . . .	—	—
Common stock, \$0.01 par value, 50,000,000 shares authorized, 1,612,808 shares issued and outstanding . . . . .	16	—
Additional paid-in capital . . . . .	14,730	—
Retained earnings . . . . .	13,817	13,477
Unearned Employee Stock Ownership Plan (“ESOP”) shares . . . . .	(1,226)	—
Total shareholders' equity . . . . .	<u>27,337</u>	<u>13,477</u>
Total liabilities and shareholders' equity . . . . .	<u>\$131,082</u>	<u>\$115,973</u>

*See Notes to the Consolidated Financial Statements*

**Eagle Financial Bancorp, Inc.**

**Consolidated Statements of Income and Comprehensive Income**  
**Years Ended December 31, 2017 and 2016**  
(Amounts in thousands, except share and per share data)

	<b>2017</b>	<b>2016</b>
<b>Interest and Dividend Income</b>		
Interest earned on loans . . . . .	\$4,040	\$3,698
Dividends on FHLB stock . . . . .	40	29
Other interest-earning deposits . . . . .	176	76
Total interest and dividend income . . . . .	<u>4,256</u>	<u>3,803</u>
<b>Interest Expense</b>		
Interest on deposits . . . . .	662	689
FHLB advances . . . . .	1	33
Total interest expense . . . . .	<u>663</u>	<u>722</u>
<b>Net Interest Income</b> . . . . .	<u>3,593</u>	<u>3,081</u>
<b>Provision for Loan Losses</b> . . . . .	102	83
<b>Net Interest Income After Provision for Loan Losses</b> . . . . .	<u>3,491</u>	<u>2,998</u>
<b>Noninterest Income</b>		
Net gains on loan sales . . . . .	1,930	2,131
Other service charges and fees . . . . .	195	187
Death benefit proceeds in excess of cash surrender value of BOLI . . . . .	—	940
Income from BOLI . . . . .	47	48
Total noninterest income . . . . .	<u>2,172</u>	<u>3,306</u>
<b>Noninterest Expense</b>		
Compensation and benefits . . . . .	3,295	2,463
Occupancy and equipment, net . . . . .	242	226
Data processing . . . . .	370	360
Legal and professional services . . . . .	218	189
FDIC premium expense . . . . .	27	57
Foreclosed real estate impairments and expenses, net . . . . .	9	32
Franchise and other taxes . . . . .	108	109
Advertising . . . . .	121	179
ATM processing expense . . . . .	85	81
FHLB advance prepayment penalty . . . . .	—	121
Death benefit obligation expense . . . . .	—	410
Charitable contribution expense . . . . .	511	13
Other expenses . . . . .	419	339
Total noninterest expense . . . . .	<u>5,405</u>	<u>4,579</u>
<b>Income Before Income Taxes</b> . . . . .	<u>258</u>	<u>1,725</u>
<b>Income Taxes</b>		
Current . . . . .	157	148
Deferred . . . . .	(239)	117
Total income taxes (benefits) . . . . .	<u>(82)</u>	<u>265</u>
<b>Net Income and Comprehensive Income</b> . . . . .	<u>\$ 340</u>	<u>\$1,460</u>
<b>Earnings per share</b> . . . . .	<u>\$ 0.51</u>	<u>N/A</u>

*See Notes to the Consolidated Financial Statements*

**Eagle Financial Bancorp, Inc.**

**Consolidated Statements of Shareholders' Equity**  
**Years Ended December 31, 2017 and 2016**  
(Amounts in thousands, except share and per share data)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Unearned ESOP Shares</u>	<u>Total</u>
<b>Balance at January 1, 2016</b> . . . . .	\$—	\$ —	\$12,017	\$ —	\$12,017
Net income . . . . .	—	—	1,460	—	1,460
<b>Balance at December 31, 2016</b> . . . . .	<u>\$—</u>	<u>\$ —</u>	<u>\$13,477</u>	<u>\$ —</u>	<u>\$13,477</u>
Net income . . . . .	—	—	340	—	340
Proceeds from issuance of 1,612,808 shares of common stock, net of offering costs . . . . .	16	14,689	—	(1,290)	13,415
ESOP shares earned . . . . .	—	41	—	64	105
<b>Balance at December 31, 2017</b> . . . . .	<u>\$16</u>	<u>\$14,730</u>	<u>\$13,817</u>	<u>\$(1,226)</u>	<u>\$27,337</u>

*See Notes to the Consolidated Financial Statements*

**Eagle Financial Bancorp, Inc.**

**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2017 and 2016**  
(Amounts in thousands, except share and per share data)

	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Net income . . . . .	\$ 340	\$ 1,460
Items not requiring (providing) cash:		
Depreciation and amortization . . . . .	167	174
Proceeds on sale of loans in the secondary market . . . . .	68,006	83,873
Loans originated for sale in the secondary market . . . . .	(66,680)	(82,035)
Gain on sale of loans . . . . .	(1,930)	(2,131)
Provision for loan losses . . . . .	102	83
(Gain) loss on sale of foreclosed real estate . . . . .	3	(12)
Deferred federal tax liability . . . . .	(239)	117
Death benefit proceeds in excess of cash surrender value of BOLI . . . . .	—	(940)
Increase in cash surrender value of BOLI . . . . .	(47)	(48)
Impairment on foreclosed real estate . . . . .	3	3
ESOP compensation expense . . . . .	105	—
Changes in:		
FHLB lender risk account receivable . . . . .	(470)	(486)
Accrued interest receivable . . . . .	(17)	(10)
Other assets and prepaid federal income taxes . . . . .	(22)	14
Accrued supplemental retirement plans . . . . .	211	99
Accrued expenses and other liabilities . . . . .	72	(11)
Net cash flows (used in) provided by operating activities . . . . .	(396)	150
<b>Investing Activities</b>		
Net (increase) decrease in interest-bearing time deposits in other banks . . . . .	(4,733)	496
Net increase in loans . . . . .	(13,557)	(5,317)
Loans purchased . . . . .	—	(1,176)
Purchase of FHLB stock . . . . .	(8)	(1)
Purchase of premises and equipment . . . . .	(214)	(104)
Proceeds from sale of foreclosed real estate . . . . .	49	432
Death benefit proceeds received . . . . .	—	1,485
Net cash used in investing activities . . . . .	(18,463)	(4,185)
<b>Financing Activities</b>		
Net increase in deposits . . . . .	1,074	7,594
Repayment of FHLB advances . . . . .	(19)	(3,024)
Proceeds from issuance of common stock, net of offering costs . . . . .	13,415	—
Net increase in advances from borrowers for taxes and insurance . . . . .	150	42
Net cash provided by financing activities . . . . .	14,620	4,612
<b>Increase (Decrease) in Cash and Cash Equivalents . . . . .</b>	<b>(4,239)</b>	<b>577</b>
<b>Cash and Cash Equivalents, Beginning of Year . . . . .</b>	<b>19,589</b>	<b>19,012</b>
<b>Cash and Cash Equivalents, End of Year . . . . .</b>	<b>\$ 15,350</b>	<b>\$ 19,589</b>
<b>Supplemental Cash Flows Information:</b>		
Interest paid . . . . .	\$ 663	\$ 733
Income taxes paid . . . . .	120	90

*See Notes to the Consolidated Financial Statements*

## **Eagle Financial Bancorp, Inc.**

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2017 and 2016 (Amounts in thousands, except share and per share data)**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Eagle Financial Bancorp, Inc. (the “Company”), a Maryland corporation and registered savings and loan holding company, was formed on February 21, 2017 to become the holding company for Eagle Savings Bank (the “Bank”). The Bank, an Ohio chartered savings and loan association, completed its mutual-to-stock conversion on July 20, 2017. In connection with the Bank’s conversion, the Company acquired 100% ownership of the Bank and the Company offered and sold 1,572,808 shares of its common stock at \$10.0 per share, for gross offering proceeds of \$15,728. The cost of the conversion and issuance of common stock was approximately \$1,423, which was deducted from the gross offering proceeds. The Company also contributed 40,000 shares of its common stock and \$100,000 of cash to Eagle Savings Bank Charitable Foundation (the “Foundation”), a charitable foundation formed in connection with the Bank’s conversion. The Bank’s employee stock ownership plan (“ESOP”) purchased 129,024 shares of the common stock sold by the Company, which was 8% of the 1,612,808 shares of common stock issued by the Company, including the shares contributed to the Foundation. The ESOP purchased the shares using a loan from the Company. The Company contributed \$7,153 of the net proceeds from the offering to the Bank, loaned \$1,290 of the net proceeds to the ESOP, contributed \$100 to the Foundation and retained approximately \$5,763 of the net proceeds.

Following the Bank’s conversion, voting rights are held and exercised exclusively by the shareholders of the holding company. Deposit account holders continue to be insured by the FDIC. A liquidation account was established in an amount equal to the Bank’s total equity as of the latest balance sheet date in the final offering circular used in the conversion. Each eligible account holder or supplemental account holder are entitled to a proportionate share of this account in the event of a complete liquidation of the Bank, and only in such event. This share will be reduced if the eligible account holder’s or supplemental account holder’s deposit balance falls below the amounts on the date of record and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after conversion in the related deposit balance.

The Bank may not pay a dividend on its capital stock, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements. In addition, the stock holding company will be subject to certain regulations related to the repurchase of its capital stock. The conversion was accounted for as a change in corporate form with the historic basis of the Bank’s assets, liabilities and equity unchanged as a result.

##### ***Principles of Consolidation***

The consolidated financial statements as of and for the year ended December 31, 2017 include Eagle Financial Bancorp, Inc. and its wholly-owned subsidiary, Eagle Savings Bank, together referred to as “the Company”. Intercompany transactions and balances have been eliminated in consolidation.

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and fair values of financial instruments.

**Eagle Financial Bancorp, Inc.**

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016  
(Amounts in thousands, except share and per share data)**

***Cash Equivalents***

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-earning deposits in other financial institutions. The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

From time to time, the Bank's cash accounts may exceed the FDIC's insured limit of \$250. Management considers the risk of loss to be very low and management monitors the account balance and periodically assesses the financial condition of its correspondent banks. At December 31, 2017 and 2016, the Company's funds in banks, exceeded federally insured limits by \$14,034 and \$18,008, respectively.

***Interest-bearing Time Deposits in Other Banks***

Interest-bearing time deposits in other banks mature within two years and are carried at cost.

***Investment Securities***

The Company accounts for investment securities using two categories: held to maturity or available for sale. Securities classified as held to maturity are carried at cost only if the Company has the positive intent and ability to hold these securities to maturity. Securities available for sale are carried at fair value with resulting unrealized gains or losses recorded in retained earnings.

Realized gains or losses on sales of securities are recognized using the specific identification method. There were no investment securities at December 31, 2017 and 2016.

***Loans Held for Sale***

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Loan origination fees, net of certain direct origination costs are deferred and amortized as a level yield adjustment over the respective term of the loan.

***Allowance for Loan Losses***

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the 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 revision as more information becomes available.

## Eagle Financial Bancorp, Inc.

### Notes to the Consolidated Financial Statements For the years ended December 31, 2017 and 2016 (Amounts in thousands, except share and per share data)

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an 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 nonclassified loans and is based on a historical three-year charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments related to changes in lending policies, changes in economic conditions, trends in volume and terms of loans, delinquency levels and trends, changes in value of underlying collateral and the effect of the concentrations of credit are made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical losses or risk rating data.

