Eagle Bancorp Montana, Inc.
Form 10-Q
August 12, 2015

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, 2015

o 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 o

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 o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if smaller reporting company)	o	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (defined in Rule 12b-2 of the Exchange Act). Yes o 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 3,822,981 shares outstanding
As of August 12, 2015

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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101.LAB XBRL Taxonomy Extension Label 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," "contin "could," "intend," "target" and other similar words and expressions of the future. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the 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, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- 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;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;
- the impact of a recurring recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the Company's ability to develop and maintain secure and reliable information technology systems or recover from breaches to its cybersecurity infrastructure;
- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and

the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting 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 transition period from July 1, 2014 to December 31, 2014, 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS:		
Cash and due from banks	$8,108	$11,889
Interest-bearing deposits in banks	619	613
Total cash and cash equivalents	8,727	12,502
Securities available-for-sale	148,766	161,787
Federal Home Loan Bank stock	2,326	1,968
Federal Reserve Bank stock	642	641
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	17,184	17,587
Loans receivable, net of deferred loan fees of $605 at June 30, 2015 and $486 at December 31, 2014 and allowance for loan losses of $2,950 at June 30, 2015 and $2,450 at December 31, 2014	355,420	316,270
Accrued interest and dividends receivable	2,337	2,318
Mortgage servicing rights, net	4,517	4,115
Premises and equipment, net	18,459	19,964
Cash surrender value of life insurance	11,898	11,735
Real estate and other repossessed assets acquired in settlement of loans, net	623	637
Goodwill	7,034	7,034
Core deposit intangible, net	588	663
Deferred tax asset, net	2,196	1,467
Other assets	2,495	1,364
Total assets	$583,367	$560,207

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)
(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

	June 30, 2015	December 31, 2014
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	$69,565	$60,507
Interest bearing	396,016	380,476
Total deposits	465,581	440,983
Accrued expenses and other liabilities	5,463	4,578
Federal Home Loan Bank advances and other borrowings	43,611	54,993
Subordinated debentures:		
Principal amount	15,155	5,155
Unamortized debt issuance costs	(150)	-
Total subordinated debentures less unamortized debt issuance costs	15,005	5,155
Total liabilities	529,660	505,709
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; 3,822,981 and 3,878,781 shares outstanding at June 30, 2015 and December 31, 2014, respectively)	41	41
Additional paid-in capital	22,129	22,122
Unallocated common stock held by Employee Stock Ownership Plan	(1,057)	(1,141)
Treasury stock, at cost	(2,810)	(2,194)
Retained earnings	36,490	35,885
Net accumulated other comprehensive loss	(1,086)	(215)
Total shareholders' equity	53,707	54,498
Total liabilities and shareholders' equity	$583,367	$560,207

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME:				
Interest and fees on loans	$4,255	$3,379	$8,217	$6,633
Securities available-for-sale	737	1,117	1,496	2,183
Federal Home Loan Bank and Federal Reserve Bank dividends	20	-	20	-
Interest on deposits in banks	3	3	6	4
Total interest and dividend income	5,015	4,499	9,739	8,820
INTEREST EXPENSE:				
Deposits	356	332	693	661
Federal Home Loan Bank advances and other borrowings	128	147	271	299
Subordinated debentures	42	21	63	42
Total interest expense	526	500	1,027	1,002
NET INTEREST INCOME	4,489	3,999	8,712	7,818
Loan loss provision	328	168	650	296
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	4,161	3,831	8,062	7,522
NONINTEREST INCOME:				
Service charges on deposit accounts	243	253	466	479
Net gain on sale of loans (includes $529 and $238 for the three months ended June 30, 2015 and 2014, respectively, and $1,025 and $604 for the six months ended June 30, 2015 and 2014, respectively, related to accumulated other comprehensive earnings reclassification)	1,856	1,196	3,487	2,032
Mortgage loan servicing fees	422	360	837	719
Wealth management income	111	152	296	271
Net gain on sale of available-for-sale securities (includes $48 and $41 for the three months ended June 30, 2015 and 2014, respectively, and $234 and $237 for the six months ended June 30, 2015 and 2014, respectively, related to accumulated other comprehensive earnings reclassification)	48	41	234	237
Net loss on sale of real estate owned and other repossessed property	(1)	-	(2)	-
Net loss on fair value hedge	-	(62)	(93)	(134)
Other noninterest income	596	411	932	870
Total noninterest income	3,275	2,351	6,157	4,474

