

Eagle Bancorp Montana, Inc.  
Form 10-Q  
November 09, 2016  
Table Of Contents

**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, 2016

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)

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

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](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 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  Accelerated filer

Non-accelerated filer  Smaller reporting company   
(Do not check if smaller  
reporting company)

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

**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 3,779,464 shares outstanding  
As of November 9, 2016

---

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

<u>PART I. Financial Information</u>	<u>PAGE</u>
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015</u>	1
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015</u>	3
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2016 and 2015</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	7
<u>Notes to the Unaudited Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	47
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	48
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
Item 3. <u>Defaults Upon Senior Securities</u>	49
Item 4. <u>Mine Safety Disclosures</u>	49
Item 5. <u>Other Information</u>	49
Item 6. <u>Exhibits</u>	49
<u>Signatures</u>	50
Exhibit 31.1	
Exhibit 31.2	

Exhibit 32.1

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

---

Table Of Contents

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 the management of Eagle Bancorp Montana, Inc. (the “Company” or “Eagle”) 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, effectively defend itself against cyberattacks 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 year ended December 31, 2015, 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.

---

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	September 30, 2016	December 31, 2015
<b>ASSETS:</b>		
Cash and due from banks	\$ 6,802	\$ 6,468
Interest-bearing deposits in banks	1,029	970
Total cash and cash equivalents	7,831	7,438
Securities available-for-sale	133,754	145,738
Federal Home Loan Bank stock	3,870	3,397
Federal Reserve Bank stock	871	887
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	19,415	18,702
Loans receivable, net of deferred loan fees of \$919 at September 30, 2016 and \$795 at December 31, 2015 and allowance for loan losses of \$4,650 at September 30, 2016 and \$3,550 at December 31, 2015	456,849	403,734
Accrued interest and dividends receivable	2,138	2,278
Mortgage servicing rights, net	5,439	4,968
Premises and equipment, net	19,543	18,217
Cash surrender value of life insurance	13,996	12,514
Real estate and other repossessed assets acquired in settlement of loans, net	513	595
Goodwill	7,034	7,034
Core deposit intangible, net	416	514
Deferred tax asset, net	462	1,490
Other assets	2,209	2,686
Total assets	\$ 674,495	\$ 630,347

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





Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	September 30, 2016	December 31, 2015
<b>LIABILITIES:</b>		
Deposit accounts:		
Noninterest bearing	\$ 89,242	\$ 77,031
Interest bearing	426,035	406,151
Total deposits	515,277	483,182
Accrued expenses and other liabilities	5,363	4,050
Federal Home Loan Bank advances and other borrowings	78,855	72,716
Subordinated debentures:		
Principal amount	15,155	15,155
Unamortized debt issuance costs	(190 )	(206 )
Total subordinated debentures less unamortized debt issuance costs	14,965	14,949
Total liabilities	614,460	574,897
<b>SHAREHOLDERS' EQUITY:</b>		
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; 3,779,464 shares outstanding at September 30, 2016 and December 31, 2015)	41	41
Additional paid-in capital	22,184	22,152
Unallocated common stock held by Employee Stock Ownership Plan	(850 )	(975 )
Treasury stock, at cost	(3,321 )	(3,321 )
Retained earnings	40,096	37,301
Net accumulated other comprehensive income	1,885	252
Total shareholders' equity	60,035	55,450
Total liabilities and shareholders' equity	\$ 674,495	\$ 630,347

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



Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
<b>INTEREST AND DIVIDEND INCOME:</b>				
Interest and fees on loans	\$5,461	\$4,390	\$15,253	\$12,607
Securities available-for-sale	709	759	2,196	2,255
Federal Home Loan Bank and Federal Reserve Bank dividends	37	5	103	25
Interest on deposits in banks	-	-	1	1
Other interest income	1	-	4	5
Total interest and dividend income	6,208	5,154	17,557	14,893
<b>INTEREST EXPENSE:</b>				
Deposits	383	400	1,119	1,093
Federal Home Loan Bank advances and other borrowings	209	130	622	401
Subordinated debentures	195	191	584	254
Total interest expense	787	721	2,325	1,748
<b>NET INTEREST INCOME</b>	5,421	4,433	15,232	13,145
Loan loss provision	472	310	1,381	960
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	4,949	4,123	13,851	12,185
<b>NONINTEREST INCOME:</b>				
Service charges on deposit accounts	229	317	639	783
Net gain on sale of loans (includes \$859 and \$462 for the three months ended September 30, 2016 and 2015, respectively, and \$2,130 and \$1,487 for the nine months ended September 30, 2016 and 2015, respectively, related to accumulated other comprehensive earnings reclassification)	3,164	1,639	7,320	5,126
Mortgage loan servicing fees	462	523	1,267	1,360
Wealth management income	166	174	461	470
Interchange and ATM fees	227	146	652	436
Appreciation in cash surrender value of life insurance	133	105	358	315
	110	-	194	234

