Eagle Bancorp Montana, Inc.
Form 10-Q
August 08, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

For the transition period from _____ to _____.

Commission file number 1-34682

Eagle Bancorp Montana, Inc.

(Exact name of small business issuer as specified in its charter)

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

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.opportunitybank.com

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer	[ ]	Accelerated filer [ ]
Non-accelerated filer	[ ]	Smaller reporting company [X]
(Do not check if smaller reporting company)		Emerging growth company [ ]

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common stock, par value $0.01 per share	3,811,409 shares outstanding
As of August 8, 2017	

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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Exhibit 32.1

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Note Regarding Forward-Looking Statements

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

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

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

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

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas;
- competition among depository and other financial institutions;
- changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- loss of customers checking and savings account deposits as customers pursue other higher-yielding investments, particularly in a rising rate environment;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes or volatility in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired businesses;
- changes in consumer spending, borrowing and savings habits;
- the inability of our risk management controls to prevent or detect all errors or fraudulent acts;

- our ability to continue to increase and manage our commercial and residential real estate, multi-family and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- the level of future deposit insurance premium assessments;
- continued low interest rate environment or interest rate volatility;
- the Company's ability to develop and maintain secure and reliable information technology systems, keep pace with technological changes, effectively defend itself against cyberattacks, or recover from breaches to its cybersecurity infrastructure;
- the impact of the restructuring of the U.S. financial and regulatory system;
- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance, creditworthiness and/or condition of our borrowers and their ability to repay their loans when due; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the year ended December 31, 2016, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS:		
Cash and due from banks	$7,244	$6,531
Interest bearing deposits in banks	1,797	787
Total cash and cash equivalents	9,041	7,318
Securities available-for-sale	123,191	128,436
Federal Home Loan Bank stock	4,841	4,012
Federal Reserve Bank stock	871	871
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	16,206	18,230
Loans receivable, net of deferred loan fees of $1,008 at June 30, 2017 and $1,092 at December 31, 2016 and allowance for loan losses of $5,225 at June 30, 2017 and $4,770 at December 31, 2016	502,907	461,391
Accrued interest and dividends receivable	2,174	2,123
Mortgage servicing rights, net	6,127	5,853
Premises and equipment, net	20,040	19,393
Cash surrender value of life insurance	14,289	14,095
Real estate and other repossessed assets acquired in settlement of loans, net	493	825
Goodwill	7,034	7,034
Core deposit intangible, net	328	384
Deferred tax asset, net	1,132	1,965
Other assets	1,385	1,840
Total assets	$710,214	$673,925

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	June 30, 2017	December 31, 2016
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	$91,811	$82,877
Interest bearing	422,454	429,918
Total deposits	514,265	512,795
Accrued expenses and other liabilities	4,867	4,291
Federal Home Loan Bank advances and other borrowings	104,182	82,413
Other long-term debt:		
Principal amount	25,155	15,155
Unamortized debt issuance costs	(377)	(185)
Total other long-term debt less unamortized debt issuance costs	24,778	14,970
Total liabilities	648,092	614,469
SHAREHOLDERS' EQUITY:		
Preferred stock (no par value; 1,000,000 shares authorized; no shares issued or outstanding)	-	-
Common stock (par value $0.01 per share; 8,000,000 shares authorized; 4,083,127 shares issued; 3,811,409 shares outstanding at June 30, 2017 and December 31, 2016)	41	41
Additional paid-in capital	22,444	22,366
Unallocated common stock held by Employee Stock Ownership Plan	(725)	(809)
Treasury stock, at cost	(2,971)	(2,971)
Retained earnings	42,460	41,240
Net accumulated other comprehensive income (loss)	873	(411)
Total shareholders' equity	62,122	59,456
Total liabilities and shareholders' equity	$710,214	$673,925