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

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,	
	2015	2014	2015	2014
NONINTEREST EXPENSE:				
Salaries and employee benefits	3,639	3,183	7,018	6,392
Occupancy and equipment expense	733	688	1,469	1,399
Data processing	536	481	1,045	939
Advertising	174	148	393	359
Amortization of mortgage servicing rights	205	164	422	296
Amortization of core deposit intangible and tax credits	101	105	201	210
Federal insurance premiums	73	19	168	103
Postage	43	43	89	83
Legal, accounting and examination fees	133	175	289	286
Consulting fees	211	218	451	382
Write-down on real estate owned and other repossessed property	-	10	-	10
Other noninterest expense	624	509	1,288	983
Total noninterest expense	6,472	5,743	12,833	11,442
INCOME BEFORE INCOME TAXES	964	439	1,386	554
Income tax expense (benefit) (includes ($1,147) and $1,088 for the three months ended June 30, 2015 and 2014, respectively, and ($600) and $2,379 for the six months ended June, 30, 2015 and 2014, respectively related to income tax expense (benefit) from reclassification items)	172	(423)	208	(416)
NET INCOME	$792	$862	$1,178	$970
BASIC EARNINGS PER SHARE	$0.21	$0.22	$0.31	$0.25
DILUTED EARNINGS PER SHARE	$0.21	$0.21	$0.30	$0.24
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC EPS)	3,822,981	3,916,233	3,833,739	3,916,233
WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED EPS)	3,860,236	3,971,036	3,870,994	3,971,036

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, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
NET INCOME	$792	$862	$1,178	$970
OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME:				
Change in fair value of investment securities available for sale, before income taxes	(2,698)	2,490	(1,203)	5,979
Reclassification for realized gains and losses on investment securities included in income, before income tax	(48)	(41)	(234)	(237)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	462	461	991	699
Reclassification for realized gains on derivatives designated as cash flow hedges, before income taxes	(529)	(238)	(1,025)	(604)
Total other items of comprehensive (loss) income	(2,813)	2,672	(1,471)	5,837
Income tax benefit (expense) related to:				
Investment securities	1,120	(997)	586	(2,340)
Derivatives designated as cash flow hedges	27	(91)	14	(39)
	1,147	(1,088)	600	(2,379)
COMPREHENSIVE (LOSS) INCOME	$(874)	$2,446	$307	$4,428

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2015 and 2014
(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 (LOSS) INCOME	TOTAL
Balance at December 31, 2013	$ -	$ 41	$ 22,118	$ (1,307)	$ (1,800)	$ 34,422	$ (5,717)	$ 47,757
Net income						970		970
Other comprehensive income							3,458	3,458
Dividends paid ($0.0725 per share)						(568)		(568)
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (8,308 shares)			5	83				88
Balance at June 30, 2014	$ -	$ 41	$ 22,123	$ (1,224)	$ (1,800)	$ 34,824	$ (2,259)	$ 51,705
Balance at December 31, 2014	$ -	$ 41	$ 22,122	$ (1,141)	$ (2,194)	$ 35,885	$ (215)	$ 54,498
Net income						1,178		1,178
Other comprehensive loss							(871)	(871)
Dividends paid ($0.0750 per share)						(573)		(573)

Employee Stock Ownership Plan shares allocated or committed to be released for allocation (8,308 shares)			7	84				91
Treasury stock purchased (55,800 shares at $11.03 average cost per share)					(616)			(616)
Balance at June 30, 2015	$ -	$ 41	$22,129	$(1,057)	$(2,810)	$36,490	$(1,086)	$53,707

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

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, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,178	$970
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	650	296
Write-down on real estate owned and other repossessed assets	-	10
Depreciation	605	572
Net amortization of investment securities premium and discounts	1,033	1,233
Amortization of mortgage servicing rights	422	296
Amortization of core deposit intangible and tax credits	201	210
Deferred income tax benefit	(40)	(112)
Net gain on sale of loans	(3,487)	(2,032)
Net gain on sale of available-for-sale securities	(234)	(237)
Net loss on sale of real estate owned and other repossessed assets	2	-
Net loss on fair value hedge	93	134
Net (gain) loss on sale/disposal of premises and equipment	(304)	11
Net appreciation in cash surrender value of life insurance	(163)	(156)
Net change in:		
Accrued interest and dividends receivable	(19)	(41)
Loans held-for-sale	3,856	(408)
Other assets	(1,404)	(457)
Accrued expenses and other liabilities	954	536
Net cash provided by operating activities	3,343	825
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	31,043	17,680
Maturities, principal payments and calls	6,008	7,853
Purchases	(26,266)	(15,333)
Federal Home Loan Bank stock (purchased) redeemed	(358)	18
Federal Reserve Bank stock purchased	(1)	-
Loan origination and principal collection, net	(40,633)	(27,484)
Proceeds from Bank owned life insurance	-	109
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	21	2
Insurance proceeds related to premises and equipment	-	3
Proceeds from sale of premises and equipment	1,437	-
Additions to premises and equipment	(246)	(1,532)
Net cash used in investing activities	(28,995)	(18,684)