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Net gain on sale of available-for-sale securities (includes \$110 and \$0 for the three months ended September 30, 2016 and 2015, respectively, and \$194 and \$234 for the nine months ended September 30, 2016 and 2015, respectively, related to accumulated other comprehensive earnings reclassification)

Net (loss) gain on sale of real estate owned and other repossessed property	(6 )	(2 )	6	(4 )
Net loss on fair value hedge	-	-	-	(93 )
Other noninterest income	204	10	494	442
Total noninterest income	4,689	2,912	11,391	9,069

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

Table Of Contents

## 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,	
	2016	2015	2016	2015
<b>NONINTEREST EXPENSE:</b>				
Salaries and employee benefits	\$4,177	\$3,660	\$11,783	\$10,678
Occupancy and equipment expense	698	838	2,158	2,307
Data processing	456	560	1,467	1,605
Advertising	192	170	530	563
Amortization of mortgage servicing rights	326	218	839	640
Amortization of core deposit intangible and tax credits	112	116	335	317
Federal insurance premiums	99	83	305	251
Postage	60	63	148	152
Legal, accounting and examination fees	120	126	279	415
Consulting fees	44	72	161	523
Other noninterest expense	875	586	2,388	1,874
Total noninterest expense	7,159	6,492	20,393	19,325
<b>INCOME BEFORE INCOME TAXES</b>	2,479	543	4,849	1,929
Income tax expense (includes (\$341) and \$671 for the three months ended September 30, 2016 and 2015, respectively, and \$1,124 and \$71 for the nine months ended September 30, 2016 and 2015, respectively related to income tax (benefit) expense from reclassification items)	707	22	1,166	230
<b>NET INCOME</b>	\$1,772	\$521	\$3,683	\$1,699
<b>BASIC EARNINGS PER SHARE</b>	\$0.46	\$0.14	\$0.97	\$0.44
<b>DILUTED EARNINGS PER SHARE</b>	\$0.46	\$0.14	\$0.95	\$0.44
<b>WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC EPS)</b>	3,779,464	3,804,532	3,779,464	3,823,896
	3,873,171	3,841,787	3,873,171	3,861,151

**WEIGHTED AVERAGE SHARES OUTSTANDING  
(DILUTED EPS)**

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

-4-

---

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2016	2015	2016
<b>NET INCOME</b>	\$1,772	\$521	\$3,683	\$1,699
<b>OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME:</b>				
Change in fair value of investment securities available for sale, before income taxes	(676 )	1,688	2,778	485
Reclassification for realized gains and losses on investment securities included in income, before income tax	(110 )	-	(194 )	(234 )
Change in fair value of derivatives designated as cash flow hedges, before income taxes	808	420	2,303	1,411
Reclassification for realized gains on derivatives designated as cash flow hedges, before income taxes	(859 )	(462 )	(2,130)	(1,487)
Total other items of comprehensive (loss) income	(837 )	1,646	2,757	175
Income tax benefit (expense) related to:				
Investment securities	320	(688 )	(1,053)	(102 )
Derivatives designated as cash flow hedges	21	17	(71 )	31
Total income tax benefit (expense)	341	(671 )	(1,124)	(71 )
<b>COMPREHENSIVE INCOME</b>	\$1,276	\$1,496	\$5,316	\$1,803

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



Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Nine Months Ended September 30, 2016 and 2015

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	PREFERRED STOCK	COMMON STOCK	UNALLOCATED CONTRIBUTED CAPITAL	ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TOTAL
<b>Balance at January 1, 2015</b>	\$ -	\$ 41	\$ 22,122	\$ (1,141 )	\$ (2,194 )	\$ 35,885	\$ (215 )	\$ 54,498
Net income						1,699		1,699
Other comprehensive income							104	104
Dividends paid						(870 )		(870 )
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (12,462 shares)			12	125				137
Treasury stock purchased (101,865 shares at \$11.23 average cost per share)					(1,144 )			(1,144 )
<b>Balance at September 30, 2015</b>	\$ -	\$ 41	\$ 22,134	\$ (1,016 )	\$ (3,338 )	\$ 36,714	\$ (111 )	\$ 54,424
<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