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
INTEREST AND DIVIDEND INCOME:				
Interest and fees on loans	$6,174	$4,955	$11,744	$9,792
Securities available-for-sale	714	740	1,443	1,487
Federal Home Loan Bank and Federal Reserve Bank dividends	36	35	76	66
Interest on deposits in banks	1	1	1	1
Other interest income	-	-	1	3
Total interest and dividend income	6,925	5,731	13,265	11,349
INTEREST EXPENSE:				
Deposits	376	381	756	736
Federal Home Loan Bank advances and other borrowings	322	212	527	413
Other long-term debt	347	195	619	389
Total interest expense	1,045	788	1,902	1,538
NET INTEREST INCOME	5,880	4,943	11,363	9,811
Loan loss provision	302	459	603	909
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	5,578	4,484	10,760	8,902
NONINTEREST INCOME:				
Service charges on deposit accounts	239	211	471	410
Net gain on sale of loans (includes $341 and $636 for the three months ended June 30, 2017 and 2016, respectively, and $899 and $1,271 for the six months ended June 30, 2017 and 2016, respectively, related to accumulated other comprehensive earnings reclassification)	2,263	2,438	4,088	4,156
Mortgage loan servicing fees	509	442	1,056	805
Wealth management income	180	159	321	295
Interchange and ATM fees	228	223	434	425
Appreciation in cash surrender value of life insurance	126	113	250	225
	(14)	84	(14)	84

Net (loss) gain on sale of available-for-sale securities (includes ($14) and $84 for the three months ended June 30, 2017 and 2016, respectively, and ($14) and $84 for the six months ended June 30, 2017 and 2016, respectively, related to accumulated other comprehensive earnings reclassification)				
Net (loss) gain on sale of real estate owned and other repossessed property	(24)	12	(25)	12
Other noninterest income	63	124	197	290
Total noninterest income	3,570	3,806	6,778	6,702

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NONINTEREST EXPENSE:				
Salaries and employee benefits	4,586	3,916	9,019	7,606
Occupancy and equipment expense	672	671	1,389	1,460
Data processing	566	463	1,133	1,011
Advertising	269	150	458	338
Amortization of mortgage servicing rights	262	285	524	513
Amortization of core deposit intangible and tax credits	107	111	214	223
Federal insurance premiums	36	123	120	206
Postage	51	34	99	88
Legal, accounting and examination fees	200	61	285	159
Consulting fees	59	34	108	117
Write-down on real estate owned and other repossessed property	9	-	45	-
Other noninterest expense	803	838	1,665	1,513
Total noninterest expense	7,620	6,686	15,059	13,234
INCOME BEFORE INCOME TAXES	1,528	1,604	2,479	2,370
Income tax expense (includes $858 and $1,005 for the three months ended June 30, 2017 and 2016, respectively, and $883 and $1,465 for the six months ended June, 30, 2017 and 2016, respectively related to income tax expense from reclassification items)	462	340	650	459
NET INCOME	$1,066	$1,264	$1,829	$1,911
BASIC EARNINGS PER SHARE	$0.28	$0.34	$0.48	$0.51
DILUTED EARNINGS PER SHARE	$0.27	$0.32	$0.47	$0.49
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC EPS)	3,811,409	3,779,464	3,811,409	3,779,464

WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED EPS)	3,869,885	3,873,171	3,872,765	3,873,171

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	$1,066	$1,264	$1,829	$1,911
OTHER ITEMS OF COMPREHENSIVE INCOME:				
Change in fair value of investment securities available-for-sale, before income taxes	1,775	2,327	2,054	3,454
Reclassification for net realized losses (gains) on investment securities included in income, before income tax	14	(84)	14	(84)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	657	859	998	1,495
Reclassification for net realized gains on derivatives designated as cash flow hedges, before income taxes	(341)	(636)	(899)	(1,271)
Total other items of comprehensive income	2,105	2,466	2,167	3,594
Income tax expense related to:				
Investment securities	(730)	(914)	(843)	(1,374)
Derivatives designated as cash flow hedges	(128)	(91)	(40)	(91)
Total income tax expense	(858)	(1,005)	(883)	(1,465)
COMPREHENSIVE INCOME	$2,313	$2,725	$3,113	$4,040

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2017 and 2016

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	PREFERRED STOCK	COMMON STOCK	PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance at January 1, 2016	$ -	$ 41	$ 22,152	$ (975)	$ (3,321)	$ 37,301	$ 252	$ 55,450
Net income						1,911		1,911
Other comprehensive income							2,129	2,129
Dividends paid ($0.0775 per share)						(586)		(586)
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (8,308 shares)			16	84				100
Balance at June 30, 2016	$ -	$ 41	$ 22,168	$ (891)	$ (3,321)	$ 38,626	$ 2,381	$ 59,004
Balance at January 1, 2017	$ -	$ 41	$ 22,366	$ (809)	$ (2,971)	$ 41,240	$ (411)	$ 59,456
Net income						1,829		1,829
							1,284	1,284