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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial real estate and land loans, multi-family loans, commercial loans, construction loans and troubled debt restructurings 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.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

#### ***Premises and Equipment***

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35 – 40 years
Furniture, fixtures and equipment	3 – 5 years

#### ***Long-lived Asset Impairment***

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No long-lived asset impairment was recognized during the years ended December 31, 2017 and 2016.

## **Eagle Financial Bancorp, Inc.**

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2017 and 2016 (Amounts in thousands, except share and per share data)**

#### ***Federal Home Loan Bank Stock***

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

#### ***Foreclosed Real Estate Held for Sale, Net***

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

#### ***Bank-owned Life Insurance***

The Company has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Death benefit proceeds received in excess of the policy's cash surrender value are recognized to noninterest income. Investment returns on the bank-owned life insurance assets are added to the carrying value and included as non-interest income in the statement of income. Any receipt of benefit proceeds is recorded as a reduction of the carrying value of the bank-owned life insurance asset.

#### ***FHLB Lender Risk Account Receivable***

Certain loan sales transactions with the FHLB of Cincinnati provide for establishment of a Lender Risk Account (LRA). The LRA consists of amounts withheld from loan sale proceeds by the FHLB for absorbing inherent losses that are probable on those sold loans. These withheld funds are an asset to the Company as they are scheduled to be paid to the Company in future years, net of any credit losses on those loans sold. The receivables are initially measured at fair value. The fair value is estimated by discounting the cash flows over the life of each master commitment contract. The accretable yield is amortized over the life of the master commitment contract. Expected cash flows are re-evaluated at each measurement date. If there is an adverse change in expected cash flows, the accretable yield would be adjusted on a prospective basis and the asset would be evaluated for impairment.

#### ***Accrued Interest Receivable***

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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



**Eagle Financial Bancorp, Inc.**

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016  
(Amounts in thousands, except share and per share data)**

Accrued interest receivable was as follows:

	December 31,	
	2017	2016
Loans . . . . .	\$272	\$262
FHLB stock and other . . . . .	15	8
	<u>\$287</u>	<u>\$270</u>

***Income Taxes***

The Company accounts for income taxes in accordance with authoritative guidance (ASC 740, *Income Taxes*). The guidance results in two components of income tax expense: 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 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.

Uncertain tax positions 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.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2014. At December 31, 2017 and 2016, the Company had no uncertain income tax positions.

***Employee Stock Ownership Plan***

The cost of the shares issued to the ESOP, but not allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends, when paid, on allocated ESOP shares reduce retained earnings. Dividends, when paid, on unearned ESOP shares reduce debt and accrued interest.

***Earnings Per Share***

Basic Earnings Per Share ("EPS") is based on the weighted average number of common shares outstanding and is adjusted for ESOP shares not yet committed to be released.

***Reclassifications***

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on net income.

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**Note 2: Earnings per Share**

Basic EPS per common share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. ESOP shares are considered outstanding for this calculation unless earned. The factors used in the earnings per common share computation follow:

	<b>Year Ended December 31, 2017</b>
<u>Income per share</u>	
Net income . . . . .	\$ 340
Weighted average common shares outstanding . . . . .	724,659
Less: average unearned ESOP shares . . . . .	<u>(57,949)</u>
Weighted average common shares outstanding . . . . .	666,710
Basic earnings per share . . . . .	<u>\$ 0.51</u>

The weighted-average common shares outstanding was computed based on the portion of the actual days outstanding from July 20, 2017 (effective date of the conversion and reorganization) to December 31, 2017 to the actual total days in the year. There were no shares outstanding during the year ended December 31, 2016.

**Note 3: Loans and Allowance for Loan Losses**

The composition of the loan portfolio at December 31 was as follows:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	(In thousands)	
Residential mortgage loans . . . . .	\$ 53,682	\$41,914
Commercial real estate and land loans . . . . .	13,739	13,631
Home equity and other consumer . . . . .	12,570	14,593
Residential construction loans . . . . .	10,362	9,468
Residential mortgage loans, non-owner occupied . . . . .	7,082	5,743
Multi-family real estate loans . . . . .	2,084	2,513
Commercial loans . . . . .	<u>5,536</u>	<u>1,779</u>
	105,055	89,641
Net deferred loan costs . . . . .	66	98
Loans in process . . . . .	(7,411)	(5,554)
Allowance for loan losses . . . . .	<u>(1,181)</u>	<u>(1,137)</u>
Net loans . . . . .	<u>\$ 96,529</u>	<u>\$83,048</u>

Loans serviced for the benefit of others at December 31, 2017 and 2016 amounted to \$2,166 and \$1,930, respectively. Loans in process relates to primarily residential mortgage loans.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

**Residential Mortgage Loans, including Construction Loans and Land Loans:** The residential 1-4 family real estate loans and construction loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers.

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Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Land loans are secured primarily by unimproved land for future residential use. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

**Residential Mortgage Loans, Non-Owner Occupied:** One-to-four family, non-owner occupied loans carry greater inherent risks than one-to-four family, owner occupied loans, since the repayment ability of the borrower is generally reliant on the success of the income generated from the property.

**Commercial Real Estate and Multi-Family Real Estate:** Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. Multi-family real estate loans are generally secured by apartment complexes.

These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

**Commercial:** The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

**Home Equity and Other Consumer:** The consumer loan portfolio consists of home equity loans and term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment of the home equity loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Repayment for term and line of credit loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

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The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2017 and 2016:

December 31, 2017	Residential Mortgage Loans	Commercial Real Estate and Land Loans	Home Equity and Other Consumer	Residential Construction Loans	Residential Mortgage Loans Non-Owner Occupied	Multi-Family Real Estate Loans	Commercial Loans	Total
<b>Allowance for loan losses:</b>								
Balance, beginning of year . . . . .	\$ 166	\$ 164	\$ 341	\$ 88	\$ 175	\$ 30	\$ 173	\$ 1,137
Provision charged to expense . . . . .	112	108	(65)	28	(44)	(5)	(32)	102
Losses charged off . . .	—	(73)	—	—	(9)	—	—	(82)
Recoveries . . . . .	5	—	—	—	—	—	19	24
Balance, end of year . . . .	<u>\$ 283</u>	<u>\$ 199</u>	<u>\$ 276</u>	<u>\$ 116</u>	<u>\$ 122</u>	<u>\$ 25</u>	<u>\$ 160</u>	<u>\$ 1,181</u>
Ending balance: individually evaluated for impairment . . . . .	<u>\$ 22</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 32</u>	<u>\$ —</u>	<u>\$ 138</u>	<u>\$ 202</u>
Ending balance: collectively evaluated for impairment . . . . .	<u>\$ 261</u>	<u>\$ 189</u>	<u>\$ 276</u>	<u>\$ 116</u>	<u>\$ 90</u>	<u>\$ 25</u>	<u>\$ 22</u>	<u>\$ 979</u>
<b>Loans:</b>								
Ending balance . . . . .	<u>\$53,682</u>	<u>\$13,739</u>	<u>\$12,570</u>	<u>\$10,362</u>	<u>\$7,082</u>	<u>\$2,084</u>	<u>\$5,536</u>	<u>\$105,055</u>
Ending balance: individually evaluated for impairment . . . . .	<u>\$ 142</u>	<u>\$ 157</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 196</u>	<u>\$ —</u>	<u>\$ 300</u>	<u>\$ 795</u>
Ending balance: collectively evaluated for impairment . . . . .	<u>\$53,540</u>	<u>\$13,582</u>	<u>\$12,570</u>	<u>\$10,362</u>	<u>\$6,886</u>	<u>\$2,084</u>	<u>\$5,236</u>	<u>\$104,260</u>

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December 31, 2016	Residential Mortgage Loans	Commercial Real Estate and Land Loans	Home Equity and Other Consumer	Residential Construction Loans	Residential Mortgage Loans Non-Owner Occupied	Multi-Family Real Estate Loans	Commercial Loans	Total
<b>Allowance for loan losses:</b>								
Balance, beginning of year . . .	\$ 151	\$ 146	\$ 290	\$ 39	\$ 204	\$ 36	\$ 170	\$ 1,036
Provision charged to expense . . . . .	39	18	51	49	(29)	(6)	(39)	83
Losses charged off . . . . .	(35)	—	—	—	—	—	—	(35)
Recoveries . . . . .	11	—	—	—	—	—	42	53
Balance, end of year . . . . .	<u>\$ 166</u>	<u>\$ 164</u>	<u>\$ 341</u>	<u>\$ 88</u>	<u>\$ 175</u>	<u>\$ 30</u>	<u>\$ 173</u>	<u>\$ 1,137</u>
Ending balance: individually evaluated for impairment . . . . .	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39</u>	<u>\$ —</u>	<u>\$ 168</u>	<u>\$ 222</u>
Ending balance: collectively evaluated for impairment . . . . .	<u>\$ 151</u>	<u>\$ 164</u>	<u>\$ 341</u>	<u>\$ 88</u>	<u>\$ 136</u>	<u>\$ 30</u>	<u>\$ 5</u>	<u>\$ 915</u>
<b>Loans:</b>								
Ending balance . . . . .	<u>\$41,914</u>	<u>\$13,631</u>	<u>\$14,593</u>	<u>\$9,468</u>	<u>\$5,743</u>	<u>\$2,513</u>	<u>\$1,779</u>	<u>\$89,641</u>
Ending balance: individually evaluated for impairment . . . . .	<u>\$ 145</u>	<u>\$ 207</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 319</u>	<u>\$ 4</u>	<u>\$ 330</u>	<u>\$ 1,005</u>
Ending balance: collectively evaluated for impairment . . . . .	<u>\$41,769</u>	<u>\$13,424</u>	<u>\$14,593</u>	<u>\$9,468</u>	<u>\$5,424</u>	<u>\$2,509</u>	<u>\$1,449</u>	<u>\$88,636</u>

**Internal Risk Categories**

Loan grades are numbered 1 through 8. Grades 5 through 8 are considered satisfactory grades. The grade of 1, or Special Mention, represents loans of lower quality and is considered criticized. The grades of 2, or Substandard, 3, or Doubtful, and 4, or Loss refer to assets that are classified. The use and application of these grades by the Company will be uniform and shall conform to the Bank's policy.