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

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$3,683	\$1,699
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	1,381	960
Depreciation	797	924
Net amortization of investment securities premiums and discounts	1,419	1,530
Amortization of mortgage servicing rights	839	640
Amortization of core deposit intangible and tax credits	335	317
Deferred income tax benefit	(96 )	(207 )
Net gain on sale of loans	(7,320 )	(5,126 )
Net gain on sale of available-for-sale securities	(194 )	(234 )
Net (gain) loss on sale of real estate owned and other repossessed assets	(6 )	4
Net loss on fair value hedge	-	93
Net loss (gain) on sale/disposal of premises and equipment	6	(304 )
Net appreciation in cash surrender value of life insurance	(367 )	(244 )
Net change in:		
Accrued interest and dividends receivable	140	(14 )
Loans held-for-sale	6,780	7,906
Other assets	256	(1,311 )
Accrued expenses and other liabilities	1,470	1,326
Net cash provided by operating activities	9,123	7,959
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Activity in available-for-sale securities:		
Sales	20,248	31,043
Maturities, principal payments and calls	8,093	8,851
Purchases	(14,998)	(26,612)
Federal Home Loan Bank stock purchased	(473 )	(885 )
Federal Reserve Bank stock redeemed	16	(1 )
Loan origination and principal collection, net	(55,840)	(74,276)
Proceeds from Bank owned life insurance	885	-
Purchases of Bank owned life insurance	(2,000 )	(450 )

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	122	23
Proceeds from sale of premises and equipment	7	1,437
Additions to premises and equipment	(2,136 )	(396 )
Net cash used in investing activities	(46,076)	(61,266)

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

-7-

---

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30, 2016      2015	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	\$32,095	\$39,728
Net short-term advances (payments) on Federal Home Loan Bank and other borrowings	9,601	(4,747 )
Long-term advances from Federal Home Loan Bank and other borrowings	5,000	13,000
Payments on long-term Federal Home Loan Bank and other borrowings	(8,462 )	(7,712 )
Proceeds from issuance of subordinated debentures	-	10,000
Payment for debt issuance costs	-	(204 )
Dividends paid	(888 )	(870 )
Purchase of treasury stock, at cost	-	(1,144 )
Net cash provided by financing activities	37,346	48,051
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>393</b>	<b>(5,256 )</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>7,438</b>	<b>12,502</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$7,831</b>	<b>\$7,246</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$2,341	\$1,742
Cash paid during the period for income taxes	\$1,315	\$142
<b>NON-CASH INVESTING ACTIVITIES:</b>		
Increase in market value of securities available-for-sale	\$2,584	\$251
Mortgage servicing rights recognized	\$1,310	\$1,333
Loans transferred to real estate and other assets acquired in foreclosure	\$34	\$9
Employee Stock Ownership Plan shares released	\$157	\$137

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

Table Of Contents

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, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 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 year ended December 31, 2015.

Certain prior period amounts have been reclassified to conform to the presentation for 2016. These reclassifications had no impact on net income or total shareholders' equity. Certain loan amounts were reclassified for prior periods to be consistent with loan category classification for September 30, 2016. Interchange and ATM fees and appreciation in cash surrender value of life insurance were previously included in other noninterest income on the Consolidated Statements of Income. These amounts were presented on their own lines for the three and nine months ended September 30, 2016 and prior year amounts were reclassified to be consistent with the current year presentation.

The Company evaluated subsequent events for potential recognition and/or disclosure through November 9, 2016 the date the unaudited consolidated financial statements were issued.

**NOTE 2. INVESTMENT SECURITIES**

Investment securities are summarized as follows:

	September 30, 2016				December 31, 2015			
	Amortized Cost (In Thousands)	Gross Unrealized Gains	(Losses)	Fair Value	Amortized Cost	Gross Unrealized Gains	(Losses)	Fair Value
<b>Available-for-Sale:</b>								
U.S. government and agency obligations	\$5,875	\$105	\$(4)	\$5,976	\$10,684	\$26	\$(95)	\$10,615
Municipal obligations	68,253	1,987	(71)	70,169	66,606	1,041	(578)	67,069
Corporate obligations	9,495	10	(170)	9,335	9,615	-	(165)	9,450
MBSs - government-backed	30,745	417	(113)	31,049	32,810	111	(186)	32,735
CMOs - government backed	17,012	218	(5)	17,225	26,233	40	(404)	25,869
<b>Total</b>	<b>\$131,380</b>	<b>\$2,737</b>	<b>\$(363)</b>	<b>\$133,754</b>	<b>\$145,948</b>	<b>\$1,218</b>	<b>\$(1,428)</b>	<b>\$145,738</b>

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
Proceeds from sale of available-for-sale securities	\$17,086	\$ -	\$20,248	\$31,043
Gross realized gain on sale of available-for-sale securities	\$133	\$ -	\$217	\$534
Gross realized loss on sale of available-for-sale securities	(23)	-	(23)	(300)
Net realized gain on sale of available-for-sale securities	\$110	\$ -	\$194	\$234



Table Of Contents

## 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 at September 30, 2016 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 Fair	
	Cost	Value
	(In Thousands)	
Due in one year or less	\$-	\$-
Due from one to five years	9,205	9,215
Due from five to ten years	15,735	15,914
Due after ten years	58,683	60,351
	83,623	85,480
MBSs - government-backed	30,745	31,049
CMOs - government-backed	17,012	17,225
Total	\$131,380	\$133,754