Other comprehensive income								
Dividends paid ($0.08 per share)						(609)		(609)
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (8,308 shares)			78	84				162
Balance at June 30, 2017	$ -	$ 41	$ 22,444	$ (725)	$ (2,971)	$ 42,460	$ 873	$ 62,122

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,829	$1,911
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	603	909
Write-down on real estate owned and other repossessed assets	45	-
Depreciation	472	541
Net amortization of investment securities premium and discounts	822	983
Amortization of mortgage servicing rights	524	513
Amortization of core deposit intangible and tax credits	214	223
Deferred income tax benefit	(50)	(288)
Net gain on sale of loans	(4,088)	(4,156)
Net loss (gain) on sale of available-for-sale securities	14	(84)
Net loss (gain) on sale of real estate owned and other repossessed assets	25	(12)
Net loss on sale/disposal of premises and equipment	-	6
Net appreciation in cash surrender value of life insurance	(194)	(169)
Net change in:		
Accrued interest and dividends receivable	(51)	4
Loans held-for-sale	6,211	1,836
Other assets	324	228
Accrued expenses and other liabilities	738	1,050
Net cash provided by operating activities	7,438	3,495
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	2,749	3,162
Maturities, principal payments and calls	5,035	6,129
Purchases	(1,307)	(1,531)
Federal Home Loan Bank stock purchased	(829)	(338)
Federal Reserve Bank stock redeemed	-	16
Loan origination and principal collection, net	(42,917)	(37,618)
Purchase of Bank owned life insurance	-	(2,000)
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	262	76

Proceeds from sale of premises and equipment	-	7
Additions to premises and equipment	(1,119)	(302)
Net cash used in investing activities	(38,126)	(32,399)

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	$1,470	$25,700
Net short-term advances on Federal Home Loan Bank and other borrowings	11,553	4,083
Long-term advances from Federal Home Loan Bank and other borrowings	17,000	5,000
Payments on long-term Federal Home Loan Bank and other borrowings	(6,784)	(6,308)
Proceeds from issuance of long-term debt	10,000	-
Payments for debt issuance costs	(219)	-
Dividends paid	(609)	(586)
Net cash provided by financing activities	32,411	27,889
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,723	(1,015)
CASH AND CASH EQUIVALENTS, beginning of period	7,318	7,438
CASH AND CASH EQUIVALENTS, end of period	$9,041	$6,423
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$1,763	$1,554
Cash paid during the period for income taxes	$680	$590
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Increase in market value of securities available-for-sale	$2,068	$3,370
Mortgage servicing rights recognized	$798	$741
Loans transferred to real estate and other assets acquired in foreclosure	$-	$34
Employee Stock Ownership Plan shares released	$162	$100

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. However, such information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of our financial position, results of operations, changes in comprehensive income and cash flows for the unaudited interim periods.

The results of operations for the six month period ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017 or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle Bancorp Montana, Inc.'s ("the Company" or "Eagle") Form 10-K for the year ended December 31, 2016.

The Company evaluated subsequent events for potential recognition and/or disclosure through August 8, 2017 the date the unaudited consolidated financial statements were issued.

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	June 30, 2017				December 31, 2016			
		Gross				Gross		
	Amortized	Unrealized		Fair	Amortized	Unrealized		Fair
	Cost	Gains	(Losses)	Value	Cost	Gains	(Losses)	Value
	(In Thousands)							

Available-for-Sale:								
U.S. government and agency obligations	$4,223	$34	$ (11)	$4,246	$5,673	$7	$(72)	$5,608
Municipal obligations	65,283	1,071	(430)	65,924	68,493	575	(1,404)	67,664
Corporate obligations	9,639	34	(67)	9,606	9,454	15	(162)	9,307
MBSs - government-backed	27,519	426	(228)	27,717	29,537	283	(308)	29,512
CMOs - government backed	15,710	29	(41)	15,698	16,530	15	(200)	16,345
Total	$122,374	$1,594	$ (777)	$123,191	$129,687	$895	$(2,146)	$128,436