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

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, 2015	Six Months Ended June 30, 2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$24,598	$(5,196)
Net short-term (payments) advances on Federal Home Loan Bank and other borrowings	(17,220)	23,487
Long-term advances from Federal Home Loan Bank and other borrowings	13,000	5,000
Payments on long-term Federal Home Loan Bank and other borrowings	(7,162)	(5,100)
Proceeds from issuance of subordinated debentures	10,000	-
Payment for debt issuance costs	(150)	-
Dividends paid	(573)	(568)
Purchase of treasury stock, at cost	(616)	-
Net cash provided by financing activities	21,877	17,623
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,775)	(236)
CASH AND CASH EQUIVALENTS, beginning of period	12,502	7,055
CASH AND CASH EQUIVALENTS, end of period	$8,727	$6,819
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$1,017	$996
Cash paid during the period for income taxes	$50	$1
NON-CASH INVESTING ACTIVITIES:		
(Decrease) increase in market value of securities available-for-sale	$(1,437)	$5,742
Mortgage servicing rights recognized	$824	$525
Loans transferred to real estate and other assets acquired in foreclosure	$9	$51
Employee Stock Ownership Plan shares released	$91	$88

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 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's Form 10-K for the six month transition period ended December 31, 2014.

Certain prior period amounts have been reclassified to conform to the presentation for 2015. These reclassifications had no impact on net income or total shareholders' equity.

The Company evaluated subsequent events for potential recognition and/or disclosure through August 12, 2015 the date the unaudited consolidated financial statements were issued.

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	June 30, 2015				December 31, 2014			
		Gross Unrealized				Gross Unrealized		
	Amortized Cost	Gains	(Losses)	Fair Value	Amortized Cost	Gains	(Losses)	Fair Value
	(In Thousands)							
Available-for-Sale:								
U.S. government and agency obligations	$12,548	$22	$(198)	$12,372	$33,472	$42	$(333)	$33,181
Municipal obligations	67,087	525	(2,116)	65,496	71,844	1,243	(1,202)	71,885
Corporate obligations	11,245	15	(81)	11,179	5,990	27	(12)	6,005
MBSs - government-backed	33,481	101	(132)	33,450	22,097	56	(189)	21,964
CMOs - government backed	26,701	11	(443)	26,269	29,243	26	(517)	28,752
Total	$151,062	$674	$(2,970)	$148,766	$162,646	$1,394	$(2,253)	$161,787

For the three months ended June 30, 2015 and 2014, net proceeds from sales of securities available-for-sale were $22,096,000 and $13,725,000, respectively. For the three months ended June 30, 2015 and 2014, gross realized gains were $292,000 and $154,000, respectively and gross realized losses were $244,000 and $113,000, respectively. For the six months ended June 30, 2015 and 2014, net proceeds from sales of securities available-for-sale were $31,043,000 and $17,680,000, respectively. For the six months ended June 30, 2015 and 2014, gross realized gains were $534,000 and $367,000, respectively and gross realized losses were $300,000 and $130,000, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

The amortized cost and fair value of securities at June 30, 2015 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.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 996	$ 1,001
Due from one to five years	8,969	8,940
Due from five to ten years	17,619	17,403
Due after ten years	63,296	61,703
	90,880	89,047
MBSs - government-backed	33,481	33,450
CMOs - government-backed	26,701	26,269
Total	$ 151,062	$ 148,766

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, 2015			
	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	$2,347	$(25)	$8,461	$(173)
Municipal obligations	25,871	(725)	23,990	(1,391)
Corporate obligations	6,398	(45)	1,964	(36)
MBSs and CMOs - government-backed	21,886	(213)	15,908	(362)
Total	$56,502	$(1,008)	$50,323	$(1,962)

	December 31, 2014			
	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	$1,611	$(19)	$27,733	$(314)
Municipal obligations	2,330	(48)	44,386	(1,154)
Corporate obligations	997	(2)	1,990	(10)

MBSs and CMOs - government-backed	9,091	(68)	35,333	(638)
Total	$14,029	$(137)	$109,442	$(2,116)

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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, 2015 and December 31, 2014, there were 105 and 87, respectively, securities in an unrealized loss position and that were considered to be temporarily impaired and therefore an impairment charge has not been recorded.

At June 30, 2015, 75 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 3.67% from the Company’s amortized cost basis of these securities. At December 31, 2014, 69 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 1.98% 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.

