

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2019

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 No. 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 No.)

6415 Bridgetown Road, Cincinnati, OH 45248

(Address of principal executive office)

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

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

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$0.01 per share	EFBI	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>		
Smaller reporting company	<input checked="" type="checkbox"/>		
Emerging growth company	<input checked="" type="checkbox"/>		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 1,606,058 shares of the Registrant's common stock issued and outstanding as of November 8, 2019.

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**Part I. Financial Information**

**Item 1. Financial Statements**

**Eagle Financial Bancorp, Inc.  
Condensed Consolidated Balance Sheets  
September 30, 2019 (Unaudited) and December 31, 2018  
(Amounts in thousands, except share and per share data)**

	September 30, 2019	December 31, 2018
<b>Assets</b>		
Cash and due from banks	\$ 384	\$ 471
Federal Reserve Bank and Federal Home Loan Bank (FHLB) demand accounts	8,399	6,963
Cash and cash equivalents	8,783	7,434
Interest-bearing time deposits in other banks	2,988	3,486
Loans held for sale	9,948	1,827
Loans, net of allowance for loan losses of \$1,161 and \$1,187 at September 30, 2019 and December 31, 2018, respectively	109,249	113,317
Premises and equipment - at depreciated cost	4,109	4,210
FHLB stock - at cost	816	754
Foreclosed assets held for sale, net	-	217
Bank-owned life insurance (BOLI)	1,993	1,958
FHLB lender risk account receivable	3,464	3,377
Accrued interest receivable	343	354
Prepaid federal income taxes	102	-
Other assets	513	151
<b>Total assets</b>	<b>\$ 142,308</b>	<b>\$ 137,085</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 6,346	\$ 5,878
Interest-bearing	105,319	100,491
Total deposits	111,665	106,369
Advances from borrowers for taxes and insurance	580	950
Accrued interest payable	2	1
Accrued supplemental retirement plans	1,464	1,301
Accrued federal income tax	-	182
Deferred federal tax liability	15	131
Other liabilities	712	377
<b>Total liabilities</b>	<b>114,438</b>	<b>109,311</b>
<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 at September 30, 2019 and December 31, 2018; issued 1,654,758 at September 30, 2019 and December 31, 2018; outstanding 1,612,158 at September 30, 2019 and 1,649,758 at December 31, 2018	16	16
Additional paid-in capital	14,374	14,758
Retained earnings	14,593	14,161
Unearned Employee Stock Ownership Plan ("ESOP") shares	(1,113)	(1,161)
<b>Total shareholders' equity</b>	<b>27,870</b>	<b>27,774</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 142,308</b>	<b>\$ 137,085</b>

See accompanying notes to condensed consolidated financial statements.

**Eagle Financial Bancorp, Inc.**  
**Condensed Consolidated Statements of Income and Comprehensive Income**  
**Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
(Amounts in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Interest and Dividend Income</b>				
Interest earned on loans	\$ 1,268	\$ 1,228	\$ 3,852	\$ 3,487
Dividends on FHLB stock	11	12	33	34
Other interest-earning deposits	81	52	192	171
Total interest and dividend income	<u>1,360</u>	<u>1,292</u>	<u>4,077</u>	<u>3,692</u>
<b>Interest Expense</b>				
Interest on deposits	302	202	805	556
FHLB advances	-	-	1	-
Total interest expense	<u>302</u>	<u>202</u>	<u>806</u>	<u>556</u>
<b>Net Interest Income</b>	1,058	1,090	3,271	3,136
<b>Provision for Loan Losses</b>	-	99	-	99
<b>Net Interest Income After Provision for Loan Losses</b>	<u>1,058</u>	<u>991</u>	<u>3,271</u>	<u>3,037</u>
<b>Noninterest Income</b>				
Net gains on loan sales	802	430	1,627	1,195
Other service charges and fees	116	51	200	142
Gain on sale of foreclosed real estate	-	-	28	-
Income from BOLI	11	12	35	35
Total noninterest income	<u>929</u>	<u>493</u>	<u>1,890</u>	<u>1,372</u>
<b>Noninterest Expense</b>				
Compensation and benefits	1,117	837	3,138	2,575
Occupancy and equipment, net	62	62	187	184
Data processing	78	74	237	227
Legal and professional services	94	113	261	266
FDIC premium expense	9	10	17	30
Foreclosed real estate impairments and expenses, net	-	6	21	6
Franchise and other taxes	55	60	167	160
Advertising	41	38	76	78
ATM processing expense	22	22	68	62
Other expenses	160	161	428	462
Total noninterest expense	<u>1,638</u>	<u>1,383</u>	<u>4,600</u>	<u>4,050</u>
<b>Income Before Income Taxes</b>	<u>349</u>	<u>101</u>	<u>561</u>	<u>359</u>
<b>Income Taxes</b>				
Provision for Income taxes	79	22	129	68
Total income taxes	<u>79</u>	<u>22</u>	<u>129</u>	<u>68</u>
<b>Net Income and Comprehensive Income</b>	<u>\$ 270</u>	<u>\$ 79</u>	<u>\$ 432</u>	<u>\$ 291</u>
<b>Earnings per share - basic</b>	<u>\$ 0.18</u>	<u>\$ 0.05</u>	<u>\$ 0.28</u>	<u>\$ 0.19</u>
<b>Earnings per share - diluted</b>	<u>\$ 0.18</u>	<u>\$ 0.05</u>	<u>\$ 0.28</u>	<u>\$ 0.19</u>
<b>Weighted-average shares outstanding - basic</b>	<u>1,486,647</u>	<u>1,494,487</u>	<u>1,487,604</u>	<u>1,492,906</u>
<b>Weighted-average shares outstanding - diluted</b>	<u>1,486,647</u>	<u>1,494,487</u>	<u>1,487,604</u>	<u>1,492,906</u>

See accompanying notes to condensed consolidated financial statements.

**Eagle Financial Bancorp, Inc.**  
**Condensed Consolidated Statements of Shareholders' Equity**  
**Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
**(Amounts in thousands, except share and per share data)**

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Total
<b>For the three months ended September 30, 2019</b>					
Balance at July 1, 2019	\$ 16	\$ 14,757	\$ 14,323	\$ (1,129)	\$ 27,967
Net income	-	-	270	-	270
ESOP shares earned	-	9	-	16	25
Stock based compensation expense	-	62	-	-	62
Repurchase of common stock	-	(454)	-	-	(454)
Balance at September 30, 2019	<u>\$ 16</u>	<u>\$ 14,374</u>	<u>\$ 14,593</u>	<u>\$ (1,113)</u>	<u>\$ 27,870</u>
<b>For the nine months ended September 30, 2019</b>					
Balance at January 1, 2019	\$ 16	\$ 14,758	\$ 14,161	\$ (1,161)	\$ 27,774
Net income	-	-	432	-	432
ESOP shares earned	-	27	-	48	75
Stock based compensation expense	-	185	-	-	185
Repurchase of common stock	-	(596)	-	-	(596)
Balance at September 30, 2019	<u>\$ 16</u>	<u>\$ 14,374</u>	<u>\$ 14,593</u>	<u>\$ (1,113)</u>	<u>\$ 27,870</u>
<b>For the three months ended September 30, 2018</b>					
Balance at July 1, 2018	\$ 16	\$ 14,749	\$ 14,029	\$ (1,193)	\$ 27,601
Net income	-	-	79	-	79
ESOP shares earned	-	10	-	16	26
Stock based compensation expense	-	6	-	-	6
Balance at September 30, 2018	<u>\$ 16</u>	<u>\$ 14,765</u>	<u>\$ 14,108</u>	<u>\$ (1,177)</u>	<u>\$ 27,712</u>
<b>For the nine months ended September 30, 2018</b>					
Balance at January 1, 2018	\$ 16	\$ 14,730	\$ 13,817	\$ (1,226)	\$ 27,337
Net income	-	-	291	-	291
ESOP shares earned	-	29	-	49	78
Stock based compensation expense	-	6	-	-	6
Balance at September 30, 2018	<u>\$ 16</u>	<u>\$ 14,765</u>	<u>\$ 14,108</u>	<u>\$ (1,177)</u>	<u>\$ 27,712</u>

See accompanying notes to condensed consolidated financial statements.