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In Thousands)			
Proceeds from sale of available-for-sale securities	$2,749	$3,162	$2,749	$3,162
Gross realized gain on sale of available-for-sale securities	$14	$84	$14	$84
Gross realized loss on sale of available-for-sale securities	(28)	-	(28)	-
Net realized (loss) gain on sale of available-for-sale securities	$(14)	$84	$(14)	$84

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

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

	June 30, 2017	
	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$2,663	$2,660
Due from one to five years	7,183	7,256
Due from five to ten years	14,319	14,349
Due after ten years	54,980	55,511
	79,145	79,776
MBSs - government-backed	27,519	27,717
CMOs - government-backed	15,710	15,698
Total	$122,374	$123,191

Maturities of securities do not reflect repricing opportunities present in adjustable rate securities.

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

	June 30, 2017	
	Less Than 12 Months	12 Months or Longer

	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency	$1,541	$ (11)	$-	$ -
Municipal obligations	25,664	(423)	458	(7)
Corporate obligations	3,381	(6)	2,939	(61)
MBSs and CMOs - government-backed	18,035	(180)	6,902	(89)
Total	$48,621	$ (620)	$10,299	$ (157)

	December 31, 2016 Less Than 12 Months		12 Months or Longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency	$4,420	$ (72)	$-	$ -
Municipal obligations	39,786	(1,392)	634	(12)
Corporate obligations	3,375	(15)	4,918	(147)
MBSs and CMOs - government-backed	18,113	(405)	7,855	(103)
Total	$65,694	$ (1,884)	$13,407	$ (262)

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of June 30, 2017 and December 31, 2016, there were, respectively, 65 and 97 securities in an unrealized loss position that were considered to be temporarily impaired and therefore an impairment charge has not been recorded.

As of June 30, 2017, 42 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 1.57% from the Company's amortized cost basis of these securities. At December 31, 2016, 70 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 3.19% from the Company's amortized cost basis of these securities. These unrealized losses are principally due to changes in interest rates and credit spreads. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

As of June 30, 2017, 10 corporate obligations had unrealized losses of approximately 1.05% from the Company's amortized cost basis of these securities. At December 31, 2016, 13 corporate obligations had an unrealized loss with aggregate depreciation of approximately 1.92% from the Company's amortized cost basis of these securities. These unrealized losses are principally due to changes in interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

As of June 30, 2017, 13 mortgage-backed securities ("MBSs") and collateralized mortgage obligations ("CMOs") had unrealized losses with aggregate depreciation of approximately 1.07% from the Company's amortized cost basis of these securities. At December 31, 2016, 14 MBSs and CMOs had unrealized losses with aggregate depreciation of approximately 1.92% from the Company’s amortized cost basis. We believe these unrealized losses are principally due to the credit market’s concerns regarding the stability of the mortgage market, changes in interest rates and credit spreads and uncertainty of future prepayment speeds. Management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligor, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. There has been no disruption of the scheduled cash flows on any of the securities. Management’s analysis as of June 30, 2017 revealed no expected credit losses on the securities and therefore, declines are not deemed to be other than temporary.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consisted of the following:

	June 30, 2017	December 31, 2016
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$110,906	$113,262
Commercial real estate	246,005	214,927
Real estate construction	29,440	20,540
Other loans:		
Home equity	49,266	49,018
Consumer	15,293	14,800
Commercial	58,230	54,706
Total	509,140	467,253
Deferred loan fees, net	(1,008)	(1,092)
Allowance for loan losses	(5,225)	(4,770)
Total loans, net	$502,907	$461,391

Within the commercial real estate loan category above, $11,307,000 and $11,586,000 was guaranteed by the United States Department of Agriculture Rural Development, at June 30, 2017 and December 31, 2016, respectively. In addition, within the commercial loan category above, $1,509,000 and $1,588,000 were in loans originated through a syndication program where the business resides outside of Montana, at June 30, 2017, and December 31, 2016, respectively.

The following table includes information regarding nonperforming assets.