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, 2016			
Less Than 12 Months		12 Months or Longer	
Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In Thousands)			

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

U.S. government and agency	\$1,012	\$ (4	) \$-	\$ -
Municipal obligations	7,242	(66	) 452	(5 )
Corporate obligations	1,565	(1	) 4,908	(169 )
MBSs and CMOs - government-backed	6,207	(40	) 7,263	(78 )
Total	\$16,026	\$ (111	) \$12,623	\$ (252 )

December 31, 2015

Less Than 12

Months

12 Months or Longer

	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized
		Losses		Losses

(In Thousands)

U.S. government and agency	\$3,173	\$ (24	) \$5,986	\$ (71	)
Municipal obligations	15,913	(132	) 21,163	(446	)
Corporate obligations	5,283	(80	) 3,915	(85	)
MBSs and CMOs - government-backed	23,164	(249	) 13,886	(341	)
Total	\$47,533	\$ (485	) \$44,950	\$ (943	)

Table Of Contents

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, 2016 and December 31, 2015, there were 32 and 85, 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 September 30, 2016, 15 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 0.85% from the Company's amortized cost basis of these securities. At December 31, 2015, 52 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 1.43% 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 September 30, 2016, 9 corporate obligations had unrealized losses of approximately 2.56% from the Company's amortized cost basis of these securities. At December 31, 2015, 13 corporate obligations had unrealized losses with aggregate depreciation of approximately 1.76% 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.

At September 30, 2016, 8 mortgage-backed securities ("MBSs") and collateralized mortgage obligations ("CMOs") had unrealized losses with aggregate depreciation of approximately 0.87% from the Company's amortized cost basis of these securities. At December 31, 2015, 20 MBSs and CMOs had unrealized losses with aggregate depreciation of

approximately 1.57% from the Company's amortized cost basis of these securities. 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, 2016 revealed no expected credit losses on the securities and therefore, declines are not deemed to be other than temporary.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 3. LOANS RECEIVABLE**

Loans receivable consisted of the following:

	September 30, 2016	December 31, 2015
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	\$ 113,287	\$ 118,133
Commercial real estate	205,819	167,930
Real estate construction	20,649	22,958
Other loans:		
Home equity	47,694	45,345
Consumer	14,867	14,641
Commercial	60,102	39,072
Total	462,418	408,079
Allowance for loan losses	(4,650 )	(3,550 )
Deferred loan fees, net	(919 )	(795 )
Total loans, net	\$456,849	\$403,734

Within the commercial real estate loan category above, \$11,723,000 and \$12,117,000 was guaranteed by the United States Department of Agriculture Rural Development, at September 30, 2016 and December 31, 2015, respectively. In addition, within the commercial loan category above, \$1,631,000 and \$1,917,000 were in loans originated through a syndication program where the business resides outside of Montana, at September 30, 2016, and December 31, 2015, respectively.

The following table includes information regarding nonperforming assets.

September December  
 30, 31,  
 2016 2015  
 (Dollars in  
 Thousands)

Non-accrual loans	\$ 1,421	\$ 2,030		
Accruing loans delinquent 90 days or more	301	472		
Restructured loans, net	44	46		
Total nonperforming loans	1,766	2,548		
Real estate owned and other repossessed assets, net	513	595		
Total nonperforming assets	\$ 2,279	\$ 3,143		
Total non-performing assets as a percentage of total assets	0.34	%	0.50	%
Allowance for loan losses	\$ 4,650	\$ 3,550		
Percent of allowance for loan losses to non-performing loans	263.31	%	139.32	%
Percent of allowance for loan losses to non-performing assets	204.04	%	112.95	%

Table Of Contents

## 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, 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

*Loans receivable:*

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 evaluated for impairment	\$ 423	\$ 374	\$ -	\$ 339	\$ 68	\$ 261	\$ 1,465
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



Table Of Contents

## 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, 2015	\$ 685	\$ 1,425	\$ 45	\$ 326	\$ 52	\$ 417	\$ 2,950
Charge-offs	-	-	-	-	(14 )	(25 )	(39 )
Recoveries	-	-	-	-	8	1	9
Provision	67	168	34	10	16	15	310
Ending balance, September 30, 2015	\$ 752	\$ 1,593	\$ 79	\$ 336	\$ 62	\$ 408	\$ 3,230
<i>Allowance for loan losses:</i>							
Beginning balance, January 1, 2015	\$ 684	\$ 1,098	\$ 35	\$ 270	\$ 46	\$ 317	\$ 2,450
Charge-offs	(137 )	-	-	-	(29 )	(25 )	(191 )
Recoveries	-	-	-	-	10	1	11
Provision	205	495	44	66	35	115	960
Ending balance, September 30, 2015	\$ 752	\$ 1,593	\$ 79	\$ 336	\$ 62	\$ 408	\$ 3,230
Ending balance, September 30, 2015 allocated to loans individually evaluated for impairment	\$-	\$-	\$-	\$-	\$ 15	\$-	\$ 15
Ending balance, September 30, 2015 allocated to loans collectively evaluated for impairment	\$ 752	\$ 1,593	\$ 79	\$ 336	\$ 47	\$ 408	\$ 3,215
<i>Loans receivable:</i>							
Ending balance, September 30, 2015	\$ 117,320	\$ 156,293	\$ 23,210	\$ 46,632	\$ 14,885	\$ 33,884	\$ 392,224