**Eagle Financial Bancorp, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
**(Amounts in thousands, except share and per share data)**

	Nine Months Ended September 30,	
	2019	2018
<b>Operating Activities</b>		
Net income	\$ 432	\$ 291
Items not requiring (providing) cash:		
Depreciation and amortization	150	191
Proceeds on sale of loans in the secondary market	55,028	42,740
Loans originated for sale in the secondary market	(61,522)	(40,437)
Gain on sale of loans	(1,627)	(1,195)
ESOP compensation expense	75	78
Stock based compensation expense	185	6
Provision for loan losses	-	99
(Gain) Loss on sale of foreclosed real estate	(28)	-
Deferred federal tax liability	(116)	-
Increase in cash surrender value of BOLI	(35)	(35)
Changes in:		
FHLB lender risk account receivable	(87)	(110)
Accrued interest receivable and interest payable	12	(67)
Other assets and prepaid federal income taxes	(646)	3
Accrued supplemental retirement plans	163	166
Accrued expenses and other liabilities	335	195
Net cash flows (used in) provided by operating activities	<u>(7,681)</u>	<u>1,925</u>
<b>Investing Activities</b>		
Net decrease in interest-bearing time deposits in other banks	498	846
Net decrease (increase) in loans	4,067	(14,649)
Purchase of FHLB stock	(62)	(18)
Purchase of premises and equipment	(48)	(53)
Proceeds from sale of foreclosed real estate	245	46
Net cash provided by (used in) investing activities	<u>4,700</u>	<u>(13,828)</u>
<b>Financing Activities</b>		
Net increase in deposits	5,296	6,254
Repayment of FHLB advances	-	(9)
Repurchase of common stock	(596)	-
Net decrease in advances from borrowers for taxes and insurance	(370)	(244)
Net cash provided by financing activities	<u>4,330</u>	<u>6,001</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>1,349</u>	<u>(5,902)</u>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>7,434</u>	<u>15,350</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 8,783</u>	<u>\$ 9,448</u>
<b>Supplemental Cash Flows Information:</b>		
Interest paid	\$ 805	\$ 556
Income taxes paid	528	45
Transfers to foreclosed assets held for sale	-	263

See accompanying notes to condensed consolidated financial statements.

**Eagle Financial Bancorp, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2019 (Unaudited) and December 31, 2018**  
**Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
**(Amounts in thousands, except share and per share data)**

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

**General**

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 savings and loan 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 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 (a "subaccount") in the event of a complete liquidation of the Bank, and only in such event. The value of this subaccount is subject to an annual decrease based on decreases in the eligible account holder's or supplemental account holder's deposit balance, 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 is subject to certain laws and regulations that may restrict the payout of dividends by the holding company and 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.

**Basis of Presentation and Consolidation**

The condensed consolidated financial statements as of September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018, include Eagle Financial Bancorp, Inc. and the Bank, its wholly owned subsidiary. Intercompany transactions and balances have been eliminated in consolidation.

**Eagle Financial Bancorp, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2019 (Unaudited) and December 31, 2018**  
**Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
**(Amounts in thousands, except share and per share data)**

The accompanying condensed balance sheet of the Company as of December 31, 2018, which has been derived from audited financial statements, and unaudited condensed financial statements of the Company as of September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018, were prepared in accordance with instructions for Form 10-Q and Article 8-03 of Regulation S-X and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in accounting principles generally accepted in the United States of America. Accordingly, these condensed financial statements should be read in conjunction with the financial statements and notes thereto of the Company for the year ended December 31, 2018 included in the Registrant's Form 10-K (the "Form 10-K"). Reference is made to the accounting policies of the Company described in the Notes to Financial Statements contained in the Form 10-K.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair presentation of the unaudited condensed financial statements as of September 30, 2019 and the results of operations and cash flows for the three and nine months ended September 30, 2019 and 2018. All interim amounts have not been audited and the results of operations for the three and nine months ended September 30, 2019 and 2018, herein are not necessarily indicative of the results of operations to be expected for the entire year.

**Revenue Recognition**

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, as well as revenue related to our mortgage banking activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures.

Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income are as follows:

Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

**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.



**Eagle Financial Bancorp, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2019 (Unaudited) and December 31, 2018**  
**Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
**(Amounts in thousands, except share and per share data)**

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

**Revisions**

Certain immaterial revisions have been made to the 2018 financial statements related to the presentation of common stock repurchased by the Company. These revisions did not have a significant impact on the financial statement line items impacted.

**Recently Adopted Accounting Pronouncements**

ASU No. 2016-01 was issued in January 2016 and applies to all entities that hold financial assets or owe 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 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 instruments 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 annual periods and interim periods within those periods, beginning after December 15, 2018. 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 Company has adopted ASU 2016-01 on January 1, 2019 and it did not have a material effect on its fair value disclosures and other disclosure requirements. These amendments did have an impact on certain items that were disclosed at fair value that did not utilize the exit price notion when measuring fair value. For additional information on fair value of assets and liabilities, see Note 7.

In May 2014, the FASB issued ASU No. 2014-09 “*Revenue from Contracts with Customers (Topic 606)*” (ASU 2014-09). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. 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 or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. Originally, the amendments in ASU 2014-09 were effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early application is not allowed. In July 2015, the FASB extended the implementation date to annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period. Transitional guidance is included in the update. Earlier adoption is permitted only as of annual reporting periods beginning after December 31, 2016, including interim periods within that reporting period.

**Eagle Financial Bancorp, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2019 (Unaudited) and December 31, 2018**  
**Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
**(Amounts in thousands, except share and per share data)**

The Company's revenue is comprised of net interest income, which is explicitly excluded from the scope of ASU 2014-09, and non- interest income. The Company has adopted ASU 2014-09 on January 1, 2019 and it did not identify any changes in the timing of revenue recognition when considering the amended accounting guidance. The Company included additional disclosures beginning in the first quarter of 2019 as required by the guidance.

**Note 2: Earnings Per Common Share**

Basic earnings per common share ("EPS") allocated to common shareholders is calculated using the two-class method and is computed by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period. Unallocated common shares held by the Company's Employee Stock Ownership Plan ("the ESOP") are shown as a reduction in stockholder's equity and are excluded from weighted-average common shares outstanding for both basic and diluted EPS calculations until they are committed to be released. Diluted earnings per share is adjusted for the dilutive effects of stock-based compensation and is calculated using the two-class method or the treasury method. There were no dilutive effects at September 30, 2019 or 2018.

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share:

	<b>Three months ended September 30, 2019</b>	<b>Three months ended September 30, 2018</b>	<b>Nine months ended September 30, 2019</b>	<b>Nine months ended September 30, 2018</b>
Net Income	\$ 270	\$ 79	\$ 432	\$ 291
Less allocation of earnings to participating securities	7	-	12	-
Net income allocated to common shareholders	\$ 263	\$ 79	\$ 420	\$ 291
Shares Outstanding for basic earnings per common share:				
Weighted Average shares outstanding:	1,600,080	1,612,808	1,601,844	1,612,808
Less: Average Unearned ESOP shares:	113,433	118,321	114,240	119,902
Weighted average number of shares outstanding used in the calculation of basic earnings per common share	1,486,647	1,494,487	1,487,604	1,492,906
Basic earnings per common share:	\$ 0.18	\$ 0.05	\$ 0.28	\$ 0.19
Effect of dilutive securities:				
Stock Options	-	-	-	-
Weighted average number of shares outstanding used in the calculation of dilutive earnings per common share	1,486,647	1,494,487	1,487,604	1,492,906
Diluted earnings per common share:	\$ 0.18	\$ 0.05	\$ 0.28	\$ 0.19

**Eagle Financial Bancorp, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2019 (Unaudited) and December 31, 2018**  
**Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)**  
**(Amounts in thousands, except share and per share data)**

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

The composition of the loan portfolio at September 30, 2019 and December 31, 2018 was as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Residential mortgage loans	\$ 60,253	\$ 67,169
Commercial real estate and land loans	21,143	17,587
Home equity and other consumer	10,163	13,773
Residential construction loans	13,418	11,756
Residential mortgage loans, non-owner occupied	5,938	6,464
Multi-family real estate loans	1,122	1,185
Commercial loans	5,926	6,041
	<u>117,963</u>	<u>123,975</u>
Net deferred loan costs	6	14
Loans in process	(7,559)	(9,485)
Allowance for loan losses	<u>(1,161)</u>	<u>(1,187)</u>
Net loans	<u>\$ 109,249</u>	<u>\$ 113,317</u>

Loans serviced for the benefit of others at September 30, 2019 and December 31, 2018 amounted to \$1,678 and \$1,816, 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. Credit risk in these loans can be impacted by economic conditions within the Bank'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.