	June 30, 2017	December 31, 2016
	(Dollars in Thousands)	
Non-accrual loans	$1,611	$ 614
Accruing loans delinquent 90 days or more	79	495
Restructured loans, net	-	43
Total nonperforming loans	1,690	1,152
Real estate owned and other repossessed assets, net	493	825
Total nonperforming assets	$2,183	$ 1,977
Total nonperforming assets as a percentage of total assets	0.31 %	0.29 %
Allowance for loan losses	$5,225	$ 4,770
Percent of allowance for loan losses to nonperforming loans	309.17 %	414.06 %
Percent of allowance for loan losses to nonperforming assets	239.35 %	241.27 %

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

Allowance for loan losses activity was as follows:

	Residential Mortgage (1-4 Family)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning balance, April 1, 2017	$999	$ 2,278	$ 252	$471	$ 210	$ 865	$5,075
Charge-offs	-	-	-	-	(90)	(99)	(189)
Recoveries	-	-	-	34	3	-	37
Provision	-	100	-	-	102	100	302
Ending balance, June 30, 2017	$999	$ 2,378	$ 252	$505	$ 225	$ 866	$5,225
Allowance for loan losses:							
Beginning balance, January 1, 2017	$997	$ 2,079	$ 244	$460	$ 193	$ 797	$4,770
Charge-offs	-	-	-	-	(99)	(99)	(198)
Recoveries	-	-	-	39	11	-	50
Provision	2	299	8	6	120	168	603
Ending balance, June 30, 2017	$999	$ 2,378	$ 252	$505	$ 225	$ 866	$5,225
Ending balance, June 30, 2017 allocated to loans individually evaluated for impairment	$-	$ -	$ -	$-	$ 38	$ -	$38
Ending balance, June 30, 2017 allocated to loans collectively evaluated for impairment	$999	$ 2,378	$ 252	$505	$ 187	$ 866	$5,187
Loans receivable:							
Ending balance, June 30, 2017	$110,906	$ 246,005	$ 29,440	$49,266	$ 15,293	$ 58,230	$509,140

Ending balance, June 30, 2017 of loans individually evaluated for impairment	$500	$ 451	$ -	$305	$ 144	$ 211	$1,611
Ending balance, June 30, 2017 of loans collectively evaluated for impairment	$110,406	$ 245,554	$ 29,440	$48,961	$ 15,149	$ 58,019	$507,529

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	Residential Mortgage (1-4 Family) (In Thousands)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
Allowance for loan losses:							
Beginning balance, April 1, 2016	$981	$ 1,735	$ 244	$365	$ 165	$ 450	$3,940
Charge-offs	-	-	-	-	(76)	(72)	(148)
Recoveries	-	-	-	-	9	-	9
Provision	-	272	-	-	76	111	459
Ending balance, June 30, 2016	$981	$ 2,007	$ 244	$365	$ 174	$ 489	$4,260
Allowance for loan losses:							
Beginning balance, January 1, 2016	$911	$ 1,593	$ 184	$342	$ 66	$ 454	$3,550
Charge-offs	-	-	-	(7)	(100)	(104)	(211)
Recoveries	-	-	-	-	12	-	12
Provision	70	414	60	30	196	139	909
Ending balance, June 30, 2016	$981	$ 2,007	$ 244	$365	$ 174	$ 489	$4,260
Ending balance, June 30, 2016 allocated to loans individually evaluated for impairment	$-	$ -	$ -	$-	$ 25	$ -	$25
Ending balance, June 30, 2016 allocated to loans collectively evaluated for impairment	$981	$ 2,007	$ 244	$365	$ 149	$ 489	$4,235
Loans receivable:							
Ending balance, June 30, 2016	$116,207	$ 200,848	$ 16,382	$47,842	$ 14,618	$ 48,982	$444,879
Ending balance, June 30, 2016 of loans individually evaluated for impairment	$1,000	$ 374	$ -	$332	$ 117	$ 261	$2,084

Ending balance, June 30, 2016 of loans collectively evaluated for impairment	$115,207	$ 200,474	$ 16,382	$47,510	$ 14,501	$ 48,721	$442,795

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

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

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

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

On an annual basis, or more often if needed, the Company formally reviews the ratings of all commercial real estate, construction, and commercial business loans that have a principal balance of $750,000 or more. Quarterly, the Company reviews the rating of any consumer loan, broadly defined, that is delinquent 90 days or more. Likewise, quarterly, the Company reviews the rating of any commercial loan, broadly defined, that is delinquent 60 days or more. Annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

