

Eagle Bancorp Montana, Inc.  
Form 10-Q  
November 13, 2017  
**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, 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.

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(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

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(Address of principal executive offices)

(406) 442-3080

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(Issuer's telephone number)

Website address: [www.opportunitybank.com](http://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  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  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

(Do not check if smaller

Emerging growth company

reporting 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 5,000,450 shares outstanding  
As of November 13, 2017

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

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

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- 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 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 including our proposed acquisition of TwinCo, Inc.;
- 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)

	September 30, 2017	December 31, 2016
<b>ASSETS:</b>		
Cash and due from banks	\$ 7,371	\$ 6,531
Interest bearing deposits in banks	784	787
Total cash and cash equivalents	8,155	7,318
Securities available-for-sale	120,767	128,436
Federal Home Loan Bank stock	4,121	4,012
Federal Reserve Bank stock	871	871
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	9,606	18,230
Loans receivable, net of deferred loan fees of \$1,027 at September 30, 2017 and \$1,092 at December 31, 2016 and allowance for loan losses of \$5,500 at September 30, 2017 and \$4,770 at December 31, 2016	504,684	461,391
Accrued interest and dividends receivable	2,269	2,123
Mortgage servicing rights, net	6,398	5,853
Premises and equipment, net	20,860	19,393
Cash surrender value of life insurance	14,385	14,095
Real estate and other repossessed assets acquired in settlement of loans, net	527	825
Goodwill	7,034	7,034
Core deposit intangible, net	300	384
Deferred tax asset, net	1,349	1,965
Other assets	1,089	1,840
Total assets	\$ 702,570	\$ 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)

	September 30, 2017	December 31, 2016
<b>LIABILITIES:</b>		
Deposit accounts:		
Noninterest bearing	\$ 104,866	\$ 82,877
Interest bearing	420,301	429,918
Total deposits	525,167	512,795
Accrued expenses and other liabilities	5,426	4,291
Federal Home Loan Bank advances and other borrowings	83,836	82,413
Other long-term debt:		
Principal amount	25,155	15,155
Unamortized debt issuance costs	(360)	(185)
Total other long-term debt less unamortized debt issuance costs	24,795	14,970
Total liabilities	639,224	614,469
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock (par value \$0.01 per share; 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 September 30, 2017 and December 31, 2016)	41	41
Additional paid-in capital	22,477	22,366
Unallocated common stock held by Employee Stock Ownership Plan	(684)	(809)
Treasury stock, at cost	(2,971)	(2,971)
Retained earnings	43,837	41,240
Net accumulated other comprehensive income (loss)	646	(411)
Total shareholders' equity	63,346	59,456
Total liabilities and shareholders' equity	\$ 702,570	\$ 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 September 30, 2017		Nine Months Ended September 30, 2016	
<b>INTEREST AND DIVIDEND INCOME:</b>				
Interest and fees on loans	\$6,478	\$5,461	\$18,222	\$15,253
Securities available-for-sale	693	709	2,136	2,196
Federal Home Loan Bank and Federal Reserve Bank dividends	48	37	124	103
Interest on deposits in banks	2	-	3	1
Other interest income	3	1	4	4
Total interest and dividend income	7,224	6,208	20,489	17,557
<b>INTEREST EXPENSE:</b>				
Deposits	386	383	1,142	1,119
Federal Home Loan Bank advances and other borrowings	329	209	856	622
Other long-term debt	350	195	969	584
Total interest expense	1,065	787	2,967	2,325
<b>NET INTEREST INCOME</b>	6,159	5,421	17,522	15,232
Loan loss provision	331	472	934	1,381
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	5,828	4,949	16,588	13,851
<b>NONINTEREST INCOME:</b>				
Service charges on deposit accounts	250	229	721	639
Net gain on sale of loans (includes \$657 and \$859 for the three months ended September 30, 2017 and 2016, respectively, and \$1,556 and \$2,130 for the nine months ended September 30, 2017 and 2016, respectively, related to accumulated other comprehensive earnings reclassification)	2,574	3,164	6,662	7,320
Mortgage loan servicing fees	525	462	1,581	1,267
Wealth management income	142	166	463	461
Interchange and ATM fees	214	227	648	652
Appreciation in cash surrender value of life insurance	125	133	375	358
Net gain (loss) on sale of available-for-sale securities (includes \$0 and \$110 for the three months ended September 30, 2017 and 2016, respectively, and (\$14) and \$194 for the nine months ended September 30, 2017 and 2016, respectively, related to accumulated other comprehensive earnings)	-	110	(14)	194