At June 30, 2015, 12 corporate obligations had an unrealized loss of approximately 0.96% from the Company’s amortized cost basis of these securities. At December 31, 2014, 3 corporate obligations had an unrealized loss with aggregate depreciation of approximately 0.40% from the Company's cost basis. This unrealized loss is 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.

At June 30, 2015, 18 MBSs and CMOs had unrealized losses with aggregate depreciation of approximately 1.50% from the Company’s cost basis of these securities. At December 31, 2014, 15 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of approximately 1.56% from the Company’s 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, 2015 revealed no expected credit losses on the securities and therefore, declines are not deemed to be other than temporary.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consisted of the following:

	June 30, 2015	December 31, 2014
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$106,852	$102,543
Commercial real estate	139,812	117,627
Real estate construction	10,513	8,002
Other loans:		
Home equity	40,946	39,671
Consumer	14,480	13,827
Commercial	46,372	37,536
Total	358,975	319,206
Allowance for loan losses	(2,950)	(2,450)
Deferred loan fees, net	(605)	(486)
Total loans, net	$355,420	$316,270

Within the commercial real estate loan category above, $12,364,000 and $12,612,000 was guaranteed by the United States Department of Agriculture Rural Development, at June 30, 2015 and December 31, 2014, respectively. In addition, within the commercial loan category above, $3,078,000 and $3,704,000 were in loans originated through a syndication program where the business resides outside of Montana, at June 30, 2015, and December 31, 2014, respectively.

The following table includes information regarding nonperforming assets.

	June 30, 2015	December 31, 2014
	(Dollars in Thousands)	
Non-accrual loans	$541	$962
Accruing loans delinquent 90 days or more	-	-
Restructured loans, net	47	48
Total nonperforming loans	588	1,010
Real estate owned and other repossessed assets, net	623	637
Total nonperforming assets	$1,211	$1,647
Total non-performing assets as a percentage of total assets	0.21%	0.29%

Allowance for loan losses	$2,950	$2,450
Percent of allowance for loan losses to non-performing loans	501.70 %	242.57 %
Percent of allowance for loan losses to non-performing assets	243.60 %	148.76 %

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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, 2015	$ 645	$ 1,226	$ 40	$ 306	$ 50	$ 358	$ 2,625
Charge-offs	-	-	-	-	(4)	-	(4)
Recoveries	-	-	-	-	1	-	1
Provision	40	199	5	20	5	59	328
Ending balance, June 30, 2015	$ 685	$ 1,425	$ 45	$ 326	$ 52	$ 417	$ 2,950
Allowance for loan losses:							
Beginning balance, January 1, 2015	$ 684	$ 1,098	$ 35	$ 270	$ 46	$ 317	$ 2,450
Charge-offs	(137)	-	-	-	(15)	-	(152)
Recoveries	-	-	-	-	2	-	2
Provision	138	327	10	56	19	100	650
Ending balance, June 30, 2015	$ 685	$ 1,425	$ 45	$ 326	$ 52	$ 417	$ 2,950
Ending balance, June 30, 2015 allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 1	$ 25	$ 26
Ending balance, June 30, 2015 allocated to loans collectively evaluated for impairment	$ 685	$ 1,425	$ 45	$ 326	$ 51	$ 392	$ 2,924
Loans receivable:							
Ending balance, June 30, 2015	$ 106,852	$ 139,812	$ 10,513	$ 40,946	$ 14,480	$ 46,372	$ 358,975

Ending balance, June 30, 2015 of loans individually evaluated for impairment	$ 632	$ 907	$ -	$ 263	$ 42	$ 255	$ 2,099
Ending balance, June 30, 2015 of loans collectively evaluated for impairment	$ 106,220	$ 138,905	$ 10,513	$ 40,683	$ 14,438	$ 46,117	$ 356,876

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	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, 2014	$ 471	$ 916	$ 27	$ 325	$ 44	$ 392	$ 2,175
Charge-offs	-	-	-	(68)	(24)	(144)	(236)
Recoveries	-	17	-	-	1	-	18
Provision	14	41	3	42	28	40	168
Ending balance, June 30, 2014	$ 485	$ 974	$ 30	$ 299	$ 49	$ 288	$ 2,125
Allowance for loan losses:							
Beginning balance, January 1, 2014	$ 463	$ 914	$ 25	$ 324	$ 51	$ 343	$ 2,120
Charge-offs	-	(21)	-	(68)	(77)	(144)	(310)
Recoveries	-	17	-	-	2	-	19
Provision	22	64	5	43	73	89	296
Ending balance, June 30, 2014	$ 485	$ 974	$ 30	$ 299	$ 49	$ 288	$ 2,125
Ending balance, June 30, 2014 allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ 31	$ 20	$ 15	$ 66
Ending balance, June 30, 2014 allocated to loans collectively evaluated for impairment	$ 485	$ 974	$ 30	$ 268	$ 29	$ 273	$ 2,059
Loans receivable:							
Ending balance, June 30, 2014	$ 92,321	$ 92,043	$ 6,923	$ 37,866	$ 12,964	$ 34,412	$ 276,529