**Special Mention (grade 1)** assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

**Substandard (grade 2)** loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

**Doubtful (grade 3)** loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

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**Loss (grade 4)** loans classified as loss are considered uncollectible and of such little value that their continuance as assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

**Satisfactory (grades 5 through 8)** represent loans for which quality is considered to be satisfactory.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2017 and 2016:

	Residential Mortgage Loans	Commercial Real Estate and Land Loans	Home Equity and Other Consumer	Residential Construction Loans	Residential Mortgage Loans Non-Owner Occupied	Multi-Family Real Estate Loans	Commercial Loans	Total
<b>December 31, 2017</b>								
Rating								
Satisfactory(5-8) . . . . .	\$52,948	\$13,212	\$12,411	\$10,362	\$6,508	\$2,084	\$5,039	\$102,564
Special mention(1) . . . . .	—	—	—	—	—	—	—	—
Substandard(2) . . . . .	734	527	159	—	574	—	497	2,491
Doubtful(3) . . . . .	—	—	—	—	—	—	—	—
Loss(4) . . . . .	—	—	—	—	—	—	—	—
Total . . . . .	<u>\$53,682</u>	<u>\$13,739</u>	<u>\$12,570</u>	<u>\$10,362</u>	<u>\$7,082</u>	<u>\$2,084</u>	<u>\$5,536</u>	<u>\$105,055</u>

	Residential Mortgage Loans	Commercial Real Estate and Land Loans	Home Equity and Other Consumer	Residential Construction Loans	Residential Mortgage Loans Non-Owner Occupied	Multi-Family Real Estate Loans	Commercial Loans	Total
<b>December 31, 2016</b>								
Rating								
Satisfactory(5-8) . . . . .	\$40,975	\$13,424	\$14,556	\$9,468	\$5,523	\$2,509	\$1,350	\$87,805
Special mention(1) . . . . .	—	—	—	—	—	—	99	99
Substandard(2) . . . . .	939	207	37	—	220	4	330	1,737
Doubtful(3) . . . . .	—	—	—	—	—	—	—	—
Loss(4) . . . . .	—	—	—	—	—	—	—	—
Total . . . . .	<u>\$41,914</u>	<u>\$13,631</u>	<u>\$14,593</u>	<u>\$9,468</u>	<u>\$5,743</u>	<u>\$2,513</u>	<u>\$1,779</u>	<u>\$89,641</u>

The following tables present the Company's loan portfolio aging analysis as of December 31, 2017 and 2016:

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due or More	Total Past Due	Current	Total Loans Receivable	Recorded Investment 90 Days and Accruing
<b>December 31, 2017</b>							
Residential mortgage loans . . . . .	\$173	\$—	\$634	\$ 807	\$ 52,875	\$ 53,682	\$—
Commercial real estate and land loans . . . . .	—	—	157	157	13,582	13,739	—
Home equity and other consumer . . . . .	39	—	—	39	12,531	12,570	—
Residential construction loans . . . . .	—	—	—	—	10,362	10,362	—
Residential mortgage loans, non-owner occupied . . . . .	—	—	—	—	7,082	7,082	—
Multi-family real estate loans . . . . .	—	—	—	—	2,084	2,084	—
Commercial loans . . . . .	—	—	—	—	5,536	5,536	—
Total . . . . .	<u>\$212</u>	<u>\$—</u>	<u>\$791</u>	<u>\$1,003</u>	<u>\$104,052</u>	<u>\$105,055</u>	<u>\$—</u>

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<u>December 31, 2016</u>	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due or More	Total Past Due	Current	Total Loans Receivable	Recorded Investment 90 Days and Accruing
Residential mortgage loans . . . . .	\$191	\$278	\$—	\$469	\$41,445	\$41,914	\$—
Commercial real estate and land loans . . . . .	—	207	—	207	13,424	13,631	—
Home equity and other consumer . . . . .	104	—	50	154	14,439	14,593	—
Residential construction loans . . . . .	—	—	—	—	9,468	9,468	—
Residential mortgage loans, non-owner occupied . .	—	—	—	—	5,743	5,743	—
Multi-family real estate loans . . . . .	—	—	—	—	2,513	2,513	—
Commercial loans . . . . .	—	—	—	—	1,779	1,779	—
Total . . . . .	<u>\$295</u>	<u>\$485</u>	<u>\$50</u>	<u>\$830</u>	<u>\$88,811</u>	<u>\$89,641</u>	<u>\$—</u>

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

The following tables present impaired loans as of December 31, 2017 and 2016:

<u>December 31, 2017</u>	Recorded Balance	Unpaid Principal Balance	Allocated Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without an allocated allowance:					
Residential mortgage loans . . . . .	\$ —	\$ —	\$ —	\$ —	\$—
Commercial real estate and land loans . . . . .	—	—	—	—	—
Home equity and other consumer . . . . .	—	—	—	—	—
Residential construction loans . . . . .	—	—	—	—	—
Residential mortgage loans, non-owner occupied. .	—	—	—	—	—
Multi-family real estate loans . . . . .	—	—	—	—	—
Commercial loans . . . . .	—	—	—	—	—
Loans with an allocated allowance:					
Residential mortgage loans . . . . .	142	142	22	143	7
Commercial real estate and land loans . . . . .	157	157	10	192	1
Home equity and other consumer . . . . .	—	—	—	—	—
Residential construction loans . . . . .	—	—	—	—	—
Residential mortgage loans, non-owner occupied. .	196	196	32	199	13
Multi-family real estate loans . . . . .	—	—	—	—	3
Commercial loans . . . . .	300	300	138	313	17
Total . . . . .	<u>\$795</u>	<u>\$795</u>	<u>\$202</u>	<u>\$847</u>	<u>\$41</u>

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<u>December 31, 2016</u>	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Allocated Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
Loans without an allocated allowance:					
Residential mortgage loans . . . . .	\$ 80	\$ 80	\$ —	\$ 81	\$ 4
Commercial real estate and land loans . . . . .	207	207	—	208	7
Home equity and other consumer . . . . .	—	—	—	—	—
Residential construction loans . . . . .	—	—	—	—	—
Residential mortgage loans, non-owner occupied . . . . .	116	116	—	219	5
Multi-family real estate loans . . . . .	4	4	—	11	1
Commercial loans . . . . .	—	—	—	—	—
Loans with an allocated allowance:					
Residential mortgage loans . . . . .	65	65	15	66	3
Commercial real estate and land loans . . . . .	—	—	—	—	—
Home equity and other consumer . . . . .	—	—	—	—	—
Residential construction loans . . . . .	—	—	—	—	—
Residential mortgage loans, non-owner occupied . . . . .	203	203	39	206	9
Multi-family real estate loans . . . . .	—	—	—	—	—
Commercial loans . . . . .	330	330	168	330	17
Total . . . . .	<u>\$1,005</u>	<u>\$1,005</u>	<u>\$222</u>	<u>\$1,121</u>	<u>\$46</u>

Interest income recognized is not materially different than interest income that would have been recognized on a cash basis.

The following table presents the Company's nonaccrual loans at December 31, 2017 and 2016. This table excludes performing troubled debt restructurings.

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Residential mortgage loans . . . . .	\$634	\$—
Commercial real estate and land loans . . . . .	157	—
Home equity and other consumer . . . . .	—	50
Residential construction loans . . . . .	—	—
Residential mortgage loans, non-owner occupied . . . . .	—	—
Multi-family real estate loans . . . . .	—	—
Commercial loans . . . . .	—	—
Total . . . . .	<u>\$791</u>	<u>\$50</u>



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Following is a summary of troubled debt restructurings at December 31, 2017 and 2016:

	<u>Number of Contracts</u>	<u>Recorded Investment</u>
<b>At December 31, 2017:</b>		
Residential mortgage loans . . . . .	1	\$ 77
Commercial real estate and land loans . . . . .	—	—
Home equity and other consumer . . . . .	—	—
Residential construction loans . . . . .	—	—
Residential mortgage loans, non-owner occupied . . . . .	4	196
Multi-family real estate loans . . . . .	—	—
Commercial loans . . . . .	<u>1</u>	<u>300</u>
	<u>6</u>	<u>\$573</u>
<b>At December 31, 2016:</b>		
Residential mortgage loans . . . . .	1	\$ 80
Commercial real estate and land loans . . . . .	—	—
Home equity and other consumer . . . . .	—	—
Residential construction loans . . . . .	—	—
Residential mortgage loans, non-owner occupied . . . . .	6	319
Multi-family real estate loans . . . . .	1	4
Commercial loans . . . . .	<u>1</u>	<u>330</u>
	<u>9</u>	<u>\$733</u>

As of December 31, 2017, the Company had total troubled debt restructurings of \$573. There were five residential mortgage loans and residential non-owner occupied loans totaling \$273 in troubled debt restructurings with the largest totaling \$195. The remaining \$300 in troubled debt restructurings consisted of one commercial loan for \$300. As of December 31, 2016, the Company had total troubled debt restructurings of \$733. There were seven residential mortgage loans and residential non-owner occupied loans totaling \$399 in troubled debt restructurings with the largest totaling \$203. The remaining \$334 in troubled debt restructurings consisted of one commercial loan for \$330 and one multi-family loan for \$4. These loans were modified due to short term concessions. The Company has no commitments to lend additional funds to these debtors owing receivables whose terms have been modified in troubled debt restructurings.

During the years ended December 31, 2017 and 2016, there were no loans modified as troubled debt restructurings.

Loans to executive officers, directors and their affiliates of the Company for the years ended December 31, 2017 and 2016 are summarized as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of year . . . . .	\$100	\$105
Loan disbursements . . . . .	—	86
Principal repayments . . . . .	<u>(11)</u>	<u>(91)</u>
Balance, end of year . . . . .	<u>\$ 89</u>	<u>\$100</u>

At December 31, 2017 and 2016, there was an additional \$27 and \$19 in available credit on loans to executive officers, directors and their affiliates.

In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those

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prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

**Note 4: Premises and Equipment**

Major classifications of premises and equipment, stated at cost, at December 31, 2017 and 2016, are as follows:

	December 31,	
	2017	2016
Land . . . . .	\$1,169	\$1,169
Buildings and improvements . . . . .	3,627	3,732
Furniture, fixtures and equipment . . . . .	1,756	1,552
	6,552	6,453
Less accumulated depreciation . . . . .	2,191	2,113
Net premises and equipment . . . . .	\$4,361	\$4,340

Depreciation expense for the years ended December 31, 2017 and 2016 was \$193 and \$174, respectively.

**Note 5: FHLB Lender Risk Account (LRA) Receivable**

The Company has an established LRA with the FHLB of Cincinnati consisting of amounts withheld from loan sale proceeds by the FHLB for absorbing inherent losses that are probable on sold loans. The funds withheld to settle these inherent losses that are probable totaled \$5,774 and \$5,454 at December 31, 2017 and 2016, respectively; however, these receivables are recorded at fair value at the time of sale, which includes consideration for inherent losses that are probable. In the event that the credit losses do not exceed the withheld funds, the LRA agreements provide for payment of these funds from the FHLB to the Company in 26 annual installments, beginning five years after the sale date. The carrying value of the LRA totaled \$3,168 and \$2,698 at December 31, 2017 and 2016, respectively.

**Note 6: Foreclosed Real Estate Held for Sale, Net**

Foreclosed real estate held for sale, net is summarized as follows:

	December 31,	
	2017	2016
Land . . . . .	\$—	\$55
	\$—	\$55

At December 31, 2017, there was no foreclosed real estate and at December 31, 2016 foreclosed real estate included two plots of land totaling \$55.