Ending balance, September 30, 2015 of loans individually evaluated for impairment	\$1,207	\$ 668	\$ 731	\$282	\$ 61	\$ 616	\$3,565
Ending balance, September 30, 2015 of loans collectively evaluated for impairment	\$116,113	\$ 155,625	\$ 22,479	\$46,350	\$ 14,824	\$ 33,268	\$388,659

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.

Table Of Contents

## 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, 2016						
	Residential						
	Mortgage	Commercial	Real Estate	Home			
	(1-4	Real Estate	Construction	Equity	Consumer	Commercial	Total
	Family)						
	(In Thousands)						
Grade:							
Pass	\$ 112,285	\$ 204,964	\$ 20,193	\$ 47,356	\$ 14,785	\$ 59,681	\$ 459,264
Special mention	-	30	456	-	-	146	632
Substandard	1,002	825	-	338	68	260	2,493
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	14	15	29
Total	\$ 113,287	\$ 205,819	\$ 20,649	\$ 47,694	\$ 14,867	\$ 60,102	\$ 462,418
Credit risk profile based on payment activity							
Performing	\$ 112,567	\$ 205,441	\$ 20,649	\$ 47,355	\$ 14,799	\$ 59,841	\$ 460,652
Restructured loans	-	-	-	44	-	-	44
Nonperforming	720	378	-	295	68	261	1,722
Total	\$ 113,287	\$ 205,819	\$ 20,649	\$ 47,694	\$ 14,867	\$ 60,102	\$ 462,418

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

December 31, 2015

Residential

	Mortgage (1-4 Family)	Commercial Real Estate	Commercial Construction	Home Equity	Consumer	Commercial	Total
--	-----------------------------	---------------------------	----------------------------	----------------	----------	------------	-------

(In Thousands)

Grade:

Pass	\$116,711	\$167,263	\$22,176	\$45,100	\$14,486	\$38,675	\$404,411
Special mention	-	-	-	-	-	-	-
Substandard	1,422	667	782	156	140	367	3,534
Doubtful	-	-	-	82	4	-	86
Loss	-	-	-	7	11	30	48
Total	\$118,133	\$167,930	\$22,958	\$45,345	\$14,641	\$39,072	\$408,079

Credit risk profile based on  
payment activity

Performing	\$117,182	\$167,259	\$22,711	\$45,138	\$14,496	\$38,745	\$405,531
Restructured loans	-	-	-	46	-	-	46
Nonperforming	951	671	247	161	145	327	2,502
Total	\$118,133	\$167,930	\$22,958	\$45,345	\$14,641	\$39,072	\$408,079

Table Of Contents

## 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, 2016					Recorded
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Investment >90 Days and Still Accruing
	(In Thousands)					
Residential mortgage (1-4 family)	\$ 1,282	\$ 720	\$ 2,002	\$ 111,285	\$ 113,287	\$ 297
Commercial real estate	224	378	602	205,217	205,819	4
Real estate construction	727	-	727	19,922	20,649	-
Home equity	432	295	727	46,967	47,694	-
Consumer	128	68	196	14,671	14,867	-
Commercial	246	261	507	59,595	60,102	-
Total	\$3,039	\$ 1,722	\$ 4,761	\$ 457,657	\$ 462,418	\$ 301

	December 31, 2015					Recorded
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Investment >90 Days and Still Accruing
	(In Thousands)					
Residential mortgage (1-4 family)	\$ 1,163	\$ 951	\$ 2,114	\$ 116,019	\$ 118,133	\$ 221
Commercial real estate	177	671	848	167,082	167,930	4
Real estate construction	662	247	909	22,049	22,958	247
Home equity	319	161	480	44,865	45,345	-

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Consumer	184	145	329	14,312	14,641	-
Commercial	173	327	500	38,572	39,072	-
Total	\$2,678	\$2,502	\$5,180	\$402,899	\$408,079	\$ 472

-16-

---

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 3. LOANS RECEIVABLE - continued**

The following tables include information regarding impaired loans.