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reclassification)

Net (loss) gain on sale of real estate owned and other repossessed property	-	(6 )	(25 )	6
Other noninterest income	158	204	355	494
Total noninterest income	3,988	4,689	10,766	11,391

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>NONINTEREST EXPENSE:</b>				
Salaries and employee benefits	\$4,331	\$4,177	\$13,350	\$11,783
Occupancy and equipment expense	680	698	2,069	2,158
Data processing	563	456	1,696	1,467
Advertising	255	192	713	530
Amortization of mortgage servicing rights	288	326	812	839
Amortization of core deposit intangible and tax credits	107	112	321	335
Federal insurance premiums	78	99	198	305
Postage	48	60	147	148
Legal, accounting and examination fees	107	120	392	279
Consulting fees	14	44	122	161
Acquisition costs	276	-	276	
Write-down on real estate owned and other repossessed property	-	-	45	-
Other noninterest expense	810	875	2,475	2,388
Total noninterest expense	7,557	7,159	22,616	20,393
<b>INCOME BEFORE INCOME TAXES</b>	2,259	2,479	4,738	4,849
Income tax expense (includes (\$157) and (\$341) for the three months ended September 30, 2017 and 2016, respectively, and \$726 and \$1,124 for the nine months ended September 30, 2017 and 2016, respectively related to income tax (benefit) expense from reclassification items)	538	707	1,188	1,166
<b>NET INCOME</b>	\$1,721	\$1,772	\$3,550	\$3,683
<b>BASIC EARNINGS PER SHARE</b>	\$0.45	\$0.46	\$0.93	\$0.97
<b>DILUTED EARNINGS PER SHARE</b>	\$0.45	\$0.46	\$0.92	\$0.95
<b>WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC EPS)</b>	3,811,409	3,779,464	3,811,409	3,779,464
<b>WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED EPS)</b>	3,863,656	3,873,171	3,869,695	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 September 30, 2017		Nine Months Ended September 30, 2016	
<b>NET INCOME</b>	\$1,721	\$1,772	\$3,550	\$3,683
<b>OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME:</b>				
Change in fair value of investment securities available-for-sale, before income taxes	(91)	(676)	1,963	2,778
Reclassification for net realized (gains) losses on investment securities included in income, before income tax	-	(110)	14	(194)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	364	808	1,362	2,303
Reclassification for net realized gains on derivatives designated as cash flow hedges, before income taxes	(657)	(859)	(1,556)	(2,130)
Total other items of comprehensive (loss) income	(384)	(837)	1,783	2,757
Income tax benefit (expense) related to:				
Investment securities	38	320	(805)	(1,053)
Derivatives designated as cash flow hedges	119	21	79	(71)
Total income tax benefit (expense)	157	341	(726)	(1,124)
<b>COMPREHENSIVE INCOME</b>	\$1,494	\$1,276	\$4,607	\$5,316

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 Nine Months Ended September 30, 2017 and 2016

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	PREFERRED STOCK	COMMON STOCK	UNALLOCATED ESOP CAPITAL SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL	
<b>Balance at January 1, 2016</b>	\$ -	\$ 41	\$ 22,152	\$ (975)	\$ (3,321)	\$ 37,301	\$ 252	\$ 55,450
Net income					3,683			3,683
Other comprehensive income						1,633		1,633
Dividends paid					(888)			(888)
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (12,462 shares)			32	125				157
<b>Balance at September 30, 2016</b>	\$ -	\$ 41	\$ 22,184	\$ (850)	\$ (3,321)	\$ 40,096	\$ 1,885	\$ 60,035
<b>Balance at January 1, 2017</b>	\$ -	\$ 41	\$ 22,366	\$ (809)	\$ (2,971)	\$ 41,240	\$ (411)	\$ 59,456
Net income					3,550			3,550
Other comprehensive income						1,057		1,057
Dividends paid					(953)			(953)