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Activity in foreclosed real estate held for sale, net is summarized as follows:

	December 31,	
	2017	2016
Balance, beginning of year . . . . .	\$ 55	\$ 478
Foreclosures . . . . .	—	—
Proceeds from sale . . . . .	(49)	(432)
Loans to facilitate sales . . . . .	—	—
Impairment . . . . .	(3)	(3)
Gain (loss) on sale . . . . .	(3)	12
Balance, end of year . . . . .	\$ —	\$ 55

**Note 7: Deposits**

Deposits are summarized as follows:

Description and weighted-average interest rates:

	December 31,	
	2017	2016
Non-interest bearing checking accounts		
2017 – 0.00% . . . . .	\$ 4,032	
2016 – 0.00% . . . . .		\$ 4,816
Interest bearing checking accounts		
2017 – 0.16% . . . . .	18,579	
2016 – 0.16% . . . . .		16,527
Savings accounts		
2017 – 0.15% . . . . .	16,848	
2016 – 0.14% . . . . .		15,827
Money market demand accounts		
2017 – 0.23% . . . . .	19,956	
2016 – 0.26% . . . . .		21,554
Total checking, savings and money market deposits . . . . .	59,415	58,724
Certificates of deposits		
0.00 – 0.99% . . . . .	11,421	14,476
1.00 – 1.99% . . . . .	26,895	23,507
2.00 – 2.99% . . . . .	3,387	3,337
Total certificates, 1.37% and 1.33% . . . . .	41,703	41,320
Total deposits – average rate 0.64% and 0.67% . . . . .	\$101,118	\$100,044

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At December 31, 2017, the scheduled maturities of certificates of deposits are summarized as follows:

	December 31,	
	2017	2016
2017 .....	\$ —	\$16,477
2018 .....	19,120	6,124
2019 .....	9,440	8,047
2020 .....	6,206	5,517
2021 .....	5,136	5,155
2022 .....	1,801	—
	\$41,703	\$41,320

Certificates of deposits in denominations of \$250 or more were \$3,513 and \$3,165 at December 31, 2017 and 2016, respectively. There were no brokered deposits at December 31, 2017 and 2016. Under the Federal Deposit Insurance Act and the FDIC's implementing regulations, \$250 is the standard maximum deposit insurance amount for deposits in an insured depository institution that are maintained in the same ownership right and capacity. Deposits maintained in different rights and capacities are insured separately from each other.

Deposits from executive officers, directors and affiliates held by the Bank at December 31, 2017 and 2016 totaled \$690 and \$744, respectively.

Interest expense on deposits is summarized as follows:

	Years Ended December 31,	
	2017	2016
Checking accounts .....	\$ 25	\$ 41
Savings accounts .....	24	21
Money market demand accounts .....	47	65
Certificates of deposits .....	566	562
	\$662	\$689

**Note 8: FHLB Advances**

Federal Home Loan Bank advances are summarized as follows:

Maturity Date	Interest Rate	December 31,	
		2017	2016
2018 .....	3.33%	\$9	\$28

Advances from the Federal Home Loan Bank are all fixed rate at both December 31, 2017 and 2016. The Federal Home Loan Bank advances are secured by mortgage loans totaling \$59,517 and \$46,409 at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the Bank had the capacity to increase advances from the Federal Home Loan Bank at those dates by approximately \$29,822 and \$29,798, respectively.

At both December 31, 2017 and 2016, the Bank had an unused line of credit with the Federal Home Loan Bank of \$10,000.

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**Note 9: Income Taxes**

The provision for income taxes includes these components:

	Years Ended December 31,	
	2017	2016
Federal taxes currently payable . . . . .	\$ 157	\$148
Federal deferred income taxes . . . . .	(239)	117
Federal income tax (benefit) expense . . . . .	\$ (82)	\$265

In lieu of state income taxes, the Company pays a franchise tax. Franchise tax for 2017 and 2016 was \$108 and \$96, respectively.

A reconciliation of federal income tax expense at the statutory rate to the Company's actual federal income tax expense is shown below:

	Years Ended December 31,	
	2017	2016
Computed at the statutory rate of 34% . . . . .	\$ 88	\$ 587
Increase (decrease) resulting from		
Tax-exempt BOLI income . . . . .	(16)	(16)
Death benefit . . . . .	—	(318)
ESOP . . . . .	36	—
Other . . . . .	5	12
Tax reform adjustment . . . . .	(195)	—
Actual federal income tax (benefit) expense . . . . .	\$ (82)	\$ 265

The tax effects of temporary differences related to the deferred federal tax liability shown on the balance sheets were:

	December 31,	
	2017	2016
Deferred tax assets		
Allowance for loan losses . . . . .	\$ 248	\$ 386
Deferred compensation . . . . .	190	226
Charitable contributions . . . . .	96	—
Valuation on foreclosed assets . . . . .	—	9
Other assets . . . . .	16	6
	550	627
Deferred tax liabilities		
FHLB stock basis difference . . . . .	(87)	(140)
Depreciation . . . . .	(113)	(124)
FHLB lender risk account receivable . . . . .	(665)	(917)
	(865)	(1,181)
Net deferred federal tax liability . . . . .	\$(315)	\$ (554)

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Retained earnings at December 31, 2017 and 2016, includes approximately \$559, for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred federal income tax liabilities on the preceding amount that would have been recorded if they were expected to reverse into taxable income in the foreseeable future was approximately \$190 at December 31, 2017 and 2016.

The Tax Cuts and Jobs Act (“Tax Act”) was enacted on December 22, 2017. Among other changes, the Tax Act reduces the US Federal corporate tax rate from 34% to 21%. For deferred tax assets and liabilities, amounts were remeasured based on the rates expected to reverse in the future, which is now 21%. As a result, the Company realized a reduction in income tax expense of \$195 recognized for the year ended December 31, 2017.

**Note 10: Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance-sheet items as calculated under United States Generally Accepted Accounting Principles, regulatory reporting requirements and regulatory capital standards. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank’s regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory reporting standards, to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total capital (as defined), Tier I capital (as defined) and common equity Tier 1 capital (as defined) to risk-weighted assets (as defined) and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017 and 2016, the most recent notification from the Bank’s regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier 1 risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

Beginning in January 2016, the capital conservation buffer requirement of 0.625% of risk-weighted assets was phased-in and will increase each year until fully implemented at 2.5% in January 2019.

An institution will be subject to further limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its’ capital level fall below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

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The Bank's actual capital amounts and ratios are presented in the following tables (minimum capital requirements exclude the capital conservation buffer):

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>2017</b>						
As of December 31, 2017:						
Equity . . . . .	\$20,197					
Allowance for loan losses . . . . .	1,181					
Total risk-based capital (to risk-weighted assets) . . . . .	\$21,378	18.0%	\$9,498	8.0%	\$11,873	10.0%
Tier I capital (to risk-weighted assets) . . . . .	20,197	17.0%	7,124	6.0%	9,498	8.0%
Common equity Tier I capital (to risk-weighted assets) . . . . .	20,197	17.0%	5,343	4.5%	7,717	6.5%
Tier I capital (to adjusted total assets) . . . . .	20,197	15.6%	5,187	4.0%	6,484	5.0%
<b>2016</b>						
As of December 31, 2016:						
Equity . . . . .	\$13,477					
Allowance for loan losses . . . . .	1,137					
Total risk-based capital (to risk-weighted assets) . . . . .	\$14,614	14.1%	\$8,283	8.0%	\$10,354	10.0%
Tier I capital (to risk-weighted assets) . . . . .	13,477	13.0%	6,212	6.0%	8,283	8.0%
Common equity Tier I capital (to risk-weighted assets) . . . . .	13,477	13.0%	4,659	4.5%	6,730	6.5%
Tier I capital (to adjusted total assets) . . . . .	13,477	11.2%	4,620	4.0%	5,775	5.0%

**Note 11: Employee Benefits**

The Company has supplemental retirement plans for directors, certain senior officers and key employees. Participants in the directors plan, shall be fully vested upon retirement and will receive an annual benefit for five years equal to \$1 for each year of service provided by the director to the Company. Participants in the plan for certain senior officers and key employees, upon retirement, will receive annually, for fifteen years, 45% of their final three-year annual base salary amount average. The plans are uniquely designed for each participant. The charge to expense for 2017 and 2016 for both plans was approximately \$211 and \$196, respectively. Such charges reflect the straight-line accrual over the period until full eligibility date at normal retirement of 66 years of age of the present value of benefits due each participant, using a 5% discount factor at both December 31, 2017 and December 31, 2016. The resulting liability at December 31, 2017 and 2016 for both plans was approximately \$1,079 and \$868, respectively. The Company purchased life insurance on the participants. The cash surrender value of such insurance was \$1,912 and \$1,865 at December 31, 2017 and 2016, respectively.

The Bank has a 401(k) profit-sharing plan covering substantially all employees who have attained the age of 21 and have completed one year of eligibility service. The Company may, in its sole discretion, make a matched employee contribution during the plan year in an amount as determined by the Company. The

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Internal Revenue Code may also further restrict matching contributions for highly compensated employees. The Company may, in its sole discretion, make a Profit Sharing Contribution to the Profit Sharing Plan. Employees will be eligible to receive an allocation if they have completed at least 1000 hours of service during the Plan Year and are employed by the Company on the last day of the Plan Year. Profit Sharing Contributions will be allocated to the Profit Sharing Contribution Accounts of each Participant eligible to share in such allocation after the end of the Plan Year. The Company's contributions to the plan are determined annually by the Board of Directors. Contributions to the plan were \$54 and \$40 for the years ended December 31, 2017 and 2016, respectively.

**Note 12: Employee Stock Ownership Plan**

In connection with the conversion to an entity owned by stockholders, the Company established an Employee Stock Ownership Plan ("ESOP") for the exclusive benefit of eligible employees. The ESOP borrowed funds from the Company in an amount sufficient to purchase 129,024 shares (approximately 8.0% of the common stock sold in the stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Company and dividends received by the ESOP. Contributions will be applied to repay interest on the loan first, then the remainder will be applied to principal. The loan is expected to be repaid over a period of up to 20 years. Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation, relative to total compensation of all active participants. Participants will vest in their accrued benefits under the ESOP at the rate of 20 percent per year after two years of service. Vesting is accelerated upon retirement, death or disability of the participant, or a change in control of the Company. Forfeitures will be reallocated to remaining participants. Benefits may be payable upon retirement, death, disability, separation of service, or termination of the ESOP.

The debt of the ESOP is eliminated in consolidation. Contributions to the ESOP shall be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, the Company reports the compensation expense equal to the average market price of the shares for the respective period, and the shares become outstanding for earnings per share computations. Dividends on unallocated ESOP shares, if any, are recorded as a reduction of debt and accrued interest. ESOP compensation was \$105,000 for the year ended December 31, 2017.

A summary of the ESOP shares as of December 31 are as follows:

	<b>Year Ended December 31, 2017</b>
Shares released to participants . . . . .	—
Shares allocated to participants . . . . .	6,451
Unreleased shares . . . . .	122,573
Total . . . . .	129,024
Fair Value of unreleased shares . . . . .	\$1,982,005

In the event the ESOP is unable to satisfy the obligation to repurchase the shares held by each beneficiary upon the beneficiary's termination or retirement, the Company is obligated to repurchase the shares. In addition, there are no outstanding shares held by former employees that are subject to an ESOP related repurchase option.

**Note 13: Operating Leases (Lessee)**

The Company has a noncancellable operating lease for a branch that expires in 2020. This lease contains one option to extend the lease for a period of five years. Rental expense for this lease was approximately \$45 for both years ended December 31, 2017 and 2016.