	September 30, 2016		
	Recorded	Unpaid Principal	Related
	Investment	Balance	Allowance
	(In Thousands)		
With no related allowance:			
Residential mortgage (1-4 family)	\$423	\$ 423	\$ -
Commercial real estate	374	374	-
Construction	-	-	-
Home equity	339	386	-
Consumer	54	101	-
Commercial	246	246	-
With a related allowance:			
Residential mortgage (1-4 family)	-	-	-
Commercial real estate	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	14	14	14
Commercial	15	15	15
Total:			
Residential mortgage (1-4 family)	423	423	-
Commercial real estate	374	374	-
Construction	-	-	-
Home equity	339	386	-
Consumer	68	115	14
Commercial	261	261	15
Total	\$1,465	\$ 1,559	\$ 29





Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 3. LOANS RECEIVABLE - continued**

	December 31, 2015		
	Unpaid		
	Recorded	Principal	Related
	Investment	Balance	Allowance
	(In Thousands)		
With no related allowance:			
Residential mortgage (1-4 family)	\$ 730	\$ 730	\$ -
Commercial real estate	667	667	-
Construction	-	-	-
Home equity	200	234	-
Consumer	134	134	-
Commercial	297	297	-
With a related allowance:			
Residential mortgage (1-4 family)	-	-	-
Commercial real estate	-	-	-
Construction	-	-	-
Home equity	7	7	7
Consumer	11	11	11
Commercial	30	30	30
Total:			
Residential mortgage (1-4 family)	730	730	-
Commercial real estate	667	667	-
Construction	-	-	-
Home equity	207	241	7
Consumer	145	145	11
Commercial	327	327	30
Total	\$2,076	\$ 2,110	\$ 48

	Three Months	Nine Months
	Ended	Ended
	September 30,	September 30,
	2016	2015
	2015	2016
	2015	2015

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Average Recorded Investment  
(In Thousands)

Residential mortgage (1-4 family)	\$711	\$919	\$576	\$1,340
Commercial real estate	374	334	521	333
Construction	-	653	-	365
Home equity	336	272	273	305
Consumer	93	52	107	58
Commercial	261	602	294	423
Total	\$1,775	\$2,832	\$1,771	\$2,824

Interest income recognized on impaired loans for the three and nine months ended September 30, 2016 and 2015 is considered insignificant.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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 September 30, 2011. As required, the Company reassessed all restructurings that occurred on or after the beginning of the previous fiscal year (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 the guidance require prospective application of the impairment measurement for those receivables newly identified as impaired.

As of September 30, 2016, 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 \$44,000 (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.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued**

The following tables present troubled debt restructurings.

	September 30, 2016		
	Accrued Status	Non-Accrual Status	Total Modification
	(In Thousands)		
Residential mortgage (1-4 family)	\$-	\$ -	\$ -
Commercial real estate	-	-	-
Real estate construction	-	-	-
Home equity	44	-	44
Consumer	-	-	-
Commercial	-	-	-
Total	\$44	\$ -	\$ 44

	December 31, 2015		
	Accrued Status	Non-Accrual Status	Total Modification
	(In Thousands)		
Residential mortgage (1-4 family)	\$-	\$ -	\$ -
Commercial real estate	-	-	-
Real estate construction	-	-	-
Home equity	46	-	46
Consumer	-	-	-
Commercial	-	-	-
Total	\$46	\$ -	\$ 46

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 nine months ended September 30, 2016 and 2015, there were no new restructured loans.

There were no loans modified as a troubled debt restructured loan within the previous nine months for which there was a payment default during the nine months ended September 30, 2016.

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 September 30, 2016 and December 31, 2015, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 5. DEPOSITS**

Deposits are summarized as follows:

	September 30, 2016	December 31, 2015
	(In Thousands)	
Noninterest checking	\$89,242	\$77,031
Interest bearing checking	89,873	87,350
Savings	80,669	71,474
Money market	85,880	94,880
Time certificates of deposit	169,613	152,447
Total	\$515,277	\$483,182

**NOTE 6. SUBORDINATED DEBENTURES**

Subordinated debentures consisted of the following:

	September 30, 2016		December 31, 2015	
	Unamortized Debt		Unamortized Debt	
	Principal Amount	Issuance Costs	Principal Amount	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	(190 )	10,000	(206 )
Total	\$15,155	\$ (190 )	\$15,155	\$ (206 )

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

In September 2005, the Company completed the private placement of \$5,155,000 in subordinated debentures to Eagle Bancorp Statutory Trust I (“the Trust”). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank, N.A. with a liquidation value of \$5,155,000. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders in December 2005. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities was fixed at 6.02% until December 2010 then became variable at 3-Month LIBOR plus 1.42%, making the rate 2.274% and 2.033% as of September 30, 2016 and December 31, 2015, 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.



Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 7. EARNINGS PER SHARE**

Basic earnings per share for the three months ended September 30, 2016 was computed using 3,779,464 weighted average shares outstanding. Basic earnings per share for the three months ended September 30, 2015 was computed using 3,804,532 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 3,873,171 for the three months ended September 30, 2016 and 3,841,787 for the three months ended September 30, 2015.