Employee Stock Ownership Plan shares allocated or committed to be released for allocation (12,462 shares)			111	125					236
<b>Balance at September 30, 2017</b>	\$	-	\$ 41	\$ 22,477	\$ (684)	\$ (2,971)	\$ 43,837	\$ 646	\$ 63,346

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)

	Nine Months Ended September 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$3,550	\$3,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	934	1,381
Write-down on real estate owned and other repossessed assets	45	-
Depreciation	712	797
Net amortization of investment securities premium and discounts	1,208	1,419
Amortization of mortgage servicing rights	812	839
Amortization of core deposit intangible and tax credits	321	335
Deferred income tax benefit	(110)	(96)
Net gain on sale of loans	(6,662)	(7,320)
Net loss (gain) on sale of available-for-sale securities	14	(194)
Net loss (gain) on sale of real estate owned and other repossessed assets	25	(6)
Net loss on sale/disposal of premises and equipment	-	6
Net appreciation in cash surrender value of life insurance	(290)	(367)
Net change in:		
Accrued interest and dividends receivable	(146)	140
Loans held-for-sale	15,092	6,780
Other assets	558	256
Accrued expenses and other liabilities	1,371	1,470
Net cash provided by operating activities	17,434	9,123
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Activity in available-for-sale securities:		
Sales	2,749	20,248
Maturities, principal payments and calls	6,982	8,093
Purchases	(1,307)	(14,998)
Federal Home Loan Bank stock purchased	(109)	(473)
Federal Reserve Bank stock redeemed	-	16
Loan origination and principal collection, net	(45,618)	(55,840)
Proceeds from Bank owned life insurance	-	885
Purchase of Bank owned life insurance	-	(2,000)
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	262	122
Proceeds from sale of premises and equipment	-	7
Additions to premises and equipment	(2,179)	(2,136)

Net cash used in investing activities	(39,220)	(46,076)
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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)

	Nine Months Ended September 30,	
	2017	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	\$ 12,372	\$ 32,095
Net short-term (payments) advances on Federal Home Loan Bank and other borrowings	(35,522)	9,601
Long-term advances from Federal Home Loan Bank and other borrowings	46,300	5,000
Payments on long-term Federal Home Loan Bank and other borrowings	(9,355)	(8,462)
Proceeds from issuance of long-term debt	10,000	-
Payments for debt issuance costs	(219)	-
Dividends paid	(953)	(888)
Net cash provided by financing activities	22,623	37,346
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>837</b>	<b>393</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>7,318</b>	<b>7,438</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 8,155</b>	<b>\$ 7,831</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$ 2,939	\$ 2,341
Cash paid during the period for income taxes	\$ 1,180	\$ 1,315
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Increase in market value of securities available-for-sale	\$ 1,977	\$ 2,584
Mortgage servicing rights recognized	\$ 1,357	\$ 1,310
Loans transferred to real estate and other assets acquired in foreclosure	\$ 34	\$ 34
Employee Stock Ownership Plan shares released	\$ 236	\$ 157

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



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## 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 nine month period ended September 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 November 13, 2017 the date the unaudited consolidated financial statements were issued.

**NOTE 2. INVESTMENT SECURITIES**

Investment securities are summarized as follows:

	September 30, 2017				December 31, 2016			
	Amortized Cost (In Thousands)	Gross Unrealized Gains	Unrealized (Losses)	Fair Value	Amortized Cost	Gross Unrealized Gains (Losses)	Fair Value	
<b>Available-for-Sale:</b>								
U.S. government and agency obligations	\$4,049	\$12	\$(24)	\$4,037	\$5,673	\$7	\$(72)	\$5,608

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Municipal obligations	64,748	1,032	(415 )	65,365	68,493	575	(1,404 )	67,664
Corporate obligations	9,610	33	(36 )	9,607	9,454	15	(162 )	9,307
MBSs - government-backed	26,315	444	(232 )	26,527	29,537	283	(308 )	29,512
CMOs - government backed	15,319	20	(108 )	15,231	16,530	15	(200 )	16,345
Total	\$120,041	\$1,541	\$ (815 )	\$120,767	\$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 September 30, 2017	Nine Months Ended September 30, 2017	2016	2016
	(In Thousands)			
Proceeds from sale of available-for-sale securities	\$-	\$17,086	\$2,749	\$20,248
Gross realized gain on sale of available-for-sale securities	\$-	\$133	\$14	\$217
Gross realized loss on sale of available-for-sale securities	-	(23 )	(28 )	(23 )
Net realized (loss) gain on sale of available-for-sale securities	\$-	\$110	\$(14 )	\$194

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## 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.