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**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 Bank'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 Bank'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 for the three and nine months ended September 30, 2019 and 2018 and year ended December 31, 2018:

Nine Months Ended September 30, 2019 (Unaudited)	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	\$ 409	\$ 260	\$ 313	\$ 128	\$ 42	\$ 14	\$ 21	\$ 1,187
Provision charged (credited) to expense	(76)	91	(39)	32	(7)	-	(1)	-
Losses charged off	-	-	(39)	-	-	-	-	(39)
Recoveries	12	-	-	-	1	-	-	13
Balance, end of period	<u>\$ 345</u>	<u>\$ 351</u>	<u>\$ 235</u>	<u>\$ 160</u>	<u>\$ 36</u>	<u>\$ 14</u>	<u>\$ 20</u>	<u>\$ 1,161</u>
Ending balance: individually evaluated for impairment	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>
Ending balance: collectively evaluated for impairment	<u>\$ 344</u>	<u>\$ 351</u>	<u>\$ 235</u>	<u>\$ 160</u>	<u>\$ 36</u>	<u>\$ 14</u>	<u>\$ 20</u>	<u>\$ 1,160</u>
<b>Loans:</b>								
Ending balance	<u>\$ 60,253</u>	<u>\$ 21,143</u>	<u>\$ 10,163</u>	<u>\$ 13,418</u>	<u>\$ 5,938</u>	<u>\$ 1,122</u>	<u>\$ 5,926</u>	<u>\$ 117,963</u>
Ending balance: individually evaluated for impairment	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ 183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 295</u>
Ending balance: collectively evaluated for impairment	<u>\$ 60,181</u>	<u>\$ 21,143</u>	<u>\$ 10,123</u>	<u>\$ 13,418</u>	<u>\$ 5,755</u>	<u>\$ 1,122</u>	<u>\$ 5,926</u>	<u>\$ 117,668</u>
Three Months Ended September 30, 2019 (Unaudited)	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 period	\$ 377	\$ 295	\$ 266	\$ 138	\$ 46	\$ 14	\$ 20	\$ 1,156
Provision charged (credited) to expense	(37)	56	(31)	22	(10)	-	-	-
Losses charged off	-	-	-	-	-	-	-	-
Recoveries	5	-	-	-	-	-	-	5
Balance, end of period	<u>\$ 345</u>	<u>\$ 351</u>	<u>\$ 235</u>	<u>\$ 160</u>	<u>\$ 36</u>	<u>\$ 14</u>	<u>\$ 20</u>	<u>\$ 1,161</u>

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Nine Months Ended September 30, 2018 (Unaudited)	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	\$ 283	\$ 199	\$ 276	\$ 116	\$ 122	\$ 25	\$ 160	\$ 1,181
Provision charged (credited) to expense	148	118	30	(6)	(44)	(11)	(136)	99
Losses charged off	(35)	(68)	-	-	-	-	-	(103)
Recoveries	11	-	-	-	1	-	-	12
Balance, end of period	<u>\$ 407</u>	<u>\$ 249</u>	<u>\$ 306</u>	<u>\$ 110</u>	<u>\$ 79</u>	<u>\$ 14</u>	<u>\$ 24</u>	<u>\$ 1,189</u>
<b>Three Months Ended September 30, 2018 (Unaudited)</b>								
<b>Allowance for loan losses:</b>								
Balance, beginning of period	\$ 422	\$ 205	\$ 304	\$ 117	\$ 85	\$ 14	\$ 20	\$ 1,167
Provision charged (credited) to expense	(6)	112	2	(7)	(6)	-	4	99
Losses charged off	(13)	(68)	-	-	-	-	-	(81)
Recoveries	4	-	-	-	-	-	-	4
Balance, end of period	<u>\$ 407</u>	<u>\$ 249</u>	<u>\$ 306</u>	<u>\$ 110</u>	<u>\$ 79</u>	<u>\$ 14</u>	<u>\$ 24</u>	<u>\$ 1,189</u>
<b>Year Ended December 31, 2018</b>								
<b>Allowance for loan losses:</b>								
Balance, beginning of year	\$ 283	\$ 199	\$ 276	\$ 116	\$ 122	\$ 25	\$ 160	\$ 1,181
Provision charged (credited) to expense	146	129	44	12	(82)	(11)	(139)	99
Losses charged off	(35)	(68)	(7)	-	-	-	-	(110)
Recoveries	15	-	-	-	2	-	-	17
Balance, end of year	<u>\$ 409</u>	<u>\$ 260</u>	<u>\$ 313</u>	<u>\$ 128</u>	<u>\$ 42</u>	<u>\$ 14</u>	<u>\$ 21</u>	<u>\$ 1,187</u>
Ending balance: individually evaluated for impairment	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>
Ending balance: collectively evaluated for impairment	<u>\$ 406</u>	<u>\$ 260</u>	<u>\$ 313</u>	<u>\$ 128</u>	<u>\$ 42</u>	<u>\$ 14</u>	<u>\$ 21</u>	<u>\$ 1,184</u>
<b>Loans:</b>								
Ending balance	<u>\$ 67,169</u>	<u>\$ 17,587</u>	<u>\$ 13,773</u>	<u>\$ 11,756</u>	<u>\$ 6,464</u>	<u>\$ 1,185</u>	<u>\$ 6,041</u>	<u>\$ 123,975</u>
Ending balance: individually evaluated for impairment	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 43</u>	<u>\$ -</u>	<u>\$ 190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307</u>
Ending balance: collectively evaluated for impairment	<u>\$ 67,095</u>	<u>\$ 17,587</u>	<u>\$ 13,730</u>	<u>\$ 11,756</u>	<u>\$ 6,274</u>	<u>\$ 1,185</u>	<u>\$ 6,041</u>	<u>\$ 123,668</u>

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*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 Bank 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.

**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.

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The following tables present the credit risk profile of the Bank's loan portfolio based on rating category and payment activity as of September 30, 2019 and December 31, 2018:

<b>September 30, 2019 (Unaudited)</b>	<b>Residential Mortgage Loans</b>	<b>Commercial Real Estate and Land Loans</b>	<b>Home Equity and Other Consumer</b>	<b>Residential Construction Loans</b>	<b>Residential Mortgage Loans Non-Owner Occupied</b>	<b>Multi- Family Real Estate Loans</b>	<b>Commercial Loans</b>	<b>Total</b>
Rating								
Satisfactory (5-8)	\$ 59,786	\$ 20,952	\$ 10,038	\$ 13,418	\$ 5,449	\$ 1,122	\$ 5,771	\$ 116,536
Special mention (1)	-	-	-	-	-	-	-	-
Substandard (2)	467	191	125	-	489	-	155	1,427
Doubtful (3)	-	-	-	-	-	-	-	-
Loss (4)	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 60,253</b>	<b>\$ 21,143</b>	<b>\$ 10,163</b>	<b>\$ 13,418</b>	<b>\$ 5,938</b>	<b>\$ 1,122</b>	<b>\$ 5,926</b>	<b>\$ 117,963</b>

  

<b>December 31, 2018</b>	<b>Residential Mortgage Loans</b>	<b>Commercial Real Estate and Land Loans</b>	<b>Home Equity and Other Consumer</b>	<b>Residential Construction Loans</b>	<b>Residential Mortgage Loans Non-Owner Occupied</b>	<b>Multi- Family Real Estate Loans</b>	<b>Commercial Loans</b>	<b>Total</b>
Rating								
Satisfactory (5-8)	\$ 66,074	\$ 17,390	\$ 13,552	\$ 11,756	\$ 6,442	\$ 1,185	\$ 5,868	\$ 122,267
Special mention (1)	-	-	-	-	-	-	-	-
Substandard (2)	1,095	197	221	-	22	-	173	1,708
Doubtful (3)	-	-	-	-	-	-	-	-
Loss (4)	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 67,169</b>	<b>\$ 17,587</b>	<b>\$ 13,773</b>	<b>\$ 11,756</b>	<b>\$ 6,464</b>	<b>\$ 1,185</b>	<b>\$ 6,041</b>	<b>\$ 123,975</b>

The Company evaluates the loan risk grading system definitions and allowance for loan losses methodology on an ongoing basis. No significant changes were made to either during the three and nine months ended September 30, 2019.