Basic earnings per share for the nine months ended September 30, 2016 was computed using 3,779,464 weighted average shares outstanding. Basic earnings per share for the nine months ended September 30, 2015 was computed using 3,823,896 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 3,873,171 for the nine months ended September 30, 2016 and 3,861,151 for the nine months ended September 30, 2015.

**NOTE 8. DIVIDENDS AND STOCK REPURCHASE PROGRAM**

For the year ended December 31, 2015, Eagle paid dividends of \$0.075 per share for the quarters ended March 31 and June 30, 2015. Eagle paid dividends of \$0.0775 per share for the quarters ended September 30 and December 31, 2015. A dividend of \$0.0775 per share was declared on January 21, 2016, and paid March 4, 2016 to shareholders of record on February 12, 2016. A dividend of \$0.0775 per share was declared on April 28, 2016, payable on June 3, 2016 to shareholders of record on May 13, 2016. A dividend of \$0.08 per share was declared on July 21, 2016, payable on September 2, 2016 to shareholders of record on August 12, 2016. A dividend of \$0.08 per share was declared on October 20, 2016, payable on December 2, 2016 to shareholders of record on November 11, 2016.

On July 21, 2016, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and

other corporate considerations. No shares were purchased under this plan during the three months ended September 30, 2016. The plan expires on July 21, 2017.

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

On July 1, 2014, the Board authorized the repurchase of up to 200,000 shares of its common stock. Under this plan, shares could be purchased on the open market or in privately negotiated transactions. Under this plan, 55,800 shares were purchased at an average price of \$11.03 per share during the six months ended June 30, 2015. In addition, under this plan, 55,000 shares were purchased at an average price of \$10.66 per share during the six month transition period ended December 31, 2014. The plan expired on June 30, 2015.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

	Unrealized Gains (Losses)	Unrealized (Losses) Gains	Total
	on Derivatives	on Investment Designated Securities	
	Cash Flow Hedges	Available-for-Sale	
	(In Thousands)		
Balance, January 1, 2016	\$376	\$ (124 )	) \$252
Other comprehensive income, before reclassifications and income taxes	1,495	3,454	4,949
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(1,271)	(84)	) (1,355)
Income tax expense	(92 )	(1,373)	) (1,465)
Total other comprehensive income	132	1,997	2,129
Balance, June 30, 2016	508	1,873	2,381
Other comprehensive income (loss), before reclassifications and income taxes	808	(676)	) 132
Amounts reclassified from accumulated other comprehensive income, before income taxes	(859 )	(110)	) (969 )
Income tax benefit	21	320	341
Total other comprehensive loss	(30 )	(466)	) (496 )
Balance, September 30, 2016	\$478	\$ 1,407	\$1,885
Balance, January 1, 2015	\$294	\$ (509)	) \$(215 )
Other comprehensive income (loss), before reclassifications and income taxes	991	(1,203)	) (212 )
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(1,025)	(234)	) (1,259)
Income tax benefit	14	586	600

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Total other comprehensive loss	(20 )	(851 )	(871 )
Balance, June 30, 2015	274	(1,360 )	(1,086)
Other comprehensive income, before reclassifications and income taxes	420	1,688	2,108
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(462 )	-	(462 )
Income tax benefit (expense)	17	(688 )	(671 )
Total other comprehensive (loss) income	(25 )	1,000	975
Balance, September 30, 2015	\$249	\$ (360 )	\$(111 )

-23-

---

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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. The derivatives and hedging accounting guidance (ASC Subtopic 815-10) 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 fixed rate loan hedged 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 was 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. The remaining balance was \$125,000 at September 30, 2016.

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 \$39,246,000 and \$24,378,000 at September 30, 2016 and December 31, 2015, respectively. The fair value of such commitments was insignificant.

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

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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.



Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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.

*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 2 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.

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.

September 30, 2016			
Level 1	Level 2	Level 3	Total
Inputs	Inputs	Inputs	Fair Value
(In Thousands)			

Financial Assets:

Available-for-sale securities				
U.S. government and agency	\$-	\$5,976	\$ -	\$5,976

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Municipal obligations	-	70,169	-	70,169
Corporate obligations	-	9,335	-	9,335
MBSs - government-backed	-	31,049	-	31,049
CMOs - government backed	-	17,225	-	17,225
Loans held-for-sale	-	19,415	-	19,415

December 31, 2015

Level 1	Level 2	Level 3	Total
Inputs	Inputs	Inputs	Fair Value

(In Thousands)

Financial Assets:

Available-for-sale securities

U.S. government and agency	\$-	\$10,615	\$-	\$10,615
Municipal obligations	-	67,069	-	67,069
Corporate obligations	-	9,450	-	9,450
MBSs - government-backed	-	32,735	-	32,735
CMOs - government backed	-	25,869	-	25,869
Loans held-for-sale	-	18,702	-	18,702

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## 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 tables 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:

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair
	(In Thousands)			
Impaired loans	\$-	\$ -	\$1,436	\$1,436
Repossessed assets	-	-	513	513

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair
	(In Thousands)			
Impaired loans	\$-	\$ -	\$2,028	\$2,028
Repossessed assets	-	-	595	595

As of September 30, 2016, 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 \$1,465,000 were reduced by specific valuation allowance allocations totaling \$29,000 to a total reported fair value of \$1,436,000 based on collateral valuations utilizing Level 3 valuation inputs.