Ending balance, June 30, 2014 of loans individually evaluated for impairment	$ 660	$ 280	$ -	$ 288	$ 101	$ 315	$ 1,644
Ending balance, June 30, 2014 of loans collectively evaluated for impairment	$ 91,661	$ 91,763	$ 6,923	$ 37,578	$ 12,863	$ 34,097	$ 274,885

The Company utilizes a 5 point internal loan rating system, largely based on regulatory classifications, as follows:

Loans rated Pass: loans 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: loans that 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: loans that 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: loans that have all the weaknesses inherent in those classified Substandard with the added characteristic of weaknesses making collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans rated Loss: loans that are considered uncollectible and of such small value that 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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 $500,000 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, 2015						
	Residential Mortgage (1-4 Family)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
	(In Thousands)						
Grade:							
Pass	$ 106,220	$ 138,905	$ 10,513	$ 40,683	$ 14,438	$ 46,117	$ 356,876
Special mention	-	-	-	-	-	-	-
Substandard	632	907	-	263	35	230	2,067
Doubtful	-	-	-	-	6	-	6
Loss	-	-	-	-	1	25	26
Total	$ 106,852	$ 139,812	$ 10,513	$ 40,946	$ 14,480	$ 46,372	$ 358,975
Credit risk profile based on payment activity							
Performing	$ 106,814	$ 139,480	$ 10,513	$ 40,808	$ 14,457	$ 46,315	$ 358,387
Restructured loans	-	-	-	47	-	-	47
Nonperforming	38	332	-	91	23	57	541
Total	$ 106,852	$ 139,812	$ 10,513	$ 40,946	$ 14,480	$ 46,372	$ 358,975

	December 31, 2014						
	Residential Mortgage (1-4 Family)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
	(In Thousands)						
Grade:							
Pass	$ 101,072	$ 117,627	$ 8,002	$ 39,343	$ 13,772	$ 37,307	$ 317,123
Special mention	-	-	-	-	-	-	-
Substandard	1,331	-	-	328	41	229	1,929
Doubtful	-	-	-	-	7	-	7
Loss	140	-	-	-	7	-	147

Total	$ 102,543	$ 117,627	$ 8,002	$ 39,671	$ 13,827	$ 37,536	$ 319,206
Credit risk profile based on payment activity							
Performing	$ 101,722	$ 117,627	$ 8,002	$ 39,575	$ 13,811	$ 37,459	$ 318,196
Restructured loans	-	-	-	48	-	-	48
Nonperforming	821	-	-	48	16	77	962
Total	$ 102,543	$ 117,627	$ 8,002	$ 39,671	$ 13,827	$ 37,536	$ 319,206

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

	June 30, 2015					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still Accruing
	(In Thousands)					
Residential mortgage (1-4 family)	$943	$38	$981	$105,871	$106,852	$-
Commercial real estate	670	332	1,002	138,810	139,812	-
Real estate construction	989	-	989	9,524	10,513	-
Home equity	399	91	490	40,456	40,946	-
Consumer	199	23	222	14,258	14,480	-
Commercial	201	57	258	46,114	46,372	-
Total	$3,401	$541	$3,942	$355,033	$358,975	$-

	December 31, 2014					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still Accruing
	(In Thousands)					
Residential mortgage (1-4 family)	$203	$821	$1,024	$101,519	$102,543	$-
Commercial real estate	131	-	131	117,496	117,627	-
Real estate construction	-	-	-	8,002	8,002	-
Home equity	303	48	351	39,320	39,671	-
Consumer	258	16	274	13,553	13,827	-
Commercial	331	77	408	37,128	37,536	-
Total	$1,226	$962	$2,188	$317,018	$319,206	$-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables include information regarding impaired loans.

	June 30, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
			(In Thousands)		
With no related allowance:					
Residential mortgage (1-4 family)	$632	$632	$-	$12	$641
Commercial real estate	907	907	-	11	453
Construction	-	-	-	-	-
Home equity	263	327	-	4	295
Consumer	41	73	-	1	45
Commercial	230	245	-	4	230
With a related allowance:					
Residential mortgage (1-4 family)	-	-	-	-	411
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	1	1	1	-	4
Commercial	25	40	25	-	13
Total:					
Residential mortgage (1-4 family)	632	632	-	12	1,052
Commercial real estate	907	907	-	11	453
Construction	-	-	-	-	-
Home equity	263	327	-	4	295
Consumer	42	74	1	1	49
Commercial	255	285	25	4	243
Total	$2,099	$2,225	$26	$32	$2,092