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The following tables present the Bank's loan portfolio aging analysis of the recorded investment in loans as of September 30, 2019 and December 31, 2018:

<b>September 30, 2019 (Unaudited)</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days Past Due or More</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans Receivable</b>	<b>Recorded Investment 90 Days and Accruing</b>
Residential mortgage loans	\$ 193	\$ -	\$ 249	\$ 442	\$ 59,811	\$ 60,253	\$ -
Commercial real estate and land loans	-	-	-	-	21,143	21,143	-
Home equity and other consumer	-	23	-	23	10,140	10,163	-
Residential construction loans	-	-	-	-	13,418	13,418	-
Residential mortgage loans, non-owner occupied	-	-	489	489	5,449	5,938	-
Multi-family real estate loans	-	-	-	-	1,122	1,122	-
Commercial loans	-	-	-	-	5,926	5,926	-
<b>Total</b>	<b>\$ 193</b>	<b>\$ 23</b>	<b>\$ 738</b>	<b>\$ 954</b>	<b>\$ 117,009</b>	<b>\$ 117,963</b>	<b>\$ -</b>

<b>December 31, 2018</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days Past Due or More</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans Receivable</b>	<b>Recorded Investment 90 Days and Accruing</b>
Residential mortgage loans	\$ 86	\$ -	\$ 362	\$ 448	\$ 66,721	\$ 67,169	\$ -
Commercial real estate and land loans	-	-	-	-	17,587	17,587	-
Home equity and other consumer	37	18	71	126	13,647	13,773	-
Residential construction loans	-	-	-	-	11,756	11,756	-
Residential mortgage loans, non-owner occupied	493	-	-	493	5,971	6,464	-
Multi-family real estate loans	-	-	-	-	1,185	1,185	-
Commercial loans	125	-	-	125	5,916	6,041	-
<b>Total</b>	<b>\$ 741</b>	<b>\$ 18</b>	<b>\$ 433</b>	<b>\$ 1,192</b>	<b>\$ 122,783</b>	<b>\$ 123,975</b>	<b>\$ -</b>

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 Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

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The following tables present impaired loans at September 30, 2019, September 30, 2018 and as of December 31, 2018:

	As of September 30, 2019			For the Three Months Ended September 30, 2019		For the Nine Months Ended September 30, 2019	
	Recorded Balance	Unpaid Principal Balance	Allocated Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	<b>Loans without an allocated allowance:</b>						
Residential mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate and land loans	-	-	-	-	-	-	-
Home equity and other consumer	40	40	-	40	-	41	1
Residential construction loans	-	-	-	-	-	-	-
Residential mortgage loans, non-owner occupied	183	183	-	184	3	186	9
Multi-family real estate loans	-	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-	-
<b>Loans with an allocated allowance:</b>							
Residential mortgage loans	72	72	1	72	1	73	3
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	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 295</b>	<b>\$ 295</b>	<b>\$ 1</b>	<b>\$ 296</b>	<b>\$ 4</b>	<b>\$ 300</b>	<b>\$ 13</b>

	As of September 30, 2018			For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Recorded Balance	Unpaid Principal Balance	Allocated Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	<b>Loans without an allocated allowance:</b>						
Residential mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate and land loans	-	-	-	113	-	144	-
Home equity and other consumer	11	11	-	11	-	11	-
Residential construction loans	-	-	-	-	-	-	-
Residential mortgage loans, non-owner occupied	191	191	-	192	3	193	8
Multi-family real estate loans	-	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-	-
<b>Loans with an allocated allowance:</b>							
Residential mortgage loans	75	75	4	75	1	112	3
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	-	-	-	-	-	166	9
<b>Total</b>	<b>\$ 277</b>	<b>\$ 277</b>	<b>\$ 4</b>	<b>\$ 391</b>	<b>\$ 4</b>	<b>\$ 626</b>	<b>\$ 20</b>

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As of December 31, 2018

	Recorded Balance	Unpaid Principal Balance	Allocated Allowance	Average Investment in Impaired Loans	Interest Income Recognized
<b>Loans without an allocated allowance:</b>					
Residential mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate and land loans	-	-	-	108	-
Home equity and other consumer	43	43	-	36	1
Residential construction loans	-	-	-	-	-
Residential mortgage loans, non-owner occupied	190	190	-	192	10
Multi-family real estate loans	-	-	-	-	-
Commercial loans	-	-	-	125	9
<b>Loans with an allocated allowance:</b>					
Residential mortgage loans	74	74	3	103	4
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	-	-	-	-	-
<b>Total</b>	<u>\$ 307</u>	<u>\$ 307</u>	<u>\$ 3</u>	<u>\$ 564</u>	<u>\$ 24</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 Bank's nonaccrual loans at September 30, 2019 and December 31, 2018. This table excludes performing troubled debt restructurings.

	September 30, 2019	December 31, 2018
Residential mortgage loans	\$ 249	\$ 362
Commercial real estate and land loans	-	-
Home equity and other consumer	-	71
Residential construction loans	-	-
Residential mortgage loans, non-owner occupied	489	-
Multi-family real estate loans	-	-
Commercial loans	-	-
<b>Total</b>	<u>\$ 738</u>	<u>\$ 433</u>

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Following is a summary of troubled debt restructurings at September 30, 2019 and December 31, 2018:

	As of September 30, 2019		As of December 31, 2018	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Residential mortgage loans	1	\$ 72	1	\$ 74
Commercial real estate and land loans	-	-	-	-
Home equity and other consumer	2	40	2	43
Residential construction loans	-	-	-	-
Residential mortgage loans, non-owner occupied	4	183	4	190
Multi-family real estate loans	-	-	-	-
Commercial loans	-	-	-	-
	7	\$ 295	7	\$ 307

As of September 30, 2019, the Bank had total troubled debt restructurings of \$295. There were five residential mortgage loans and residential non-owner occupied loans totaling \$255 in troubled debt restructurings with the largest totaling \$72. The remaining \$40 in troubled debt restructurings consisted of two home equity loans. As of December 31, 2018, the Bank had total troubled debt restructurings of \$307. There were five residential mortgage loans and residential non-owner occupied loans totaling \$264 in troubled debt restructurings with the largest totaling \$190. The remaining \$43 in troubled debt restructurings consisted of two home equity loans. These loans were modified due to short term concessions. Eagle Savings Bank has no commitments to lend additional funds to these debtors owing receivables whose terms have been modified in troubled debt restructurings. During the three months and nine months ended September, 30, 2019 the Bank added no new troubled debt restructurings.

At September 30, 2019, the Bank had no foreclosed real estate. There were two foreclosed real estate properties totaling \$217 at December 31, 2018. They consisted of one commercial real estate property totaling \$127 and one residential mortgage property totaling \$90.

**Note 4: Employee Stock Ownership Plan (“ESOP”)**

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 issued in connection with the conversion). 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, and 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.

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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 \$25 and \$75 for the three and nine months ended September 30, 2019, and \$26 and \$78 for the three and nine months ended September 30, 2018.

A summary of the ESOP shares as of September 30, 2019 and December 31, 2018 are as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Shares allocated to participants	4,838	6,451
Shares released to participants	12,902	6,451
Unreleased shares	<u>111,284</u>	<u>116,122</u>
Total	<u>129,024</u>	<u>129,024</u>
Fair Value of Unreleased Shares	<u>\$ 1,780,544</u>	<u>\$ 1,761,571</u>

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 5: Equity Incentive Plan**

In September 2018, the Company's stockholders approved the Eagle Financial Bancorp, Inc. 2018 Equity Incentive Plan (the "2018 Plan"). The 2018 Plan authorizes the issuance or delivery to participants of up to 225,792 shares of the Company's common stock pursuant to the grants of restricted stock awards, incentive stock options, and non-qualified stock options. Of this number, the maximum number of shares of Company common stock that may be issued under the 2018 Plan pursuant to the exercise of stock options is 161,280 shares and the maximum number of shares of Company common stock that may be issued as restricted stock awards is 64,512 shares. Stock options awarded to employees may be incentive stock options or non-qualified stock options. Shares awarded under the 2018 Plan may be authorized but unissued shares or treasury shares. The 2018 Plan contains annual and lifetime limits on certain types of awards to individual participants.

Awards may vest or become exercisable only upon the achievement of performance measures or based solely on the passage of time after award. Stock options and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the 2018 Plan).