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Future minimum lease payments under operating leases at December 31, 2017 are:

2018	38
2019	38
2020	32
Total minimum lease payments	<u>\$108</u>

**Note 14: Operating Leases (Lessor)**

The Company has entered into agreements as lessor for office space for its main corporate building. The leases all have an initial term of five years with options to renew at various terms. Rental income for these leases, included in occupancy and equipment, net of noninterest expense, was approximately \$178 and \$166 for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments to be received at December 31, 2017 are:

2018	166
2019	153
2020	114
2021	63
2022	30
Total minimum lease receipts	<u>\$526</u>

**Note 15: Disclosures About Fair Value of Assets and Liabilities**

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

***Nonrecurring Measurements***

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2017</b>				
Impaired loans (collateral dependent)	\$593	\$—	\$—	\$593

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December 31, 2016	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent) . . . . .	\$376	\$—	\$—	\$376
Foreclosed assets held for sale . . . . .	55	—	—	55

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

***Foreclosed Real Estate Held for Sale (Other Real Estate Owned)***

Other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary. Appraisals are reviewed for accuracy and consistency by the lending department. Appraisers are selected from the list of approved appraisers maintained by management.

***Collateral-dependent Impaired Loans, Net of ALLL***

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy. The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary. Appraisals are reviewed for accuracy and consistency by the lending department. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by comparison to historical results.

***Unobservable (Level 3) Inputs***

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value at 12/31/2017	Valuation Technique	Unobservable Inputs	Range
Impaired loans (collateral dependent) . . . . .	\$593	Market comparable properties	Marketability discount	10% – 15%
	Fair Value at 12/31/2016	Valuation Technique	Unobservable Inputs	Range
Impaired loans (collateral dependent) . . . . .	\$376	Market comparable properties	Marketability discount	10% – 15%
Foreclosed assets held for sale . . . . .	55	Market comparable properties	Marketability discount	10% – 15%

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The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheet at amounts other than fair value.

***Cash and Cash Equivalents and Interest-bearing Time Deposits in other Banks***

The carrying amount approximates fair value.

***Loans Held For Sale***

The carrying amount approximates fair value due to the insignificant time between origination and date of sale. The carrying amount is the amount funded.

***Loans***

Fair value is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Company would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

***FHLB Stock***

Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

***FHLB Lender Risk Account Receivable***

The fair value of the Federal Home Loan Bank lender risk account receivable is estimated by discounting the estimated remaining cash flows of each strata of the receivable at current rates applicable to each strata for the same remaining maturities.

***Accrued Interest Receivable and Payable***

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

***Deposits***

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the Company.

The estimated fair value of checking, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

***FHLB Advances***

Fair value is estimated by discounting the future cash flows using rates of similar advances with similar maturities. These rates were obtained from current rates offered by FHLB.

***Advances from Borrowers for Taxes and Insurance***

The carrying amount approximates fair value.

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***Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit and Lines of Credit***

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of commitments to sell securities is estimated based on current market prices for securities of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2017 and 2016, the fair value of such commitments was not material.

The following tables present estimated fair values of the Company's financial instruments at December 31, 2017 and 2016.

<u>December 31, 2017</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
			<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<b>Financial Assets</b>					
Cash and cash equivalents . . . . .	\$ 15,350	\$ 15,350	\$15,350	\$ —	\$ —
Interest-bearing time deposits . . . . .	5,079	5,079	5,079	—	—
Loans held for sale . . . . .	3,336	3,336	—	—	3,336
Loans, net of allowance for losses . . . . .	96,529	98,470	—	—	98,470
FHLB stock . . . . .	736	736	—	736	—
FHLB lender risk account receivable . . . . .	3,168	3,174	—	—	3,174
Interest receivable . . . . .	287	287	—	287	—
<b>Financial Liabilities</b>					
Deposits . . . . .	101,118	100,728	59,415	41,313	—
FHLB advances . . . . .	9	9	—	9	—
Advances from borrowers for taxes and insurance . . . . .	866	866	—	866	—
Interest payable . . . . .	1	1	—	1	—
<u>December 31, 2016</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
			<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<b>Financial Assets</b>					
Cash and cash equivalents . . . . .	\$ 19,589	\$19,589	\$19,589	\$ —	\$ —
Interest-bearing time deposits . . . . .	346	346	346	—	—
Loans held for sale . . . . .	2,732	2,732	—	—	2,732
Loans, net of allowance for losses . . . . .	83,048	84,852	—	—	84,852
FHLB stock . . . . .	728	728	—	728	—
FHLB lender risk account receivable . . . . .	2,698	2,795	—	—	2,795
Interest receivable . . . . .	270	270	—	270	—
<b>Financial Liabilities</b>					
Deposits . . . . .	100,044	99,927	58,724	41,203	—
FHLB advances . . . . .	28	28	—	28	—
Advances from borrowers for taxes and insurance . . . . .	716	716	—	716	—
Interest payable . . . . .	1	1	—	1	—

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#### **Note 16: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in Note 3 regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

At December 31, 2017 and 2016, the Company held \$13,739 and \$13,631, respectively, in commercial real estate and land loans collateralized by commercial real estate and land in the Cincinnati geographic area. The accompanying financial statements have been prepared using values and information currently available to the Company.

#### **Note 17: Commitments and Credit Risk**

##### ***Commitments to Originate Loans***

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2017, the Bank had loans approved but not yet originated of \$810. There was a 30 year fixed rate one-to four-family residential real estate loan with an interest rate of 3.875% for \$202 and a 5/1 adjustable rate one-to four-family residential real estate construction loan with a rate of 3.250% for \$608. At December 31, 2016, the Company had loans approved but not yet originated with fixed interest rate ranges of 3.875% – 4.125% for \$436 secured by one-to four-family residential real estate. At December 31, 2017 and 2016, the Company had undisbursed loans in process of \$7,411 with interest rate ranges of 3.125% – 4.625% and \$5,554 with interest rate ranges of 3.250% – 4.500%, respectively. There were no adjustable rate commitments at December 31, 2016.

##### ***Lines of Credit***

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

**Eagle Financial Bancorp, Inc.**

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Lines of credit at December 31, 2017 were as follows:

Unused lines of credit . . . . .	\$ 3,509
Standby letters of credit . . . . .	—
Unused home equity lines . . . . .	<u>11,305</u>
Total commitments . . . . .	<u>\$14,814</u>

**Note 18: Recent Accounting Pronouncements**

Eagle Financial Bancorp, Inc. is an “emerging growth company. As an “emerging growth company”, we have elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. On July 9, 2015, the FASB approved amendments deferring the effective date by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted but not before the original public entity effective date, i.e., annual periods beginning after December 15, 2016. In March 2016, the FASB issued final amendments (ASU No. 2016-08 and ASU No. 2016-10) to clarify the implementation guidance for principal versus agent considerations, identifying performance obligations and the accounting for licenses of intellectual property. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application. In May 2016, the FASB issued final amendments (ASU No. 2016-12 and ASU 2016-11) to address narrow-scope improvements to the guidance on collectibility, non-cash consideration, completed contracts at transition and to provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. Additionally, the amendments included a rescission of SEC guidance because of ASU 2014-09 related to revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer. In December 2016, the FASB issued final guidance (ASU 2016-20) that allows entities not to make quantitative disclosures about performance obligations in certain cases and requires entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. It also makes 12 additional technical corrections and improvements to the new revenue standard. These amendments are effective upon the adoption of ASU 2014-09. Public entities should apply the amendments in ASU 2014-9 to interim reporting periods within annual reporting periods beginning after December 15, 2017 (that is, a public entity would be required to apply the new revenue standard beginning in the first interim period within the period of adoption). Nonpublic entities should apply the amendments in ASU 2014-9 for annual reporting periods beginning after December 31, 2018, and to interim reporting periods within annual reporting periods beginning after December 19, 2019. The Company continues to assess the guidance from the FASB and the Transition Resource Group for Revenue Recognition in determining the impact of ASU 2014-09 on its accounting and disclosures. The amendments could potentially impact the accounting procedures and processes over the recognition of certain revenue sources, including, but not limited to, non-interest income. Management continues to evaluate those revenue streams that could be impacted by the amendments. The analysis includes identification of potential performance obligations and revenue principles. The adoption of ASU 2014-09 is not expected to have a material impact on the Bank’s accounting and disclosures.

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In January 2016, the FASB issued ASU No. 2016-01 “Financial Instruments — Overall (Subtopic 825-10) — Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by requiring equity investments to be measured at fair value with changes in fair value recognized in net income; requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for public companies for fiscal years beginning after December 31, 2017, including interim periods within those fiscal years. For private companies the new guidance becomes effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The Company is currently evaluating the impact of these amendments, but does not expect them to have a material effect on the Company’s financial position or results of operations since it does not have any equity securities or a valuation allowance. However, the amendments will have an impact on certain items that are disclosed at fair value that are not currently utilizing the exit price notion when measuring fair value. At this time the Company cannot quantify the change in the fair value of such disclosures since the Company continues to evaluate the full impact of the Update and is continuing to develop appropriate procedures and processes to comply with the disclosure requirements of such amendments. The current accounting policies and procedures will be modified after the Company fully evaluates the standard to comply with the accounting changes mentioned above. For additional information on fair value of assets and liabilities, see Note 15.

In February 2016, the FASB issued ASU No. 2016-02 “Leases (Topic 842).” ASU 2016-02 establishes a right of use model that requires a lessee to record a right of use asset and a lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. A lease will be treated as sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn’t convey risks and rewards or control, an operating lease results. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with certain practical expedients available.

The impact is not expected to have a material effect on the Company’s financial position or results of operations since the Company does not have a material amount of lease agreements. The Company is continuing to evaluate the amendments and will subsequently implement new processes to comply with the ASU. In addition, the Company will change its current accounting practice to comply with the amendments and such changes as mentioned above.

## **Eagle Financial Bancorp, Inc.**

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2017 and 2016 (Amounts in thousands, except share and per share data)**

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments — Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments.” The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity’s current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the financial assets. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company continues to evaluate the impact of these amendments to the Company’s financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. The Allowance for Loan Losses (ALL) estimate is material to the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the ALL at the adoption date. The Company is anticipating a significant change in processes and procedures to calculate the ALL, including changes in assumptions and estimates to consider the expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current accounting policy and procedures for the other-than temporary impairment on available-for-sale securities will be replaced with an allowance approach. The Company has continued developing processes during the fourth quarter of 2017. Management continues to focus its attention on collecting historical loan loss data, loan level data, and evaluating data capabilities to ensure it is fully compliant with the amendments at adoption date. For additional information on the allowance for loan losses, see Note 3.

In August 2016, the FASB issued ASU No. 2016-15 “Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 provides cash flow statement classification guidance for certain transactions including how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company has assessed ASU 2016-15 and does not expect a significant impact on its accounting and disclosures.

In November 2016, the FASB issued ASU No. 2016-18 “Statement of Cash Flows (Topic 230) — Restricted Cash.” ASU 2016-18 provides amendments to cash flow statement classification and presentation to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The amendments should be applied using a



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retrospective transition method to each period presented. The Company has assessed ASU 2016-18 and does not expect a significant impact on its accounting and disclosures.