	September 30, 2017	
	Amortized Fair	
	Cost	Value
	(In Thousands)	
Due in one year or less	\$3,158	\$3,157
Due from one to five years	6,651	6,716
Due from five to ten years	14,281	14,369
Due after ten years	54,317	54,767
	78,407	79,009
MBSs - government-backed	26,315	26,527
CMOs - government-backed	15,319	15,231
Total	\$120,041	\$120,767

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:

September 30, 2017			
Less Than 12 Months		12 Months or Longer	
Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses



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	(In Thousands)			
U.S. government and agency	\$3,036	\$ (24	) \$-	\$ -
Municipal obligations	9,022	(52	) 15,986	(363 )
Corporate obligations	1,570	(1	) 4,486	(35 )
MBSs and CMOs - government-backed	13,467	(108	) 10,682	(232 )
Total	\$27,095	\$ (185	) \$31,154	\$ (630 )

	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 )

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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 September 30, 2017 and December 31, 2016, there were, respectively, 68 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 September 30, 2017, 44 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 1.54% 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 September 30, 2017, 10 corporate obligations had unrealized losses of approximately 0.59% 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 September 30, 2017, 14 mortgage-backed securities ("MBSs") and collateralized mortgage obligations ("CMOs") had unrealized losses with aggregate depreciation of approximately 1.39% 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 September 30, 2017 revealed no expected credit losses on the securities and therefore, declines are not deemed to be other than temporary.

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## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 3. LOANS RECEIVABLE**

Loans receivable consisted of the following:

	September 30, 2017	December 31, 2016
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	\$ 109,250	\$ 113,262
Commercial real estate	247,501	214,927
Real estate construction	29,760	20,540
Other loans:		
Home equity	51,450	49,018
Consumer	14,696	14,800
Commercial	58,554	54,706
Total	511,211	467,253
Deferred loan fees, net	(1,027 )	(1,092 )
Allowance for loan losses	(5,500 )	(4,770 )
Total loans, net	\$504,684	\$461,391

Within the commercial real estate loan category above, \$11,174,000 and \$11,586,000 was guaranteed by the United States Department of Agriculture Rural Development, at September 30, 2017 and December 31, 2016, respectively. In addition, within the commercial loan category above, \$527,000 and \$1,588,000 were in loans originated through a syndication program where the business resides outside of Montana, at September 30, 2017, and December 31, 2016, respectively.

The following table includes information regarding nonperforming assets.

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September December  
30, 31,  
2017 2016

(Dollars in  
Thousands)

Non-accrual loans	\$1,396	\$ 614		
Accruing loans delinquent 90 days or more	-	495		
Restructured loans, net	-	43		
Total nonperforming loans	1,396	1,152		
Real estate owned and other repossessed assets, net	527	825		
Total nonperforming assets	\$1,923	\$ 1,977		
Total nonperforming assets as a percentage of total assets	0.27	%	0.29	%
Allowance for loan losses	\$5,500	\$ 4,770		
Percent of allowance for loan losses to nonperforming loans	393.98	%	414.06	%
Percent of allowance for loan losses to nonperforming assets	286.01	%	241.27	%

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## 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)						
<i>Allowance for loan losses:</i>							
Beginning balance, July 1, 2017	\$ 999	\$ 2,378	\$ 252	\$ 505	\$ 225	\$ 866	\$ 5,225
Charge-offs	-	-	-	-	(41 )	(19 )	(60 )
Recoveries	-	-	-	-	3	1	4
Provision	-	200	50	-	31	50	331
Ending balance, September 30, 2017	\$ 999	\$ 2,578	\$ 302	\$ 505	\$ 218	\$ 898	\$ 5,500
<i>Allowance for loan losses:</i>							
Beginning balance, January 1, 2017	\$ 997	\$ 2,079	\$ 244	\$ 460	\$ 193	\$ 797	\$ 4,770
Charge-offs	-	-	-	-	(140 )	(118 )	(258 )
Recoveries	-	-	-	39	14	1	54
Provision	2	499	58	6	151	218	934
Ending balance, September 30, 2017	\$ 999	\$ 2,578	\$ 302	\$ 505	\$ 218	\$ 898	\$ 5,500
Ending balance, September 30, 2017 allocated to loans individually evaluated for impairment	\$-	\$-	\$-	\$-	\$ 32	\$-	\$ 32
Ending balance, September 30, 2017 allocated to loans collectively evaluated for impairment	\$ 999	\$ 2,578	\$ 302	\$ 505	\$ 186	\$ 898	\$ 5,468
<i>Loans receivable:</i>							
	\$ 109,250	\$ 247,501	\$ 29,760	\$ 51,450	\$ 14,696	\$ 58,554	\$ 511,211