In September 2018, the Company granted stock options for 32,255 shares to members of the Board of Directors. Awards under the Plan were granted with a vesting rate not exceeding twenty percent (20%) per year for five years. Options granted in September 2018 have an exercise price \$15.89, as determined on the grant date and expire ten years from the grant date.

The fair value was calculated using the Black-Scholes model for stock options granted in September 2018 using the following assumptions: expected volatility of 24.56%, a risk free interest rate of 3.01%, and an expected term of 7.5 years. The Company utilized the simplified method to determine the expected term because it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

The weighted average grant-date fair value of options granted in September 2018 was \$5.57 per share.

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In October 2018, the Company granted stock options for 69,356 shares to Executive Officers of the Company. Awards under the Plan were granted with a vesting rate not exceeding twenty percent (20%) per year for five years. Options granted in October 2018 have an exercise price \$15.75, as determined on the grant date and expire ten years from the grant date.

The fair value was calculated using the Black-Scholes model for stock options granted in September 2018 using the following assumptions: expected volatility of 24.63%, a risk free interest rate of 3.14%, and an expected term of 7.5 years. The Company utilized the simplified method to determine the expected term because it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

The weighted average grant-date fair value of options granted in October 2018 was \$5.59 per share.

At September 30, 2019, 6,450 of the stock options granted to the Board of Directors were exercisable at an average price of \$15.89. At September 30, 2019 no stock options were exercised.

In September 2018, the Company awarded 12,900 restricted shares to members of the Board of Directors. The restricted stock awards have a five year vesting period. During the restricted period, the holder is entitled to full voting rights and dividends, thus are considered participating securities. At September 30, 2019, 2,580 restricted shares were vested.

In October 2018, the Company awarded 29,050 restricted shares to Executive Officers and other employees of the Company. The restricted stock awards have a five year vesting period. During the restricted period, the holder is entitled to full voting rights and dividends, thus are considered participating securities.

Total compensation cost recognized in the income statement for share-based payment arrangements during the three and nine months ended September 30, 2019 was \$62 and \$185. Total compensation cost recognized during the three and nine months ended September 30, 2018 was \$6.

As of September 30, 2019, there was approximately \$978 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a remaining weighted-average period of 4.0 years.

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**Note 6: 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 I capital (as defined) to risk-weighted assets (as defined) and Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2019 and December 31, 2018 that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2019 and December 31, 2018 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 I 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.

In addition to the minimum capital ratios, the Bank must maintain a capital conservation buffer of common equity Tier I capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"), banking regulatory agencies including the Federal Reserve Board must establish for institutions with less than \$10 billion of assets a "community bank leverage ratio" of tangible equity capital to total average consolidated assets of between 8 to 10%. Institutions with capital meeting the specified requirement and electing to follow the alternative regulatory capital structure will be considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. The establishment of the community bank leverage ratio is subject to notice and comment rulemaking by the federal regulators and the agencies issued a proposed rule in February 2019 that would set the "community bank leverage ratio" at 9%.

In addition, as a result of the Act, the Federal Reserve Board has amended its small bank holding company and savings and loan holding company policy statement to provide that holding companies with consolidated assets of less than \$3 billion that are (i) not engaged in significant nonbanking activities, (ii) do not conduct significant off-balance sheet activities, and (3) do not have a material amount of SEC-registered debt or equity securities, other than trust preferred securities, that contribute to an organization's complexity, are not subject to consolidated regulatory capital requirements.

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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):

	<b>Actual</b>		<b>Minimum Capital Requirement</b>		<b>Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>As of September 30, 2019:</b>						
Equity	\$ 21,633					
Allowance for loan losses	<u>1,161</u>					
Total risk-based capital (to risk-weighted assets)	<u>\$ 22,794</u>	16.8%	\$ 10,860	8.0%	\$ 13,576	10.0%
Tier I capital (to risk-weighted assets)	21,633	15.9%	8,145	6.0%	10,860	8.0%
Common equity Tier I capital (to risk-weighted assets)	21,633	15.9%	6,109	4.5%	8,824	6.5%
Tier I capital (to adjusted total assets)	21,633	15.3%	5,658	4.0%	7,072	5.0%



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	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2018:</b>						
Equity	\$ 20,849					
Allowance for loan losses	1,187					
Total risk-based capital (to risk-weighted assets)	<u>\$ 22,036</u>	16.9%	\$ 10,459	8.0%	\$ 13,074	10.0%
Tier I capital (to risk-weighted assets)	20,849	15.9%	7,844	6.0%	10,459	8.0%
Common equity Tier I capital (to risk-weighted assets)	20,849	15.9%	5,883	4.5%	8,498	6.5%
Tier I capital (to adjusted total assets)	20,849	15.2%	5,495	4.0%	6,868	5.0%

**Note 7: Disclosure About Fair Values 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

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***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 September 30, 2019 and December 31, 2018:

	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>September 30, 2019</b>				
Impaired loans (collateral dependent)	\$ 71	\$ -	\$ -	\$ 71

	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, 2018</b>				
Impaired loans (collateral dependent)	\$ 71	\$ -	\$ -	\$ 71

Fair value adjustments, consisting of charge-offs or allocated allowances, on impaired loans and foreclosed assets held for sale during the nine months ended September 30, 2019 and the year ended December 31, 2018 amounted to \$1 and \$3, respectively.

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.

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***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.

	<b>Fair Value at 9/30/2019</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Impaired loans (collateral dependent)	\$ 71	Market comparable properties	Marketability discount	10% - 15%

  

	<b>Fair Value at 12/31/2018</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Impaired loans (collateral dependent)	\$ 71	Market comparable properties	Marketability discount	10% - 15%

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***

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.

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***Loans***

The estimated fair value of loans as of September 30, 2019 follows the guidance in ASU 2016-01, which prescribes an “exit price” approach in estimating and disclosing fair value of financial instruments. The fair value calculation at that date discounted estimated future cash flows using rates that incorporated discounts for credit, liquidity and marketability factors. The fair value estimate shown as of December 31, 2018 used an “entry price” approach. The fair value calculation for that date discounted estimated 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 Bank 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. Consequently, the fair value disclosures for September 30, 2019 and December 31, 2018 are not directly comparable.

***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 Bank. The rates were the average of current rates offered by local competitors of the Bank.

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.

***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 September 30, 2019 and December 31, 2018, the fair value of such commitments was not material.

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The following tables present estimated fair values of the Bank's financial instruments at September 30, 2019 and December 31, 2018.

<b>September 30, 2019</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
			<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 8,783	\$ 8,783	\$ 8,783	\$ -	\$ -
Interest-bearing time deposits	2,988	2,988	2,988	-	-
Loans held for sale	9,948	9,948	-	-	9,948
Loans, net of allowance for losses	109,249	110,131	-	-	110,131
FHLB stock	816	816	-	816	-
FHLB lender risk account receivable	3,464	3,692	-	-	3,692
Interest receivable	343	343	-	343	-
<b>Financial Liabilities</b>					
Deposits	111,665	111,890	62,030	49,860	-
FHLB advances	-	-	-	-	-
Advances from borrowers for taxes and insurance	580	580	-	580	-
Interest payable	2	2	-	2	-
<b>December 31, 2018</b>					
<b>December 31, 2018</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
			<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 7,434	\$ 7,434	\$ 7,434	\$ -	\$ -
Interest-bearing time deposits	3,486	3,486	3,486	-	-
Loans held for sale	1,827	1,827	-	-	1,827
Loans, net of allowance for losses	113,317	114,248	-	-	114,248
FHLB stock	754	754	-	754	-
FHLB lender risk account receivable	3,377	3,294	-	-	3,294
Interest receivable	354	354	-	354	-
<b>Financial Liabilities</b>					
Deposits	106,369	105,829	59,872	45,957	-
FHLB advances	-	-	-	-	-
Advances from borrowers for taxes and insurance	950	950	-	950	-
Interest payable	1	1	-	1	-

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**Note 8: 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 September 30, 2019, the Bank had six 30 year fixed rate loans of \$1,881 with interest rates ranging from 3.375% to 3.500% and one 15 year fixed rate loan of \$350 with an interest rate of 3.125% approved but not yet originated. At December 31, 2018, the Bank had no loans approved but not yet originated. At September 30, 2019, the Bank had undisbursed loans in process of \$7,559 with interest rate ranges from 3.875% to 5.250%. At December 31, 2018 the Bank had undisbursed loans in process of \$9,485 with interest rate ranges from 3.125% to 5.730%.