**Note 19: Condensed Financial Information (Parent Company Only)**

Presented below is condensed financial information as to the financial position, results of operations and cash flows of the company:

**Condensed Balance Sheet**

	<b>2017</b>
<b>Assets</b>	
Cash . . . . .	\$ 5,785
Prepaid expenses . . . . .	11
Loan receivable – ESOP . . . . .	1,220
Investment in Eagle Savings Bank . . . . .	20,197
Deferred federal income tax . . . . .	94
Prepaid federal income tax . . . . .	30
Total assets . . . . .	<u>\$27,337</u>
<b>Liabilities and Shareholders' Equity</b>	
<b>Liabilities</b>	
Total liabilities . . . . .	\$ —
<b>Shareholder' Equity</b>	
Total shareholders' equity . . . . .	27,337
Total liabilities and shareholders' equity . . . . .	<u>\$27,337</u>

**Condensed Statement of Income and Comprehensive Income**

	<b>2017</b>
<b>Income</b>	
Interest Income – ESOP . . . . .	25
Equity in earnings of Eagle Savings Bank . . . . .	752
Total income . . . . .	777
<b>Expense</b>	
Legal and professional services . . . . .	50
Charitable contribution expense . . . . .	500
Other expense . . . . .	11
Total expense . . . . .	561
Earnings before federal income tax expense . . . . .	216
Federal income tax benefit . . . . .	(124)
<b>Net Income and Comprehensive Income</b> . . . . .	<u>\$ 340</u>

**Eagle Financial Bancorp, Inc.**

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**Condensed Statement of Cash Flows**

	<b>2017</b>
<b>Operating Activities</b>	
Net income . . . . .	\$ 340
Items not requiring (providing) cash:	
Equity in undistributed income of subsidiary . . . . .	(752)
Changes in:	
Other assets and prepaid federal income taxes . . . . .	(135)
Net cash flows used in operating activities . . . . .	(547)
<b>Investing Activities</b>	
Payments received on ESOP loan . . . . .	70
Net cash provided by investing activities . . . . .	70
<b>Financing Activities</b>	
Proceeds from issuance of common stock, net of offering costs . . . . .	13,415
Proceeds from mutual to stock conversion transferred to bank . . . . .	(7,153)
Net cash provided by financing activities . . . . .	6,262
<b>Increase in Cash and Cash Equivalents . . . . .</b>	<b>5,785</b>
<b>Cash and Cash Equivalents, Beginning of Year . . . . .</b>	<b>—</b>
<b>Cash and Cash Equivalents, End of Year . . . . .</b>	<b>\$ 5,785</b>

**ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**ITEM 9A. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Vice President, Chief Financial Officer and Treasurer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2017. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Vice President, Chief Financial Officer and Treasurer, concluded that the Company's disclosure controls and procedures were effective.

(b) Management's Report on Internal Control over Financial Reporting

This annual report does not include a management's report regarding internal control over financial reporting. A Management's report was not required pursuant to rules of the Securities and Exchange Commission that permit new public companies to not have such discourses in their first annual report as a public company.

(c) Changes in internal controls

There were no significant changes made in our internal control over financial reporting during the Company's fourth quarter of the year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. Other Information**

None.

## PART III

### ITEM 10. Directors, Executive Officers and Corporate Governance

The table below sets forth certain information regarding our directors and named executive officers. Except as indicated herein, there are no arrangements or understandings between any director and any other person pursuant to which the director was elected.

Name <sup>(1)</sup>	Age as of 12/31/17	Positions Held in Eagle Financial Bancorp, Inc.	Directors Since <sup>(2)</sup>	Term to Expire	Shares of Common Stock Beneficially Owned on the Record Date <sup>(3)</sup>	Percent of Class
<b>DIRECTORS</b>						
Gary J. Koester . . . . .	64	President, Chief Executive Officer and Director	1982	2019	40,000 <sup>(4)</sup>	2.48%
James W. Braun . . . . .	70	Chairman of the Board	1995	2018	10,000 <sup>(5)</sup>	0.62%
Guy W. Cagney . . . . .	65	Director	2002	2020	35,000 <sup>(6)</sup>	2.17%
Steven J. Dulle . . . . .	60	Director	1996	2020	30,000 <sup>(7)</sup>	1.86%
Adam B. Goetzman . . . . .	58	Director	2008	2018	18,000	1.12%
Steven C. Kehoe . . . . .	62	Director	2008	2019	20,000 <sup>(8)</sup>	1.24%
<b>NAMED EXECUTIVE OFFICERS</b>						
Patricia L. Walter . . . . .	42	Executive Vice President			30,000 <sup>(9)</sup>	1.86%
Kevin R. Schramm . . . . .	52	Vice President, Chief Financial Officer and Treasurer			20,000 <sup>(10)</sup>	1.24%
All directors and executive officers as a group (9 persons) . . . . .						12.90%

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- (1) The mailing address for each person listed is 6415 Bridgetown Road, Cincinnati, Ohio 45248.
  - (2) Includes initial appointment to the Board of Directors of our mutual predecessor.
  - (3) Shares of common stock are held directly unless indicated otherwise.
  - (4) Includes 5,700 shares of common stock held in Mr. Koester's individual retirement account, 20,000 shares held by Mr. Koester's spouse and 14,300 shares held in Mr. Koester's 401(k) plan account.
  - (5) Includes 10,000 shares of common stock held in Mr. Braun's individual retirement account.
  - (6) Includes 20,000 shares of common stock held in Mr. Cagney's individual retirement account, 10,700 shares held by Mr. Cagney's spouse and 10,700 shares held by Mr. Cagney's spouse's individual retirement account.
  - (7) Includes 15,000 shares of common stock held in Mr. Dulle's individual retirement account and 15,000 shares held by Mr. Dulle's spouse's individual retirement account.
  - (8) Includes 16,000 shares of common stock held in Mr. Kehoe's individual retirement account.
  - (9) Includes 16,000 shares of common stock held in Ms. Walter's individual retirement account, 12,650 shares held by Ms. Walter's spouse's individual retirement account and 1,350 shares held by Ms. Walter's three children.
  - (10) Includes 10,000 shares of common stock held in Mr. Schramm's individual retirement account and 10,000 shares held in Mr. Schramm's 401(k) plan account.

## **The Business Background of Our Directors and Executive Officers**

The business experience for the past five years of each of our directors and executive officers is set forth below. With respect to directors, the biographies also contain information regarding the person's experience, qualifications, attributes or skills that caused the Nominating Committee and the board of directors to determine that the person should serve as a director. Each director is also a director of Eagle Savings Bank. Unless otherwise indicated, directors and executive officers have held their positions for the past five years.

### ***Directors***

**James W. Braun** is retired since 2012, and the former Vice President of Technology for MAG IAS, LLC, an international capital equipment manufacturer. Mr. Braun has over 40 years of industry experience, including 25 years at Milacron, where he held various senior management positions in product development and international business management. Mr. Braun provides the Board with extensive local business experience, strategic planning and valuable insight into managing and overseeing a business. Mr. Braun has served as a director of Eagle Savings Bank since 1995 and has been the Chairman of the Board since 2007.

**Guy W. Cagney** is a local real estate agent with Coldwell Banker West Shell since 2012. Mr. Cagney is a licensed Real Estate Agent in Ohio, Indiana and Florida. He has built a 40 year successful real estate career and reputation mostly in residential real estate sales. He is a member of the Western Hills Lions Club, Elder High School Alumni Board and Cincinnati Area Board of Realtors Grievance Advisory Committee. Mr. Cagney offers the Board experience in marketing, community involvement and the real estate market in the Bank's lending areas. Mr. Cagney has served as a director of Eagle Savings Bank since 2002.

**Steven J. Dulle** is the founder and President of Dulle and Company, a Cincinnati based advertising and marketing firm, which he started in 1982. His experience includes a wide variety of clients in the technology, service, manufacturing, home building, health care, financial services and consumer products industries. Mr. Dulle offers the Board his experience in developing marketing strategies and branding campaigns for local, national and international clients. Mr. Dulle has served as a director of Eagle Savings Bank since 1996.

**Adam B. Goetzman** is the Development Director and Zoning Administrator of Northeast Green Township Zoning District. Mr. Goetzman is responsible for zoning, code enforcement and development review services with county and/or state agencies. He performs comprehensive land use planning and promotes business development and retention. Mr. Goetzman brings the Board extensive knowledge of the building industry and business in the Bank's market. Mr. Goetzman has served as a director of Eagle Savings Bank since 2008.

**Steven C. Kehoe** is a Certified Financial Planner in Cincinnati, Ohio since 1982 with Kehoe Financial Services, LLC, a regional office of Kestra and a Registered Investment Advisor. Mr. Kehoe's practice is an independent fee-based financial planning practice primarily focusing on small business planning, investments, retirement planning and estate planning. Mr. Kehoe is also a Registered Representative with Kestra and a licensed agent with many leading insurance companies. Mr. Kehoe has served as a director of Eagle Savings Bank since 2008. Mr. Kehoe brings the Board extensive financial experience and will serve as the Board's audit committee financial expert.

**Gary J. Koester** is our President and Chief Executive Officer and has served in those capacities with Eagle Savings Bank since 1996 and has served as a director of Eagle Savings Bank since 1982. Mr. Koester began his career at Eagle Savings Bank in 1977 and has held various other positions during his time with the Bank. His experience at Eagle Savings Bank includes all facets of the Bank including lending, operations, and information technology.

### Executive Officers Who Are Not Directors

**Patricia L. Walter** is our Executive Vice President and was hired on July 6, 2016. For 11 years prior to joining the Bank, Ms. Walter served as the Controller and then the Senior Vice President of Finance for the former Cheviot Savings Bank. Ms. Walter began her career in 1997 working for six years with Grant Thornton LLP as an auditor, and then for two years with Comair, Inc., a former subsidiary of Delta Air Lines, as the Manager of Corporate Accounting.

**Kevin R. Schramm** is our Vice President, Chief Financial Officer and Treasurer. Mr. Schramm has served as Chief Financial Officer and Treasurer with Eagle Savings Bank since September 2006, and was named Vice President in 2017. Mr. Schramm began his career in 1986 with Cinco Federal Credit Union where he spent 17 years in various positions, including Operations Manager and Controller. Mr. Schramm's experience also includes service as the Chief Financial Officer of the former Cottage Savings Bank.

**W. Raymond McCleese** is our Vice President of Commercial Lending since being hired in May 2016. Prior to joining Eagle Savings Bank, he served two years as the Vice President of Commercial Lending for First Financial Bank, and for over four years as a Vice President and a part of senior management with the former Merchants Bank and Trust, heading up the Commercial and Industrial division. He has also served as a Federal SBSE Agent for the Internal Revenue Service, Chief Financial Officer of a mid-sized interior design firm, and as a staff accountant for a well-established local CPA firm.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Our common stock is registered with the SEC pursuant to Section 12(b) of the Securities Exchange Act of 1934. Our officers and directors and beneficial owners of greater than 10% of our common stock are required to file reports on Forms 3, 4 and 5 with the SEC disclosing beneficial ownership and changes in beneficial ownership of our common stock. SEC rules require disclosure in our Proxy Statement or Annual Report on Form 10-K of the failure of an officer, director or 10% beneficial owner of our common stock to file a Form 3, 4 or 5 on a timely basis. Based on our review of ownership reports, we believe that none of our officers or directors failed to timely file such ownership reports for the fiscal year ended December 31, 2017.

### **Code of Ethics**

We have adopted a Code of Ethics that is applicable to all of its directors and officers. The Code of Ethics has been filed with the SEC and is available at our website at [www.eaglesavings.com](http://www.eaglesavings.com). Amendments to and waivers from the Code of Ethics will also be disclosed on our website.