Internal classification of the loan portfolio was as follows:

	June 30, 2017						
	Residential Mortgage (1-4 Family)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
	(In Thousands)						
Grade:							
Pass	$110,132	$ 245,550	$ 28,984	$48,961	$ 15,141	$ 57,700	$506,468
Special mention	-	-	456	-	-	-	456
Substandard	774	455	-	305	114	530	2,178
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	38	-	38
Total	$110,906	$ 246,005	$ 29,440	$49,266	$ 15,293	$ 58,230	$509,140
Credit risk profile based on payment activity							
Performing	$110,406	$ 245,554	$ 29,440	$48,961	$ 15,149	$ 57,940	$507,450
Restructured loans	-	-	-	-	-	-	-
Nonperforming	500	451	-	305	144	290	1,690
Total	$110,906	$ 246,005	$ 29,440	$49,266	$ 15,293	$ 58,230	$509,140

	December 31, 2016						
	Residential Mortgage (1-4 Family)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
	(In Thousands)						
Grade:							
Pass	$112,524	$214,476	$ 20,084	$48,643	$ 14,697	$ 54,470	$464,894
Special mention	-	-	456	-	-	-	456
Substandard	738	451	-	375	95	236	1,895
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	8	-	8
Total	$113,262	$214,927	$ 20,540	$49,018	$ 14,800	$ 54,706	$467,253
Credit risk profile based on payment activity							
Performing	$112,585	$214,923	$ 20,540	$48,643	$ 14,704	$ 54,706	$466,101
Restructured loans	-	-	-	43	-	-	43
Nonperforming	677	4	-	332	96	-	1,109
Total	$113,262	$214,927	$ 20,540	$49,018	$ 14,800	$ 54,706	$467,253

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

	June 30, 2017 Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total	Non-Accrual Loans	Current Loans	Total Loans
	(In Thousands)					
Residential mortgage (1-4 family)	$764	$ -	$764	$ 500	$109,642	$110,906
Commercial real estate	250	-	250	451	245,304	246,005
Real estate construction	-	-	-	-	29,440	29,440
Home equity	320	-	320	305	48,641	49,266
Consumer	138	-	138	144	15,011	15,293
Commercial	299	79	378	211	57,641	58,230
Total	$1,771	$ 79	$1,850	$ 1,611	$505,679	$509,140

	December 31, 2016 Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total	Non-Accrual Loans	Current Loans	Total Loans
	(In Thousands)					

Residential mortgage (1-4 family)	$975	$ 456	$1,431	$ 221	$111,610	$113,262
Commercial real estate	513	4	517	-	214,410	214,927
Real estate construction	-	-	-	-	20,540	20,540
Home equity	365	35	400	297	48,321	49,018
Consumer	169	-	169	96	14,535	14,800
Commercial	249	-	249	-	54,457	54,706
Total	$2,271	$ 495	$2,766	$ 614	$463,873	$467,253

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables include information regarding impaired loans.

	June 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In Thousands)		
With no related allowance:			
Residential mortgage (1-4 family)	$500	$ 501	$ -
Commercial real estate	451	451	-
Construction	-	-	-
Home equity	305	324	-
Consumer	106	154	-
Commercial	211	313	-
With a related allowance:			
Residential mortgage (1-4 family)	-	-	-
Commercial real estate	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	38	38	38
Commercial	-	-	-
Total:			
Residential mortgage (1-4 family)	500	501	-
Commercial real estate	451	451	-
Construction	-	-	-
Home equity	305	324	-
Consumer	144	192	38
Commercial	211	313	-
Total	$1,611	$ 1,781	$ 38

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In Thousands)		
With no related allowance:			
Residential mortgage (1-4 family)	$221	$ 221	$ -
Commercial real estate	-	-	-
Construction	-	-	-
Home equity	340	390	-
Consumer	88	135	-
Commercial	-	-	-
With a related allowance:			
Residential mortgage (1-4 family)	-	-	-
Commercial real estate	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	8	8	8
Commercial	-	-	-
Total:			
Residential mortgage (1-4 family)	221	221	-
Commercial real estate	-	-	-
Construction	-	-	-
Home equity	340	390	-
Consumer	96	143	8
Commercial	-	-	-
Total	$657	$ 754	$ 8