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance (In Thousands)	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
Residential mortgage (1-4 family)	$650	$650	$-	$14	$655
Commercial real estate	-	-	-	-	140
Construction	-	-	-	2	-
Home equity	328	392	-	6	293
Consumer	48	82	-	2	65
Commercial	229	259	-	9	265
With a related allowance:					
Residential mortgage (1-4 family)	821	821	140	-	411
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	16
Consumer	7	7	7	-	14
Commercial	-	-	-	-	8
Total:					
Residential mortgage (1-4 family)	1,471	1,471	140	14	1,066
Commercial real estate	-	-	-	-	140
Construction	-	-	-	2	-
Home equity	328	392	-	6	309
Consumer	55	89	7	2	79
Commercial	229	259	-	9	273
Total	$2,083	$2,211	$147	$33	$1,867

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the quarter ended December 31, 2011. As required, the Company reassessed all restructurings that occurred on or after the beginning of that fiscal year starting July 1, 2011 for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying the reassessed receivables as troubled debt restructurings, the Company also identified them as impaired under the guidance in ASC 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. As of June 30, 2015, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was $47,000 (310-40-65-1(b)), and there was no allowance for credit losses associated with these receivables, on the basis of a current evaluation of loss (310-40-65-1(b)). There was $34,000 charged-off at the time of restructure related to these receivables.

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued

The following tables present troubled debt restructurings.

	June 30, 2015		
	Accrual Status	Non-Accrual Status	Total Modification
		(In Thousands)	
Residential mortgage (1-4 family)	$ -	$ -	$ -
Commercial real estate	-	-	-
Real estate construction	-	-	-
Home equity	47	-	47
Consumer	-	-	-
Commercial	-	-	-
Total	$ 47	$ -	$ 47

	December 31, 2014		
	Accrual Status	Non-Accrual Status	Total Modification
		(In Thousands)	
Residential mortgage (1-4 family)	$ -	$ -	$ -
Commercial real estate	-	-	-
Real estate construction	-	-	-
Home equity	48	-	48
Consumer	-	-	-
Commercial	-	-	-
Total	$ 48	$ -	$ 48

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, 2015 and 2014, 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, 2015.

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, 2015 and December 31, 2014, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. DEPOSITS

Deposits are summarized as follows:

	June 30, 2015	December 31, 2014
	(In Thousands)	
Noninterest checking	$ 69,565	$ 60,507
Interest-bearing checking	79,654	76,367
Savings	66,104	62,455
Money market	92,347	91,431
Time certificates of deposit	157,911	150,223
Total	$ 465,581	$ 440,983

NOTE 6. SUBORDINATED DEBENTURES

Subordinated debentures consisted of the following:

	June 30, 2015		December 31, 2014	
	Principal Amount	Unamortized Debt Issuance Costs	Principal Amount	Unamortized Debt Issuance Costs
	(In Thousands)			
Subordinated debentures:				
Variable at 3-Month Libor plus 1.42%, due 2035	$5,155	$ -	$5,155	$ -
Fixed at 6.75%, due 2025	10,000	(150)	-	-
Total	$15,155	$ (150)	$5,155	$ -

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 1.703% and 1.676% as of June 30, 2015 and December 31, 2014, 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.

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.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7. EARNINGS PER SHARE

Basic earnings per share for the three months ended June 30, 2015 was computed using 3,822,981 weighted average shares outstanding. Basic earnings per share for the three months ended June 30, 2014 was computed using 3,916,233 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 3,860,236 for the three months ended June 30, 2015 and 3,971,036 for the three months ended June 30, 2014.

Basic earnings per share for the six months ended June 30, 2015 was computed using 3,833,739 weighted average shares outstanding. Basic earnings per share for the six months ended June 30, 2014 was computed using 3,916,233 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 3,870,994 for the six months ended June 30, 2015 and 3,971,036 for the six months ended June 30, 2014.

NOTE 8. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the six month transition period from July 1, 2014 through December 31, 2014, Eagle paid dividends of $0.075 per share each quarter. A dividend of $0.075 per share was declared on January 22, 2015, and paid March 6, 2015 to shareholders of record on February 13, 2015. A dividend of $0.075 per share was declared on April 23, 2015, payable on June 6, 2015 to shareholders of record on May 13, 2015. A dividend of $0.0775 per share was declared on July 23, 2015, payable on September 4, 2015 to shareholders of record on August 14, 2015.

On July 1, 2013, the Company announced that its Board of Directors authorized a common stock repurchase program for 150,000 shares of common stock, effective July 1, 2013. The Company did not purchase any shares of our common stock during the fiscal year ended June 30, 2014. The repurchase program expired on June 30, 2014.