***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.

Lines of credit at September 30, 2019 and December 31, 2018 were as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Unused lines of credit	\$ 3,264	\$ 3,905
Unused home equity lines	11,031	12,145
Total commitments	<u>\$ 14,295</u>	<u>\$ 16,050</u>

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**Note 9: 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 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 a 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 lease. 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. On October 16, 2019 FASB voted to delay implementation of ASU No. 2016-02 “Leases (Topic 842).” Nonpublic business entities should now apply the amendments for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. 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.

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. On October 16, 2019 FASB voted to delay implementation of ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326) -Measurement of Credit Losses on Financial Instruments." For all other entities, the amendments are now effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. 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.

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

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 third quarter of 2019. 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 2.

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 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.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

Management's discussion and analysis of the financial condition and results of operations at and for the three and nine months ended September 30, 2019 and 2018 is intended to assist in understanding the financial condition and result of operations of the Bank. The information contained in this section should be read in conjunction with the Unaudited Condensed Financial Statements and the notes thereto, appearing in Part 1, Item 1 of this quarterly report on Form 10-Q.

#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "assume," "plan," "seek," "expect," "will," "may," "should," "indicate," "would," "believe," "contemplate," "continue," "target" and words of similar meaning. These forward-looking statements include, but are not limited to:

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

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this report.

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

- our ability to continue to manage our operations successfully;
- our ability to successfully implement our business plan of managed growth, diversifying our loan portfolio and increasing mortgage banking operations to improve profitability;
- our success in increasing our commercial business, commercial real estate, construction and home equity lending;
- adverse changes in the financial industry, securities, credit and national local real estate markets (including real estate values);
- significant increases in our loan losses, including as a result of our inability to resolve classified and non-performing assets or reduce risks associated with our loans, and management's assumptions in determining the adequacy of the allowance for loan losses;
- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance for loan losses and provision for loan losses;
- the use of estimates in determining fair value of certain of our assets, which may prove to be incorrect and result in significant declines in valuations;
- competition among depository and other financial institutions;
- our ability to attract and maintain deposits and our success in introducing new financial products;

- our ability to maintain our asset quality even as we increase our commercial business, commercial real estate, construction, and home equity lending;
- changes in interest rates generally, including changes in the relative differences between short term and long term interest rates and in deposit interest rates, that may affect our net interest margin and funding sources;
- fluctuations in the demand for loans, which may be affected by the number of unsold homes, land and other properties in our market areas and by declines in the value of real estate in our market area;
- changes in consumer spending, borrowing and saving habits;
- declines in the yield on our assets resulting from the current low interest rate environment;
- risks related to a high concentration of loans secured by real estate located in our market area;
- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;
- changes in the level of government support of housing finance;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in laws or government regulations or policies affecting financial institutions, including the Dodd-Frank Act and the JOBS Act, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs, particularly the new capital regulations, and the resources we have available to address such changes;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs in response to product demand or to implement our strategic plans;
- loan delinquencies and changes in the underlying cash flows of our borrowers;
- our ability to control costs and expenses, particularly those associated with operating as a publicly traded company;
- the failure or security breaches of computer systems on which we depend;
- the ability of key third-party service providers to perform their obligations to us;
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services described elsewhere in our SEC filings.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

## 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 Lender Risk Account (“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 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.

#### **Comparison of Financial Condition at September 30, 2019 and December 31, 2018**

**Total Assets.** Total assets were \$142.3 million at September 30, 2019, an increase of \$5.2 million, or 3.8%, over the \$137.1 million at December 31, 2018. The increase was primarily due to an increase in loans to be sold of \$8.1 million and an increase in cash and cash equivalents of \$1.3 million, offset by a decrease in net loans of \$4.1 million.

**Net Loans.** Net loans decreased by \$4.1 million, or 3.6%, to \$109.2 million at September 30, 2019 from \$113.3 million at December 31, 2018. During the nine months ended September 30, 2019, we originated \$80.3 million of loans, \$74.1 million of which were one- to four- family residential real estate loans, and we sold \$55.0 million of loans in the secondary market. During the nine months ended September 30, 2019, one- to four-family residential real estate loans decreased \$7.4 million, or 10.1%, to \$66.2 million, multi-family loans decreased \$63,000, or 5.3%, to \$1.1 million, commercial real estate loans and land loans increased \$3.6 million, or 20.2%, to \$21.1 million, construction loans increased \$1.7 million, or 14.1%, to \$13.4 million, home equity and other consumer loans decreased \$3.6 million, or 26.2%, to \$10.2 million, and commercial loans decreased \$115,000, or 1.9%, to \$5.9 million. Despite the decrease in loan balances during the quarter, our strategy to grow and diversify our loan portfolio will continue. We expect that such growth will be achieved amid strong competition for commercial real estate and one- to four-family residential mortgage loans in our market area in the current interest rate environment.

**Interest-Bearing Deposits in Other Banks.** The Bank’s investment in certificates of deposit in other banks decreased \$498,000, or 14.3%, to \$3.0 million as of September 30, 2019.

**Foreclosed Assets Held for Sale.** Foreclosed assets decreased \$217,000, or 100.0%, at September 30, 2019 from \$217,000 at December 31, 2018. At December 31, 2018 we held two properties that were both sold during the nine months ended September 30, 2019 for a gain of \$28,000.

**Deposits.** Deposits increased by \$5.3 million, or 5.0%, to \$111.7 million at September 30, 2019 from \$106.4 million at December 31, 2018. Our core deposits, which we define as all deposits other than certificates of deposit, increased \$2.1 million, or 3.6%, to \$62.0 million at September 30, 2019 from \$59.9 million at December 31, 2018. Certificates of deposits increased \$3.1 million, or 6.7%, to 49.6 million at September 30, 2019 from \$46.5 million at December 31, 2018. During the nine months ended September 30, 2019, management continued its strategy of pursuing growth in demand accounts and other lower cost core deposits, but also changed its emphasis slightly by attracting other deposits with certificate of deposit specials. 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.** At September 30, 2019, the Bank had no advances from the Federal Home Loan Bank.

**Shareholders’ Equity.** Shareholders’ equity increased \$96,000, or 0.3%, to \$27.9 million at September 30, 2019 from \$27.8 million at December 31, 2018. The increase resulted from net income of \$432,000 during the nine months ended September 30, 2019, expense of \$75,000 related to the ESOP shares committed to be released and expense of \$185,000 related to stock based compensation, offset by a repurchase of common stock of \$596,000.

## Comparison of Operating Results for the Three Months Ended September 30, 2019 and September 30, 2018

**General.** Our net income for the three months ended September 30, 2019 was \$270,000, compared to net income of \$79,000 for the three months ended September 30, 2018, an increase of \$191,000, or 241.8%. The increase in net income was primarily due to a \$436,000 increase in total non-interest income, a \$68,000 increase in interest earned on loans, and a \$99,000 reduction in provision for loan loss, offset by a \$280,000 increase in compensation and benefits, and a \$100,000 increase in interest expense on deposits.

**Interest Income.** Interest income increased \$68,000, or 5.3%, to \$1.4 million for the three months ended September 30, 2019 from \$1.3 million for the three months ended September 30, 2018. This increase was primarily attributable to a \$40,000 increase in interest income on loans receivable, and a \$29,000 increase in interest on other interest earning deposits, resulting from interest income on cash deposits. The average balance of total interest-earning assets increased \$4.7 million to \$125.8, or 3.9%, from the average balance for the three months ended September 30, 2018, and the average yield on interest-earning assets increased by six basis points to 4.33% for the three months ended September 30, 2019 from the 4.27% for the three months ended September 30, 2018. We held no investment securities during the 2019 or 2018 periods.

**Interest Expense.** Total interest expense increased \$100,000, or 50.0%, to \$302,000 for the three months ended September 30, 2019 from \$202,000 for the three months ended September 30, 2018. The average balance of deposits during the three months ended September 30, 2019 increased by \$4.4 million, or 4.4% from the average balance for the three months ended September 30, 2018, while the average cost of deposits increased by 34 basis points to 1.15% for the three months ended September 30, 2019 from 0.81% for the three months ended September 30, 2018.

The Bank had no interest expense on FHLB advances for the three months ended September 30, 2019.