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	Average Recorded Investment (In Thousands)			
Residential mortgage (1-4 family)	$360	$834	$360	$865
Commercial real estate	226	518	226	520
Construction	-	-	-	-
Home equity	320	284	323	270
Consumer	140	118	120	131
Commercial	179	214	105	294
Total	$1,225	$1,968	$1,134	$2,080

Interest income recognized on impaired loans for the three and six months ended June 30, 2017 and 2016 are considered insignificant.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS

A troubled debt restructured (“TDR”) loan is a loan in which the Bank grants a concession to the borrower that it would not otherwise consider, for reasons related to a borrower's financial difficulties. The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market rates; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites or a combination of these modification methods. A TDR loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

The Company offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification – A modification in which the interest rate is changed.

Term Modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination Modification – Any other type of modification, including the use of multiple categories above.

The Company previously had one TDR loan at December 31, 2016 with a recorded investment of $43,000 and a $34,000 charge-off at time of restructure. The loan was a home equity loan and was on accrual status. The remaining recorded investment of $42,000 was paid-off during the quarter ended June 30, 2017 and the $34,000 charge-off was recovered.

The Bank’s policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appears relatively certain. The Bank’s policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

During the three and six months ended June 30, 2017 and 2016, there were no new restructured loans.

There were no loans modified as a troubled debt restructured loan within the previous six months for which there was a payment default during the six months ended June 30, 2017.

A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. As of June 30, 2017 and December 31, 2016, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. DEPOSITS

Deposits are summarized as follows:

	June 30, 2017	December 31, 2016
	(In Thousands)	
Noninterest checking	$91,811	$82,877
Interest bearing checking	95,272	93,163
Savings	88,735	82,266
Money market	89,220	89,211
Time certificates of deposit	149,227	165,278
Total	$514,265	$512,795

NOTE 6. OTHER LONG-TERM DEBT

Other long-term debt consisted of the following:

June 30, 2017		December 31, 2016	
Principal Amount	Unamortized Debt Issuance Costs	Principal Amount	Unamortized Debt Issuance Costs
(In Thousands)			
$ 10,000	$ (202)	$ -	$ -

Senior notes fixed at 5.75%, due 2022										
Subordinated debentures fixed at 6.75%, due 2025		10,000		(175	)		10,000		(185	)
Subordinated debentures variable at 3-Month Libor plus 1.42%, due 2035		5,155		-			5,155		-	
Total other long-term debt	$	25,155	$	(377	)	$	15,155	$	(185	)

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

In June 2015, the Company completed the issuance of $10,000,000 in aggregate principal amount of subordinated notes due in 2025 in a private placement transaction to an institutional accredited investor. The notes will bear interest at an annual fixed rate of 6.75% and interest will be paid quarterly through maturity date or earlier redemption.

In September 2005, the Company completed the private placement of $5,155,000 in subordinated debentures to Eagle Bancorp Statutory Trust I (“the Trust”). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank, N.A. with a liquidation value of $5,155,000. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders in December 2005. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities was fixed at 6.02% until December 2010 then became variable at 3-Month LIBOR plus 1.42%, making the rate 2.719% and 2.418% as of June 30, 2017 and December 31, 2016, respectively. Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in December 2035 unless the Company elects and obtains regulatory approval to accelerate the maturity date.

For the three months ended June 30, 2017 and 2016, interest expense on other long-term debt was $347,000 and $195,000, respectively. For the six months ended June 30, 2017 and 2016, interest expense on other long-term debt was $619,000 and $389,000, respectively.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7. EARNINGS PER SHARE

Basic earnings per share for the three months ended June 30, 2017 was computed using 3,811,409 weighted average shares outstanding. Basic earnings per share for the three months ended June 30, 2016 was computed using 3,779,464 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,869,885 for the three months ended June 30, 2017 and 3,873,171 for the three months ended June 30, 2016.

Basic earnings per share for the six months ended June 30, 2017 was computed using 3,811,409 weighted average shares outstanding. Basic earnings per share for the six months ended June 30, 2016 was computed using 3,779,464 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,872,765 for the six months ended June 30, 2017 and 3,873,171 for the six months ended June 30, 2016.