### **Audit Committee**

The Audit Committee is comprised of directors Steven C. Kehoe (Chairman), Guy W. Cagney and Adam B. Goetzman. The board of directors has determined that each member of the Audit Committee is "independent" as defined in the Nasdaq corporate governance listing standards and satisfies the additional independence requirements of applicable Securities and Exchange Commission rules. Based on its review of the criteria of an "audit committee financial expert" under the rules adopted by the Securities and Exchange Commission, the board of directors has determined that Mr. Kehoe qualifies as an "audit committee financial expert." During 2017, the Audit Committee met four times.

## ITEM 11. Executive Compensation

### Executive Compensation

**Summary Compensation Table.** The following table sets forth certain information as to the total remuneration paid by Eagle Savings Bank to Gary Koester, President and Chief Executive Officer, and Kevin Schramm, Vice President, Chief Financial Officer and Treasurer, for the years ended December 31, 2017 and 2016, and Patricia L. Walter for the year ended December 31, 2017. The individuals listed in the table below are referred to as named executive officers.

Name and principal position	Year	Salary (\$)	Bonus (\$)	All other Compensation <sup>(1)</sup> (\$)	Total (\$)
Gary J. Koester President and Chief Executive Officer	2017	162,898	49,005	33,936	245,839
	2016	157,804	31,861	25,524	215,189
Patricia L. Walter Executive Vice President	2017	122,989	37,636	3,816	164,441
Kevin R. Schramm Vice President, Chief Financial Officer & Treasurer	2017	104,948	31,231	5,708	141,887
	2016	95,778	19,376	4,441	119,595

- (1) A break-down of the various elements of compensation in this column for 2017 is set forth in the following table:

Name	Board and Other Fees (\$)	Employer Contributions to 401(k) Plan (\$)	Total All Other Compensation (\$)
Gary J. Koester	24,000	9,936	33,936
Patricia L. Walter	—	3,816	3,816
Kevin R. Schramm	—	5,708	5,708

### Benefit Plans and Agreements

#### *Employment Agreements.*

Eagle Financial Bancorp, Inc. and Eagle Savings Bank have entered into employment agreements with Gary J. Koester, our President and Chief Executive Officer, Patricia L. Walter, our Executive Vice President and Kevin R. Schramm, our Vice President, Chief Financial Officer and Treasurer. Our continued success depends to a significant degree on the skills and competence of Messrs. Koester, Walter and Schramm and the employment agreements are intended to ensure that we maintain a stable management base following the conversion and offering.

Each employment agreement has substantially similar terms, except for the term of the agreements. Mr. Koester's agreement has an initial three-year term and, commencing on January 1, 2018, and on each subsequent January 1<sup>st</sup> thereafter the agreement will be renewed for an additional year so that the remaining term will always be three years from the applicable January 1<sup>st</sup> renewal date, unless a notice is provided to Mr. Koester that the agreement will not renew. Ms. Walter's and Mr. Schramm's agreements have an initial two-year term with the same renewal provisions as provided in Mr. Koester's agreement. The current base salary for Mr. Koester is \$183,668, Ms. Walter's current base salary is \$127,308 and the current base salary for Mr. Schramm is \$106,761. In addition to the base salary, the agreement provides for, among other things, participation in bonus programs, if any, and other fringe benefit plans, if any, applicable to executive employees. The executive's employment may be terminated for cause at any time, in which event the executive would have no right to receive compensation or other benefits for any period after termination.

Certain events resulting in the executive's termination or resignation entitle the executive to payments of severance benefits following termination of employment. In the event the executive's involuntary termination for reasons other than for cause, disability or retirement, or in the event the executive resigns during the term of the agreement following (a) for Mr. Koester's agreement only, a failure to appoint him to the executive position set forth in the agreement, (b) a material change in the executive's function, duties or responsibilities resulting in a reduction of the responsibility, scope, or importance of his position, (c) relocation of the executive's office by more than 30 miles, (d) a material reduction in the benefits or perquisites paid to the executive unless such reduction is part of a reduction that is generally applicable to officers or employees of Eagle Savings Bank, or (e) a material breach of the employment agreement by Eagle Savings Bank, then the executive would be entitled to a severance payment in the form of a cash lump sum equal to the base salary and bonus the executive would be entitled to receive for the remaining unexpired term of the employment agreement. For this purpose, the bonuses payable will be deemed to be equal to the highest bonus paid at any time during the prior three years. In addition, the executive would be entitled to receive a lump sum payment equal to the present value of the contributions that would reasonably have been expected to be made on executive's behalf under Eagle Savings Bank's defined contribution plans (e.g., 401(k) Plan, Employee Stock Ownership Plan) if the executive had continued working for the remaining unexpired term of the employment agreement earning the salary that would have been achieved during such period. Internal Revenue Code Section 409A may require that a portion of the above payments cannot be made until six months after termination of employment, if the executive is a "key employee" under IRS rules. In addition, the executive would be entitled, at no expense to the executive, to the continuation of life insurance and non-taxable medical and dental coverage until the earlier of: (i) the executive's employment by another employer whereby the executive receives substantially similar insurance coverage or (ii) for the remaining unexpired term of the employment agreement. If such coverage is not permitted by applicable law or if providing such benefits would subject Eagle Savings Bank to penalties, the executive will receive a cash lump sum payment equal to the value of such benefits.

In the event of a change in control of Eagle Savings Bank or Eagle Financial Bancorp, Inc. followed by executive's involuntary termination other than for cause, disability or retirement, or resignation for one of the reasons set forth above, within 18 months thereafter, the executive would be entitled to a severance payment in the form of a cash lump sum equal to (a) three times (two times for Ms. Walter and Mr. Schramm) the sum of (i) the highest rate of base salary paid to the executive at any time, and (ii) the highest bonus paid to the executive with respect to the three completed fiscal years (two completed fiscal years for Ms. Walter and Mr. Schramm) prior to the change of control, plus (b) a lump sum equal to the present value of the contributions that would reasonably be expected to have been made on the executive's behalf under Eagle Savings Bank's defined contribution plans (e.g., 401(k) Plan, Employee Stock Ownership Plan) if the executive had continued working for an additional 36 months (24 months for Ms. Walter and Mr. Schramm) after termination of employment, earning the salary that would have been achieved during such period. In addition, the executive would be entitled, at no expense to the executive, to the continuation of life insurance and non-taxable medical and dental coverage until the earlier of: (i) the executive's employment by another employer whereby the executive receives substantially similar insurance coverage or (ii) for 36 months (24 months for Ms. Walter and Mr. Schramm). If such coverage is not permitted by applicable law or if providing such benefits would subject Eagle Savings Bank to penalties, the executive will receive a cash lump sum payment equal to the value of such benefits. In the event payments made to the executive include an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code, such payments will be cutback by the minimum dollar amount necessary to avoid this result.

Under the employment agreement, if the executive becomes disabled within the meaning of such term under Section 409A of the Internal Revenue Code, the executive will receive benefits under any short-term or long-term disability plans maintained by Eagle Savings Bank, plus, if amount paid under such disability programs are less than the executive's base salary, Eagle Savings Bank will pay the executive an additional amount equal to the difference between such disability plan benefits and the amount of the executive's full base salary for the longer of one year or the remaining term of the employment agreement following the termination of employment due to disability. Eagle Savings Bank will also provide the executive with



continued life insurance and non-taxable medical and dental coverage until the earlier of (i) the date the executive returns to full-time employment with Eagle Savings Bank, (ii) the executive's full-time employment with another employer, (iii) the expiration of the remaining term of the employment agreement, or (iv) death.

Upon termination of the executive's employment, the executive will be subject to certain restrictions on his ability to compete for six months, or to solicit business or employees of Eagle Savings Bank and Eagle Financial Bancorp, Inc. for a period of one year following termination of employment. The non-competition provision does not apply if a termination of employment occurs following a change in control.

**Supplemental Executive Retirement Plan.** Eagle Savings Bank adopted a Supplemental Executive Retirement Plan effective as of January 1, 2010 (the "SERP"). Mr. Koester and Mr. Schramm are participants in the Plan and each executive entered into a participation agreement evidencing his or her participation in the plan. Under the Plan, which is a nonqualified deferred compensation plan subject to Section 409A of the Internal Revenue Code, the executive is entitled to receive a benefit equal to 45% of the executive's final average salary (as defined in the SERP) payable for 15 years following a termination of employment on or after age 66, with the benefit paid in monthly installments. For Mr. Schramm, the annual benefit is subject to a ten-year vesting schedule, with zero percent vesting in the first five years, 20% vesting after six years, and 20% thereafter for each additional year of service. Mr. Koester is one-hundred percent vested in the benefit. If the executive terminates employment prior to age 66 (other than due to disability or following a change in control), the executive will be entitled to receive a lump sum payment equal to his vested accrued benefit liability (as defined in the SERP) within 90 days following the date of termination. The agreement also provides a benefit in the event of the executive's disability or upon the occurrence of a change in control.

**401(k) Plan.** Eagle Savings Bank maintains the Eagle Savings Bank 401(k) Profit Sharing Plan and Trust, a tax-qualified defined contribution plan for eligible employees (the "401(k) Plan") effective as of January 1, 1993. Mr. Koester, Mr. Schramm and Ms. Walter are eligible to participate in the 401(k) Plan just like any other employee. An employee must attain age 21 and complete one year of service to be eligible to participate in the 401(k) Plan. Under the 401(k) Plan a participant may elect to defer, on a pre-tax basis, the maximum amount as permitted by the Internal Revenue Code. For 2017, the salary deferral contribution limit is \$18,000, provided, however, that a participant over age 50 may contribute an additional \$6,000 to the 401(k) Plan for a total of \$24,000. In addition to salary deferral contributions, Eagle Savings Bank may make discretionary matching and profit sharing contributions. A participant is always 100% vested in his or her salary deferral contributions and a participant will become vested in employer matching contributions at a rate of 20% per year, beginning with two years of vesting service, and the participant will become 100% vested over a six-year period. Generally, unless the participant elects otherwise, the participant's account balance will be distributed as a result of a participant's termination of employment with Eagle Financial Bancorp, Inc.

**Employee Stock Ownership Plan.** Eagle Financial Bancorp, Inc. adopted an employee stock ownership plan for eligible employees. Eagle Financial Bancorp, Inc.'s named executive officers are eligible to participate in the employee stock ownership plan just like any other employee. Eligible employees who have attained age 21 and were employed by us as of January 1, 2017 will begin participation in the employee stock ownership plan on the later of the effective date of the employee stock ownership plan or upon the first entry date commencing on or after the eligible employee's completion of 1,000 hours of service during a continuous 12-month period.

The employee stock ownership plan trustee purchased, on behalf of the employee stock ownership plan, 129,024 shares of Eagle Financial Bancorp, Inc. common stock in the conversion. The employee stock ownership plan funded its stock purchase with a loan from Eagle Financial Bancorp, Inc. equal to the aggregate purchase price of the common stock. The loan will be repaid principally through Eagle Financial Bancorp, Inc.'s contributions to the employee stock ownership plan and dividends payable on common stock held by the employee stock ownership plan over the 20-year term of the loan. The annual interest rate on the loan to the employee stock ownership plan is a fixed rate of 4.25%, which was the prime rate as published in the Wall Street Journal on July 20, 2017, the day the Company's offering was completed.