**Net Interest Income.** Net interest income decreased \$32,000, or 2.9%, to \$1.1 million for the three months ended September 30, 2019, compared to \$1.1 million for the three months ended September 30, 2018. The decrease reflected an increase in total interest expense of \$100,000 offset by an increase in total interest and dividend income of \$68,000. Our net interest rate spread decreased 28 basis points to 3.18% at September 30, 2019 from 3.46% at September 30, 2018. Our net interest margin decreased to 3.37% for the three months ended September 30, 2019 from 3.60% for the three months ended September 30, 2018. The interest rate spread and net interest margin were negatively impacted by rising interest rates on deposits for the three months ended September 30, 2019.

**Provision for Loan Losses.** Based on our analysis of the factors described in “Critical Accounting Policies—Allowance for Loan Losses,” we recorded no provision for loan losses for the three months ended September 30, 2019, and \$99,000 for the three months ended September 30, 2018. The allowance for loan losses was \$1.2 million, or 0.98% of total loans, at September 30, 2019, compared to \$1.2 million, or 0.96% of total loans, at December 31, 2018. Total nonperforming loans were \$1.0 million at September 30, 2019, compared to \$740,000 at December 31, 2018. Classified and special mention loans decreased to \$1.4 million at September 30, 2019, compared to \$1.7 million at December 31, 2018. Total loans past due 30 days or more were \$954,000 and \$1.2 million at September 30, 2019 and December 31, 2018, respectively. Net recovery totaled \$5,000 for the three months ended September 30, 2019, compared to \$77,000 of net loan charge-off for the three months ended September 30, 2018. The allowance for loan losses reflects the estimate we believe to be appropriate to cover incurred probable losses which were inherent in the loan portfolio at September 30, 2019 and 2018. While we believe the estimates and assumptions used in our determination of the adequacy of the allowance are reasonable, such estimates and assumptions could be proven incorrect in the future, and the actual amount of future provisions may exceed the amount of past provisions, and the increase in future provisions that may be required may adversely impact our financial condition and results of operations. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management.

**Non-Interest Income.** Non-interest income increased \$436,000, or 88.4%, to \$929,000 for the three months ended September 30, 2019 from \$493,000 for the three months ended September 30, 2018. The increase was primarily due to an increase in the gain on sale of loans of \$372,000 during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

**Non-Interest Expense.** Non-interest expense increased \$255,000, or 18.4%, to \$1.6 million for the three months ended September 30, 2019, compared to \$1.4 million for the three months ended September 30, 2018. The increase was primarily the result of an increase in compensation and employee benefits of \$280,000 due to the addition of new employees, and stock based compensation expense related to the equity incentive plans, partially offset by a decrease in legal and professional services of \$19,000.

**Federal Income Taxes.** Federal income taxes increased by \$57,000 to an income tax expense of \$79,000 for the three months ended September 30, 2019, compared to an income tax expense of \$22,000 for the three months ended September 30, 2018. The increase in income tax expense for the three months ended September 30, 2019 was a direct result of the increase in net income.

## Average Balances and Yields

The following table sets forth average balance sheets, average yields and costs, and certain other information at and for the periods 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.

	For the Three Months Ended September 30,					
	2019			2018		
	Average Balance	Interest	Average Yield/ Cost (4)	Average Balance	Interest	Average Yield/ Cost (4)
<b>Assets:</b>						
<b>Interest Earning Assets</b>						
Loans	\$ 109,127	\$ 1,268	4.65%	\$ 109,332	\$ 1,228	4.49%
Interest earning deposits	16,669	92	2.21%	11,786	64	2.17%
Total interest -earning assets	125,796	1,360	4.32%	121,118	1,292	4.27%
Total non-interest earning assets	15,767			14,740		
Total assets	\$ 141,563			\$ 135,858		
<b>Liabilities and Equity:</b>						
Interest bearing checking	19,821	9	0.18%	18,655	7	0.15%
Savings	16,956	6	0.14%	17,211	6	0.14%
Money Market	19,367	30	0.62%	18,981	11	0.23%
CD's	48,597	257	2.12%	45,456	178	1.57%
Total interest-bearing deposits	104,741	302	1.15%	100,303	202	0.81%
FHLB Advances	-	-	-	-	-	3.33%
Total interest bearing liabilities	104,741	302	1.15%	100,303	202	0.81%
Total non-interest-bearing liabilities	8,909			7,828		
Total liabilities	113,650			108,131		
Total equity	27,913			27,727		
Total liabilities and equity	\$ 141,563			\$ 135,858		
Net interest income		\$ 1,058			\$ 1,090	
Net interest rate spread (1)			3.17%			3.46%
Net interest earning assets (2)	\$ 21,055			\$ 20,815		
Net interest margin (3)			3.36%			3.60%
Ratio of average interest-earning assets to average interest bearing liabilities	120.10%			120.75%		

(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 represent total interest-earning assets less total interest-bearing liabilities.

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

(4) Average yield/cost is annualized

## Comparison of Operating Results for the Nine Months Ended September 30, 2019 and September 30, 2018

**General.** Our net income for the nine months ended September 30, 2019 was \$432,000, compared to a net income of \$291,000 for the nine months ended September 30, 2018, an increase of \$141,000, or 48.5%. The increase in net income was primarily due to a \$518,000 increase in non-interest income, and a \$385,000 increase in interest income, offset by a \$550,000 increase in non-interest expense and an increase in interest expense of \$250,000 for the nine months ended September 30, 2019 as compared to September 30, 2018.

**Interest Income.** Interest income increased \$385,000, or 10.4%, to \$4.1 million for the nine months ended September 30, 2019 from \$3.7 million for the nine months ended September 30, 2018. This increase was attributable to a \$365,000 increase in interest income on loans receivable and an increase of \$21,000 in interest income on other interest-earning deposits. The average balance of loans during the nine months ended September 30, 2019 increased by \$7.0 million, or 6.7%, from the average balance for the nine months ended September 30, 2018, and the average yield on loans increased by 15 basis points to 4.62% for the nine months ended September 30, 2019 from 4.47% for the nine months ended September 30, 2018. We held no investment securities during the 2019 or 2018 periods.

**Interest Expense.** Total interest expense increased \$250,000, or 45.0%, to \$806,000 for the nine months ended September 30, 2019 from \$556,000 for the nine months ended September 30, 2018. The average balance of deposits during the nine months ended September 30, 2019 increased by \$3.7 million, or 3.8%, from the average balance for the nine months ended September 30, 2018, while the average cost increased by 29 basis points to 1.05% for the nine months ended September 30, 2019 from 0.76% for the nine months ended September 30, 2018.

Interest expense on FHLB advances increased \$1,000, or 100.0%, to \$1,000 for the nine months ended September 30, 2019 compared to \$0 for the nine months ended September 30, 2018.

**Net Interest Income.** Net interest income increased \$135,000, or 4.3%, to \$3.3 million for the nine months ended September 30, 2019, compared to \$3.1 million for the nine months ended September 30, 2018. The increase reflected an increase in total interest and dividend income of \$385,000, partially offset by an increase in total interest expense of \$250,000. Our net interest rate spread decreased seven basis points to 3.32% at September 30, 2019 from 3.39% at September 30, 2018. Our net interest margin decreased to 3.51% for the nine months ended September 30, 2019 from 3.53% for the nine months ended September 30, 2018. The interest rate spread and net interest margin were impacted by rising interest rates on deposits in the nine months ended September 30, 2018.

**Provision for Loan Losses.** Based on our analysis of the factors described in “Critical Accounting Policies—Allowance for Loan Losses,” we recorded no provision for loan losses for the nine months ended September 30, 2019 and \$99,000 for the nine months ended September 30, 2018. The allowance for loan losses was \$1.2 million, or 0.98% of total loans, at September 30, 2019, compared to \$1.2 million, or 0.96% of total loans, at December 31, 2018. Total nonperforming loans were \$1.0 million at September 30, 2019, compared to \$740,000 at December 31, 2018. Classified and special mention loans decreased to \$1.4 million at September 30, 2019, compared to \$1.7 million at December 31, 2018. Total loans past due 30 days or more were \$954,000 and \$1.2 million at September 30, 2019 and December 31, 2018, respectively. Net loan charge-offs totaled \$26,000 for the nine months ended September 30, 2019, compared to \$91,000 of net loans charge-offs for the nine months ended September 30, 2018. The allowance for loan losses reflects the estimate we believe to be appropriate to cover incurred probable losses which were inherent in the loan portfolio at September 30, 2019 and 2018.