Ending balance, September 30,  
2017

Ending balance, September 30, 2017 of loans individually evaluated for impairment	\$484	\$ 451	\$ -	\$242	\$ 131	\$ 88	\$1,396
Ending balance, September 30, 2017 of loans collectively evaluated for impairment	\$ 108,766	\$ 247,050	\$ 29,760	\$51,208	\$ 14,565	\$ 58,466	\$509,815

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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
<i>Allowance for loan losses:</i>							
Beginning balance, July 1, 2016	\$981	\$ 2,007	\$ 244	\$365	\$ 174	\$ 489	\$4,260
Charge-offs	(4 )	-	-	-	(79 )	-	(83 )
Recoveries	-	-	-	-	1	-	1
Provision	-	170	-	28	74	200	472
Ending balance, September 30, 2016	\$977	\$ 2,177	\$ 244	\$393	\$ 170	\$ 689	\$4,650
<i>Allowance for loan losses:</i>							
Beginning balance, January 1, 2016	\$911	\$ 1,593	\$ 184	\$342	\$ 66	\$ 454	\$3,550
Charge-offs	(4 )	-	-	(7 )	(179 )	(104 )	(294 )
Recoveries	-	-	-	-	13	-	13
Provision	70	584	60	58	270	339	1,381
Ending balance, September 30, 2016	\$977	\$ 2,177	\$ 244	\$393	\$ 170	\$ 689	\$4,650
Ending balance, September 30, 2016 allocated to loans individually evaluated for impairment	\$-	\$ -	\$ -	\$-	\$ 14	\$ 15	\$29
Ending balance, September 30, 2016 allocated to loans collectively evaluated for impairment	\$977	\$ 2,177	\$ 244	\$393	\$ 156	\$ 674	\$4,621
<i>Loans receivable:</i>							
Ending balance, September 30, 2016	\$113,287	\$ 205,819	\$ 20,649	\$47,694	\$ 14,867	\$ 60,102	\$462,418
Ending balance, September 30, 2016 of loans individually	\$423	\$ 374	\$ -	\$339	\$ 68	\$ 261	\$1,465



evaluated for impairment

Ending balance, September 30,

2016 of loans collectively evaluated for impairment	\$ 112,864	\$ 205,445	\$ 20,649	\$ 47,355	\$ 14,799	\$ 59,841	\$ 460,953
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The Company utilizes an 8 point internal loan rating system, largely based on regulatory classifications, as follows:

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

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

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

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

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

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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:

	September 30, 2017						
	Residential						
	Mortgage (1-4 Family)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
	(In Thousands)						
Grade:							
Pass	\$108,494	\$246,989	\$29,304	\$51,208	\$14,557	\$58,375	\$508,927
Special mention	-	-	456	-	-	-	456
Substandard	756	512	-	242	107	179	1,796
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	32	-	32
Total	\$109,250	\$247,501	\$29,760	\$51,450	\$14,696	\$58,554	\$511,211
Credit risk profile based on payment activity							
Performing	\$108,766	\$247,050	\$29,760	\$51,208	\$14,565	\$58,466	\$509,815
Restructured loans	-	-	-	-	-	-	-
Nonperforming	484	451	-	242	131	88	1,396
Total	\$109,250	\$247,501	\$29,760	\$51,450	\$14,696	\$58,554	\$511,211

December 31, 2016

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	Residential Mortgage (1-4 Family) (In Thousands)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
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.

September 30, 2017

Loans Past Due  
and Still Accruing

90 Days	30-89 and Days	Past Due	Greater	Total	Loans	Non-Accrual	Current	Total