The trustee holds the shares purchased by the employee stock ownership plan in an unallocated suspense account, and shares are released from the suspense account on a pro-rata basis as we repay the loan. The trustee allocates the shares released among participants on the basis of each participant's proportional share of compensation relative to all participants. A participant will become vested in his or her account balance at a rate of 20% per year, beginning with two years of vesting service, and the participant will become 100% vested over a six-year period. Participants who were employed by Eagle Financial Bancorp, Inc. immediately prior to the offering will receive credit for vesting purposes for years of service prior to adoption of the employee stock ownership plan. Participants also will become fully vested automatically upon normal retirement, death or disability, a change in control, or termination of the employee stock ownership plan. Generally, participants will receive distributions from the employee stock ownership plan upon separation from service. The employee stock ownership plan reallocates any unvested shares forfeited upon termination of employment among the remaining participants.

The employee stock ownership plan permits participants to direct the trustee as to how to vote the shares of common stock allocated to their accounts. The trustee votes unallocated shares and allocated shares for which participants do not provide instructions on any matter in the same ratio as those shares for which participants provide instructions, subject to fulfillment of the trustee's fiduciary responsibilities.

Under applicable accounting requirements, Eagle Financial Bancorp, Inc. will record a compensation expense for the employee stock ownership plan at the fair market value of the shares as they are committed to be released from the unallocated suspense account to participants' accounts, which may be more or less than the original issue price. The compensation expense resulting from the release of the common stock from the suspense account and allocation to plan participants will result in a corresponding reduction in Eagle Financial Bancorp, Inc.'s earnings.

### Director Compensation

The following table sets forth for the year ended December 31, 2017 certain information as to the total remuneration we paid to our directors other than Gary J. Koester. Information with respect to director fees paid to Mr. Koester is included above in "Executive Officer Compensation – Summary Compensation Table."

Name	Fees earned or paid in cash (\$)	All Other Compensation (\$)	Total (\$)
Steven J. Dulle . . . . .	24,000	—	24,000
James W. Braun . . . . .	34,000	—	34,000
Guy W. Cagney . . . . .	24,000	—	24,000
Steven C. Kehoe . . . . .	24,000	—	24,000
Adam B. Goetzman . . . . .	24,000	—	24,000

### Director Fees

Directors earn an annual fee and no additional fees, such as meeting or committee fees, are paid. For the year ended December 31, 2017, each director was paid an annual fee of \$24,000. The Chairman of the Board, Mr. Braun, receives an additional \$10,000 annual fee.

### Director Plan

**Supplemental Director Retirement Plan.** Eagle Savings Bank adopted a Supplemental Executive Retirement Plan effective as of January 1, 2010 (the "Director Plan"). Mr. Braun, Mr. Cagney, Mr. Dulle, Mr. Goetzman, Mr. Kehoe and Mr. Koester are participants in the Plan and each director entered into a participation agreement evidencing his and her participation in the plan. Under the Plan, which is a nonqualified deferred compensation plan subject to Section 409A of the Internal Revenue Code, the director is entitled to receive to \$1,000 for each year of service payable for 5 years following a separation from service on or after age 70, with the benefit paid in monthly installments. The annual benefit is subject to a ten-year vesting schedule, with zero percent vesting in the first five years, 20% vesting after six years,

and 20% thereafter for each additional year of service. If a director terminates employment prior to age 70 (other than due to disability or following a change in control), the director will be entitled to receive a lump sum payment equal to the vested accrued benefit liability (as defined in the Director Plan) within 90 days from the director's separation from service. The agreement also provides a benefit in the event of the director's death, disability or upon the occurrence of a change in control.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Persons and groups who beneficially own in excess of five percent of the common stock are required to file certain reports with the Securities and Exchange Commission regarding such ownership. The following table sets forth, as of March 23, 2018, the shares of common stock beneficially owned by executive officers and directors as a group, and persons who were the beneficial owners of more than five percent of our outstanding shares of common stock. Information regarding the common stock ownership of each director and executive officer individually is set forth above under Item 10. This information is based solely upon information supplied to us and the filings required pursuant to the Securities Exchange Act of 1934.

Name and Address of Beneficial Owners	Amount of Shares Owned and Nature of Beneficial Ownership <sup>(1)</sup>	Percent of Shares of Common Stock Outstanding
Eagle Savings Bank ESOP . . . . .	129,024	8.0%
All Directors and Executive Officers as a Group (9 persons) . . . . .	207,470	12.9%

(1) In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner for purposes of this table, of any shares of common stock if he has shared voting or investment power with respect to such security, or has a right to acquire beneficial ownership at any time within 60 days from the Record Date. As used herein, "voting power" is the power to vote or direct the voting of shares and "investment power" is the power to dispose or direct the disposition of shares. Includes all shares held directly as well as by spouses and minor children, in trust and other indirect ownership, over which shares the named individuals effectively exercise sole or shared voting and investment power.

**ITEM 13. Certain Relationships and Related Transactions and Director Independence**

**Transactions With Certain Related Persons.**

**Loans and Extensions of Credit.** The Sarbanes-Oxley Act of 2002 generally prohibits publicly traded companies from making loans to their executive officers and directors, but it contains a specific exemption from such prohibition for loans made by federally insured financial institutions, such as Eagle Savings Bank, to their executive officers and directors in compliance with federal banking regulations. At December 31, 2017, total outstanding loans to directors and executive officers totaled \$23,000, with an additional \$27,000 in available credit on such loans. At December 31, 2017, all of our loans to directors and executive officers were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Eagle Savings Bank, and did not involve more than the normal risk of collectability or present other unfavorable features. These loans were performing according to their original terms at December 31, 2017, and were made in compliance with federal banking regulations.

**Board Independence**

Nasdaq Stock Market Rules require (a) that we have a majority of independent directors on the Board, (b) any compensation committee and nominating committee to be composed solely of independent directors, (c) the compensation of executive officers being determined by a majority of the independent directors or a compensation committee composed solely of independent directors, and (d) the election or recommendation of director nominees for the Board's selection, either by a majority of the independent directors or a nominating committee composed solely of independent directors.

The board of directors has determined that each of our directors, with the exception of President and Chief Executive Officer Gary Koester, is “independent” as defined in the listing standards of the Nasdaq Stock Market. Mr. Koester is not independent because he is one of our executive officers.

#### **ITEM 14. Principal Accountant Fees and Services**

**Audit Fees.** The aggregate fees billed to us for professional services rendered for the audit of our annual consolidated financial statements, review of the consolidated financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided in connection with our engagement were \$92,663 and \$48,500 during the years ended December 31, 2017 and 2016, respectively.

**Audit Related Fees.** During the year ended December 31, 2017 audit-related fees of \$125,840 were billed, all of which consisted of fees for services related to the mutual-to-stock conversion of Eagle Savings Bank and our stock offering, including review of the registration statement and prospectus, the issuance of consents, participation in drafting sessions, the preparation of accounting opinions, assistance with responses to regulatory accounting comments and the preparation of a comfort letter. During the year ended December 31, 2016, no audit-related fees were billed.

**Tax Fees.** The aggregate fees billed to us for professional services rendered for tax preparation, tax consultation and tax compliance were \$19,400 and \$6,700 during the years ended December 31, 2017 and 2016, respectively.

**All Other Fees.** There were no other fees billed during the years ended December 31, 2017 and 2016, respectively.

#### **Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm**

The Audit Committee has considered whether the provision of non-audit services, which relate primarily to tax compliance services and tax advice rendered and services performed in connection with the mutual-to-stock conversion of Eagle Savings Bank and our related stock offering, was compatible with maintaining the independence of BKD, LLP. The Audit Committee concluded that performing such services did not affect the independence of BKD, LLP in performing its function as our independent registered public accounting firm.

The Audit Committee’s policy is to pre-approve all audit and non-audit services provided by the independent registered public accounting firm, either by approving an engagement prior to the engagement or pursuant to a pre-approval policy with respect to particular services. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may delegate pre-approval authority to one or more members of the Audit Committee when expedition of services is necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The audit-related fees and all other fees described above were approved as part of our engagement of BKD, LLP.

## PART IV

### ITEM 15. Exhibits and Financial Statement Schedules

#### (a)(1) Financial Statements

The documents filed as a part of this Form 10-K are:

- (A) Report of Independent Registered Public Accounting Firm;
- (B) Consolidated Balance Sheets — December 31, 2017 and 2016;
- (C) Consolidated Statements of Income — years ended December 31, 2017 and 2016;
- (D) Consolidated Statements of Retained Earnings — years ended December 31, 2017 and 2016;
- (E) Consolidated Statements of Cash Flows — years ended December 31, 2017 and 2016; and
- (F) Notes to Consolidated Financial Statements.

#### (a)(2) Financial Statement Schedules

None.

#### (a)(3) Exhibits

- 3.1 Articles of Incorporation of Eagle Financial Bancorp, Inc.<sup>(1)</sup>
- 3.2 Bylaws of Eagle Financial Bancorp, Inc.<sup>(2)</sup>
- 4 Form of Common Stock Certificate of Eagle Financial Bancorp, Inc.<sup>(3)</sup>
- 10.1 Form of Employment Agreement between Eagle Savings Bank and Gary J. Koester<sup>(4)</sup>
- 10.2 Form of Employment Agreement between Eagle Savings Bank and certain officers<sup>(5)</sup>
- 10.3 Form of Eagle Savings Bank Amended and Restated Supplemental Executive Retirement Plan<sup>(6)</sup>
- 10.4 Form of Eagle Savings Bank Amended and Restated Supplemental Director Retirement Plan<sup>(7)</sup>
- 21 Subsidiaries of Registrant<sup>(8)</sup>
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2017 and 2016, (ii) the Consolidated Statements of Income for the years ended December 31, 2017 and 2016, (iii) the Consolidated Statements of Retained Earnings for the years ended December 31, 2017 and 2016, (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016, and (v) the notes to the Consolidated Financial Statements

- 
- (1) Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 9, 2017 (File No. 333-216576).
  - (2) Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 9, 2017 (File No. 333-216576).
  - (3) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 9, 2017 (File No. 333-216576).

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- (8) Incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 9, 2017 (File No. 333-216576).

**ITEM 16. Form 10-K Summary**

None.

## Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **Eagle Financial Bancorp, Inc.**

Date: March 23, 2018

By: /s/ Gary J. Koester

\_\_\_\_\_  
Gary J. Koester  
President and Chief Executive Officer  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange 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.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Gary J. Koester</u> Gary J. Koester	President, Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2018
<u>/s/ Kevin R. Schramm</u> Kevin R. Schramm	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 23, 2018
<u>/s/ James W. Braun</u> James W. Braun	Chairman of the Board	March 23, 2018
<u>/s/ Guy W. Cagney</u> Guy W. Cagney	Director	March 23, 2018
<u>/s/ Steven J. Dulle</u> Steven J. Dulle	Director	March 23, 2018
<u>/s/ Adam B. Goetzman</u> Adam B. Goetzman	Director	March 23, 2018
<u>/s/ Steven C. Kehoe</u> Steven C. Kehoe	Director	March 23, 2018

## EXHIBIT INDEX

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### **Eagle Savings Bank**

- ★ Main Office - Bridgetown**  
6415 Bridgetown Road  
Cincinnati, Ohio
- 2 Delhi**  
5681 Rapid Run Road  
Cincinnati, Ohio
- 3 Hyde Park**  
3420 Edwards Road  
Cincinnati, Ohio