**Non-Interest Income.** Non-interest income increased \$518,000, or 37.8%, to \$1.9 million for the nine months ended September 30, 2019 from \$1.4 million for the nine months ended September 30, 2018. The increase was primarily due to the increase of \$432,000 in net gains on loan sales, and a \$58,000 increase in other service charges and fees during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

**Non-Interest Expense.** Non-interest expense increased \$550,000, or 13.6%, to \$4.6 million for the nine months ended September 30, 2019. The increase was primarily the result of an increase in compensation and employee benefits of \$563,000 due to the addition of new employees and stock based compensation expense related to the equity incentive plans.



**Federal Income Taxes.** Federal income taxes increased by \$61,000 to an income tax expense of \$129,000 for the nine months ended September 30, 2019, compared to an income tax expense of \$68,000 for the nine months ended September 30, 2018. The increase in income tax expense for the nine months ended September 30, 2019 was a direct result of the increase in net income.

## Average Balances and Yields

The following table sets forth average balance sheets, average yields and costs, and certain other information at and for the periods 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.

	For the Nine Months Ended September 30,					
	2019			2018		
	Average Balance	Interest	Average Yield/ Cost (4)	Average Balance	Interest	Average Yield/ Cost (4)
<b>Assets:</b>						
<b>Interest Earning Assets</b>						
Loans	\$ 111,084	\$ 3,852	4.62%	\$ 104,083	\$ 3,487	4.47%
Interest earning deposits	13,116	225	2.29%	14,419	205	1.90%
Total interest -earning assets	124,200	4,077	4.38%	118,502	3,692	4.15%
Total non-interest earning assets	14,275			14,388		
Total assets	\$ 138,475			\$ 132,890		
<b>Liabilities and Equity:</b>						
Interest bearing checking	19,389	24	0.17%	17,829	20	0.15%
Savings	16,482	18	0.15%	17,314	19	0.15%
Money Market	18,080	60	0.44%	19,223	32	0.22%
CD's	47,881	703	1.96%	43,768	485	1.48%
Total interest-bearing deposits	101,832	805	1.05%	98,134	556	0.76%
FHLB Advances	29	1	3.33%	2	-	3.33%
Total interest bearing liabilities	101,861	806	1.06%	98,136	556	0.76%
Total non-interest-bearing liabilities	8,734			7,173		
Total liabilities	110,595			105,309		
Total equity	27,880			27,581		
Total liabilities and equity	\$ 138,475			\$ 132,890		
Net interest income		\$ 3,271			\$ 3,136	
Net interest rate spread (1)			3.32%			3.39%
Net interest earning assets (2)	\$ 22,339			\$ 20,366		
Net interest margin (3)			3.51%			3.53%
Ratio of average interest-earning assets to average interest bearing liabilities	121.93%			120.75%		

- (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 represent total interest-earning assets less total interest-bearing liabilities.  
(3) Net interest margin represents net interest income divided by total interest-earning assets.  
(4) Average yield/cost is annualized

## 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 September 30, 2019, we had no outstanding advances from the FHLB-Cincinnati. At September 30, 2019, we had the capacity to increase our borrowings by approximately \$54.0 million 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 \$7.7 million for the nine months ended September 30, 2019, while net cash provided by operating activities was \$1.9 million for the nine months ended September 30, 2018, respectively. Net cash provided by investing activities was \$4.7 million for the nine months ended September 30, 2019, while the net cash used in investing activities was \$13.8 million for the nine months ended September 30, 2018, respectively. Net cash provided by financing activities, consisting primarily of the activity in deposit accounts, was \$4.3 million for the nine month ended September 30, 2019, while the net cash provided by financing activities was \$6.0 million for the nine months ended September 30, 2018.

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 September 30, 2019, Eagle Savings Bank exceeded all of its regulatory capital requirements with a Tier 1 leverage capital level of \$21.6 million, or 15.3% of adjusted total assets, which is above the \$7.1 million, or 5.0% required to be considered well-capitalized, and total risk-based capital of \$22.8 million, or 16.8% of risk-weighted assets, which is above the well-capitalized required level of \$13.6 million, or 10.0%. Accordingly, Eagle Savings Bank was categorized as well capitalized at September 30, 2019 and December 31, 2018. 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 September 30, 2019, we had outstanding commitments to originate loans of \$24.2 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 September 30, 2019 totaled \$28.0 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.

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable, as the Registrant is a smaller reporting company.

**ITEM 4. CONTROLS AND PROCEDURES**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer and the Principal Financial Officer, 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 September 30, 2019. Based on that evaluation, the Company's management, including the Principal Executive Officer and the Principal Financial Officer, concluded that the Registrant's disclosure controls and procedures were effective.

During the quarter ended September 30, 2019 there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II – Other Information****ITEM 1. LEGAL PROCEEDINGS**

The Company is subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

**ITEM 1A. RISK FACTORS**

In addition to other information set forth in this report, you should carefully consider the factors discussed in the Eagle Financial Bancorp, Inc.'s annual report on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on March 27, 2019 ("Form 10-K"), including under "Item 1.A. Risk Factors", which could materially affect our business, financial condition or future results. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. At September 30, 2019, the risk factors for Eagle Financial Bancorp, Inc. have not changed materially from those reported in the Form 10-K. However, the risks described in the Form 10-K are not the only risks that we face.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides information regarding the Company's purchase of its common stock during the quarter ended September 30, 2019.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program (1)	Maximum number of shares that may yet be purchased under the program (1)
July 2019	11,000	\$ 15.92	25,100	56,185
August 2019	13,800	\$ 15.89	38,900	42,385
September 2019	3,700	\$ 15.98	42,600	38,685
Total	28,500	\$ 15.91		

- (1) On December 12, 2018, the Company announced the adoption of a stock repurchase program under which the Company could repurchase up to 81,285 shares of its common stock, or approximately 5% of the then current outstanding shares. At September 30, 2019, the Company had purchased a total of 42,600 shares of the Company's common stock under this program at an average price of \$15.82 per share, and there remained 38,685 shares still available for repurchase under the program. The timing of the purchases will depend on certain factors, including but not limited to, market conditions and prices, available funds and alternative uses of capital. The stock repurchase program may be carried out through open-market purchases, block trades, negotiated private transactions and pursuant to a trading plan that will be adopted in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. Any repurchased shares will be held by the Company as authorized but unissued shares. The repurchase program has no expiration date, but may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. The repurchase program does not obligate the Company to purchase any particular number of shares.

**ITEM 3.           DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4.           MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5.           OTHER INFORMATION**

None.

**ITEM 6.           EXHIBITS**

- [31.1](#)           [Certification of Principal Executive Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.2](#)           [Certification of Principal Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [32.1](#)           [Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- [32.2](#)           [Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.0           The following material from Eagle Financial Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Balance Sheets, (ii) the Condensed Statements of Operations, (iii) the Condensed Statements of Equity, (iv) the Condensed Statements of Cash Flows, and (v) the Notes to Condensed Financial Statements.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2019 By: /s/Gary J. Koester  
Gary J. Koester  
President and Chief Executive Officer

Date: November 8, 2019 By: /s/Kevin R. Schramm  
Kevin R. Schramm  
Vice President, Chief Financial Officer and Treasurer



**CERTIFICATION PURSUANT TO RULE 13A-14  
OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Gary J. Koester, certify that:

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

Date: November 8, 2019

/s/Gary J. Koester  
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Gary J. Koester  
President and Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION PURSUANT TO RULE 13A-14  
OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Kevin R. Schramm, certify that:

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

Date: November 8, 2019

/s/Kevin R. Schramm

Kevin R. Schramm  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

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

In connection with the Quarterly Report of Eagle Financial Bancorp, Inc. (the "Company"), on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date of this Certification (the "Report"), I, Gary J. Koester, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

A signed original of this written statement required by Section 906 has been provided to Eagle Financial Bancorp, Inc. and will be retained by Eagle Financial Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/Gary J. Koester  
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Gary J. Koester  
President and Chief Executive Officer

Date: November 8, 2019

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

In connection with the Quarterly Report of Eagle Financial Bancorp, Inc. (the "Company"), on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date of this Certification (the "Report"), I, Kevin R. Schramm, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

A signed original of this written statement required by Section 906 has been provided to Eagle Financial Bancorp, Inc. and will be retained by Eagle Financial Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Kevin R. Schramm

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Kevin R. Schramm

Vice President, Chief Financial Officer and Treasurer

Date: November 8, 2019

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