On July 1, 2014, the Company announced that its Board of Directors had authorized the repurchase of up to 200,000 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 Company has purchased 110,800 shares of its common stock. The repurchase program expired on June 30, 2015.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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 (In Thousands)	Unrealized (Losses) Gains on Investment Securities Available for Sale	Total
Balance, January 1, 2015	$ 294	$ (509)	$ (215)
Other comprehensive income, before reclassifications and income taxes	529	1,495	2,024
Amounts reclassified from accumulated other comprehensive income, before income taxes	(496)	(186)	(682)
Income tax expense	(13)	(534)	(547)
Total other comprehensive income	20	775	795
Balance, March 31, 2015	314	266	580
Other comprehensive income (loss), before reclassifications and income taxes	462	(2,698)	(2,236)
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(529)	(48)	(577)
Income tax benefit	27	1,120	1,147
Total other comprehensive loss	(40)	(1,626)	(1,666)
Balance, June 30, 2015	$ 274	$ (1,360)	$ (1,086)
Balance, January 1, 2014	$ 217	$ (5,934)	$ (5,717)
Other comprehensive income, before reclassifications and income taxes	238	3,489	3,727
Amounts reclassified from accumulated other comprehensive income, before income taxes	(366)	(196)	(562)
Income tax benefit (expense)	52	(1,343)	(1,291)
Total other comprehensive (loss) income	(76)	1,950	1,874
Balance, March 31, 2014	141	(3,984)	(3,843)
Other comprehensive income, before reclassifications and income taxes	461	2,490	2,951
Amounts reclassified from accumulated other comprehensive income, before income taxes	(238)	(41)	(279)
Income tax expense	(91)	(997)	(1,088)
Total other comprehensive income	132	1,452	1,584
Balance, June 30, 2014	$ 273	$ (2,532)	$ (2,259)

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company entered into an interest rate swap agreement on August 27, 2010 with a third party to manage interest rate risk associated with a fixed-rate loan. The interest rate swap agreement effectively converted the loan’s fixed rate into a variable rate. Derivatives and hedging accounting requires that the Company recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with this guidance, the Company designated the interest rate swap on this fixed-rate loan as a fair value hedge.

The Company was exposed to credit-related losses in the event of nonperformance by the counterparties to this agreement. The Company controlled the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and did not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

If certain hedging criteria specified in derivatives and hedging accounting guidance are met, including testing for hedge effectiveness, hedge accounting may be applied. The hedge effectiveness assessment methodologies for similar hedges are performed in a similar manner and are used consistently throughout the hedging relationships.

The hedge documentation specifies the terms of the hedged item and the interest rate swap. The documentation also indicates that the derivative is hedging a fixed-rate item, that the hedge exposure is to the changes in the fair value of the hedged item, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to variable-rate interest payments.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Company includes the gain or loss on the hedged items in the same line item—noninterest income—as the offsetting loss or gain on the related interest rate swap.

The hedged fixed rate loan had an original maturity of 20 years and was not callable. This loan was hedged with a “pay fixed rate, receive variable rate” swap with a similar notional amount, maturity, and fixed rate coupons. The swap is not callable. At December 31, 2014, the loan had an outstanding principal balance of $10,641,000 and the interest rate swap had a notional value of $10,673,000.

At December 31, 2014, the interest rate swap on the fixed-rate loan was ineffective. The Bank recorded a loss of $317,000 in noninterest income during the quarter ended December 31, 2014 related to the ineffectiveness. The interest rate swap was terminated during the quarter ended March 31, 2015. The Bank recorded a loss of $93,000 in noninterest income during the quarter ended March 31, 2015 related to the swap termination. The loan fair value adjustment of $138,000 at March 31, 2015 will be amortized over the remaining life of the loan which matures September 1, 2030.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. DERIVATIVES AND HEDGING ACTIVITIES - continued

Effect of Derivative Instruments on Statement of Financial Condition
Fair Value of Derivative Instruments

	Asset Derivatives				Liabilities Derivatives			
	June 30, 2015		December 31, 2014		June 30, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In Thousands)							
Derivatives designated as hedging instruments under ASC 815								
Interest rate contracts	n/a	$ -	n/a	$ -	n/a	$ -	Other Liabilities	$ 579
Change in fair value of financial instrument being hedged under ASC 815								
Interest rate contracts	Loans	$ 137	Loans	$ 138	n/a	$ -	n/a	$ -

Effect of Derivative Instruments on Statement of Income
For the Three Months Ended June 30, 2015 and 2014
(In Thousands)

Derivatives Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative 2015	2014
Interest rate contracts	Noninterest income	$ -	$ (62)

Effect of Derivative Instruments on Statement of Income
For the Six Months Ended June 30, 2015 and 2014
(In Thousands)

	Location of	Amount of Gain or (Loss)

Derivatives Designated as Hedging Instruments Under ASC 815	Gain or (Loss) Recognized in Income on Derivative	Recognized in Income on Derivative	
		2015	2014
Interest rate contracts	Noninterest income	$ (93)	$ (134)

Derivative 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.