NOTE 8. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the year ended December 31, 2016, Eagle paid dividends of $0.0775 per share for the quarters ended March 31 and June 30, 2016. Eagle paid dividends of $0.08 per share for the quarters ended September 30 and December 31, 2016. A dividend of $0.08 per share was declared on January 26, 2017, and paid March 3, 2017 to shareholders of record on February 10, 2017. A dividend of $0.08 per share was declared on April 20, 2017, payable on June 2, 2017 to shareholders of record on May 12, 2017. A dividend of $0.09 per share was declared on July 20, 2017, payable on September 1, 2017 to shareholders of record on August 11, 2017.

On July 20, 2017, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. The plan expires on July 20, 2018.

On July 21, 2016, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. No shares were purchased under this plan during the year ended December 31, 2016. No shares were purchased under this plan during the three months ended March 31, 2017 or June 30, 2017. The plan expired on July 21, 2017.

On July 23, 2015, the Board of Directors authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. During the three months ended December 31, 2015, 15,000 shares were purchased at an average price of $11.75 per share. During the three months ended September 30, 2015, 46,065 shares were purchased at an average price of $11.47 per share. The plan expired on July 23, 2016.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Unrealized Gains (Losses) on Derivatives Designated as Cash Flow Hedges	Unrealized (Losses) Gains on Investment Securities Available for Sale	Total
	(In Thousands)		
Balance, January 1, 2017	$ 330	$ (741)	$ (411)
Other comprehensive income, before reclassifications and income taxes	341	279	620
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(558)	-	(558)
Income tax benefit (expense)	88	(113)	(25)
Total other comprehensive (loss) income	(129)	166	37
Balance, March 31, 2017	201	(575)	(374)
Other comprehensive income, before reclassifications and income taxes	657	1,775	2,432
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(341)	14	(327)
Income tax expense	(128)	(730)	(858)
Total other comprehensive income	188	1,059	1,247
Balance, June 30, 2017	$ 389	$ 484	$ 873
Balance, January 1, 2016	$ 376	$ (124)	$ 252
Other comprehensive income, before reclassifications and income taxes	636	1,127	1,763
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(635)	-	(635)
Income tax expense	-	(460)	(460)

Total other comprehensive income	1	667	668
Balance, March 31, 2016	377	543	920
Other comprehensive income, before reclassifications and income taxes	859	2,327	3,186
Amounts reclassified from accumulated other comprehensive income, before income taxes	(636)	(84)	(720)
Income tax expense	(91)	(914)	(1,005)
Total other comprehensive income	132	1,329	1,461
Balance, June 30, 2016	$509	$ 1,872	$2,381

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. DERIVATIVES AND HEDGING ACTIVITIES

Mortgage Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held-for-sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Interest Rate Lock Commitments

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of interest rate lock commitments was $35,341,000 and $19,738,000 at June 30, 2017 and December 31, 2016, respectively. The fair value of such commitments was insignificant.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

NOTE 11. FAIR VALUE DISCLOSURES

FASB ASC 820 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and, (iv) willing to transact.

FASB ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied.

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, FASB ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date, or convert to cash in the short term.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES – continued

Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Available-for-Sale Securities – Securities classified as available-for-sale are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

Loans Held-for-Sale – These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds based on sales contracts and commitments and are considered Level 2 inputs.

Repossessed Assets – Fair values are valued at the time the loan is foreclosed upon and the asset is transferred from loans. The value is based upon primary third party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in Level 3 classification of the inputs for determining fair value. Repossessed assets are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on same or similar factors above.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES – continued

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

	June 30, 2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government and agency	$-	$4,246	$ -	$4,246
Municipal obligations	-	65,924	-	65,924
Corporate obligations	-	9,606	-	9,606
MBSs - government-backed	-	27,717	-	27,717
CMOs - government-backed	-	15,698	-	15,698
Loans held-for-sale	-	16,206	-	16,206

	December 31, 2016			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government and agency	$-	$5,608	$ -	$5,608
Municipal obligations	-	67,664	-	67,664
Corporate obligations	-	9,307	-	9,307
MBSs - government-backed	-	29,512	-	29,512
CMOs - government-backed				