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 $17,165,000 and $12,276,000 at June 30, 2015 and December 31, 2014, respectively.

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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.

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES – continued

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.

Loan Subject to Fair Value Hedge – The Company previously had one loan that was carried at fair value subject to a fair value hedge. Fair value was determined utilizing valuation models that considered the scheduled cash flows through anticipated maturity and was considered a Level 2 input. The interest rate swap was terminated during the quarter ended March 31, 2015. See Note 10 – Derivatives and Hedging Activities for more information.

Derivative financial instruments – Fair values for interest rate swap agreements were based upon the amounts required to settle the contracts. These instruments were valued using Level 3 inputs utilizing valuation models that considered: (a) time value, (b) volatility factors and (c) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Although the Company utilized counterparties' valuations to assess the reasonableness of its prices and valuation techniques, there was not sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2. The interest rate swap was terminated during the quarter ended March 31, 2015. See Note 10 – Derivatives and Hedging Activities for more information.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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, 2015			
	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	$ -	$ 12,372	$ -	$ 12,372
Municipal obligations	-	65,496	-	65,496
Corporate obligations	-	11,179	-	11,179
MBSs - government-backed	-	33,450	-	33,450
CMOs - government backed	-	26,269	-	26,269
Loans held-for-sale	-	17,184	-	17,184

	December 31, 2014			
	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	$ -	$ 33,181	$ -	$ 33,181
Municipal obligations	-	71,885	-	71,885
Corporate obligations	-	6,005	-	6,005
MBSs - government-backed	-	21,964	-	21,964
CMOs - government backed	-	28,752	-	28,752
Loans held-for-sale	-	17,587	-	17,587
Financial Liability:				
Derivative financial instruments	-	579	-	579

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES - continued

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summarizes financial assets and financial liabilities measured at fair value on a nonrecurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2015			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Impaired loans	$ -	$ -	$ 2,073	$ 2,073
Repossessed assets	-	-	623	623

	December 31, 2014			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Impaired loans	$ -	$ -	$ 1,936	$ 1,936
Repossessed assets	-	-	637	637

During the six months ended June 30, 2015, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of $2,099,000 were reduced by specific valuation allowance allocations totaling $26,000 to a total reported fair value of $2,073,000 based on collateral valuations utilizing Level 3 valuation inputs.

During the six months ended December 31, 2014, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of $2,083,000 were reduced by specific valuation allowance allocations totaling $147,000 to a total reported fair value of $1,936,000 based on collateral valuations utilizing Level 3 valuation inputs.

The following table represents the Banks's Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those financial assets and liabilities, and the significant unobservable inputs and the ranges of values for those inputs.

	Fair Value at		Principal	Significant	Range of
Instrument	June 30, 2015	December 31, 2014	Valuation Technique	Unobservable Inputs	Signficant Input Values
	(Dollars In Thousands)				

Impaired loans	$ 2,073	$ 1,936	Appraisal of collateral (1)	Appraisal adjustments	10-30	%
Repossessed Assets	$ 623	$ 637	Appraisal of collateral (1)(3)	Liquidation expenses (2)	10-30	%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less associated allowance.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES - continued

FASB ASC Topic 825 requires disclosure of the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. Below is a table that summarizes the fair market values of all financial instruments of the Company at June 30, 2015 and December 31, 2014, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	June 30, 2015				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
			(In Thousands)		
Financial Assets:					
Cash and cash equivalents	$ 8,727	$ -	$ -	$ 8,727	$ 8,727
Federal Home Loan Bank stock	2,326	-	-	2,326	2,326
Federal Reserve Bank stock	642	-	-	642	642
Loans receivable, net	-	-	360,449	360,449	353,347
Accrued interest and dividends receivable	2,337	-	-	2,337	2,337
Mortgage servicing rights	-	-	5,849	5,849	4,517
Cash surrender value of life insurance	11,898	-	-	11,898	11,898
Financial Liabilities:					
Non-maturing interest bearing deposits	-	238,105	-	238,105	238,105
Non-interest bearing deposits	69,565	-	-	69,565	69,565
Time certificates of deposit	-	-	158,637	158,637	157,911
Accrued expenses and other liabilities	5,463	-	-	5,463	5,463
Federal Home Loan Bank advances					