As of December 31, 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 \$2,076,000 were reduced by specific valuation allowance allocations totaling \$48,000 to a total reported fair value of \$2,028,000 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.

Instrument (Dollars In Thousands)	Fair Value at September 30, 2016	December 31, 2015	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	\$ 1,436	\$ 2,028	Appraisal of collateral (1)	Appraisal adjustments	10 - 30%
Repossessed Assets	\$ 513	\$ 595	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.

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated (2) 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.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## 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 September 30, 2016 and December 31, 2015, 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.

	September 30, 2016			Total Estimated Fair Value	Carrying Amount
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs		
	(In Thousands)				
Financial Assets:					
Cash and cash equivalents	\$7,831	\$-	\$-	\$7,831	\$7,831
Federal Home Loan Bank stock	3,870	-	-	3,870	3,870
Federal Reserve Bank stock	871	-	-	871	871
Loans receivable, net	-	-	463,337	463,337	455,413
Accrued interest and dividends receivable	2,138	-	-	2,138	2,138
Mortgage servicing rights	-	-	6,319	6,319	5,439
Cash surrender value of life insurance	13,996	-	-	13,996	13,996
Financial Liabilities:					
Non-maturing interest bearing deposits	-	256,422	-	256,422	256,422
Noninterest bearing deposits	89,242	-	-	89,242	89,242
Time certificates of deposit	-	-	169,952	169,952	169,613
Accrued expenses and other liabilities	5,363	-	-	5,363	5,363

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Federal Home Loan Bank advances and other borrowings	-	-	79,076	79,076	78,855
Subordinated debentures	-	-	14,774	14,774	15,155
Off-balance-sheet instruments					
Forward loan sales commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 11. FAIR VALUE DISCLOSURES – continued**

	December 31, 2015			Total Estimated Fair Value	Carrying Amount
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs		
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	\$7,438	\$-	\$-	\$7,438	\$7,438
Federal Home Loan Bank stock	3,397	-	-	3,397	3,397
Federal Reserve Bank stock	887	-	-	887	887
Loans receivable, net	-	-	408,414	408,414	401,706
Accrued interest and dividends receivable	2,278	-	-	2,278	2,278
Mortgage servicing rights	-	-	6,452	6,452	4,968
Cash surrender value of life insurance	12,514	-	-	12,514	12,514
Financial liabilities:					
Non-maturing interest bearing deposits	-	253,704	-	253,704	253,704
Noninterest bearing deposits	77,031	-	-	77,031	77,031
Time certificates of deposit	-	-	152,691	152,691	152,447
Accrued expenses and other liabilities	4,050	-	-	4,050	4,050
Federal Home Loan Bank advances and other borrowings	-	-	72,811	72,811	72,716
Subordinated debentures	-	-	14,306	14,306	15,155
Off-balance-sheet instruments					
Forward loan sales commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments. However, the Form 10-K for the year ended December 31, 2015 provides additional description of valuation methodologies used in estimating fair value of these financial instruments.

*Cash, Interest Bearing Accounts, Accrued Interest and Dividends Receivable and Accrued Expenses and Other Liabilities* – The carrying amounts approximate fair value due to the relatively short period of time between the

origination of these instruments and their expected realization.

*Stock in the Federal Home Loan Bank of Des Moines ("FHLB") and Federal Reserve Bank ("FRB")* – The fair value of stock approximates redemption value.

*Loans Receivable* – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms. For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

Fair values are adjusted for credit risk based on assessment of risk identified with specific loans, and risk adjustments on the remaining portfolio based on credit loss experience.

Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for non-specific borrowers.

*Mortgage Servicing Rights* – the fair value of servicing rights was determined using discount rates ranging from approximately 10.00% to 12.00%, prepayment speeds ranging from approximately 105.00% to 369.00% PSA, depending on stratification of the specific right. The fair value was also adjusted for the effect of potential past dues and foreclosures.



Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 11. FAIR VALUE DISCLOSURES - continued**

*Cash Surrender Value of Life Insurance* – The carrying amount for cash surrender value of life insurance approximates fair value as policies are recorded at redemption value.

*Deposits and Time Certificates of Deposit* – The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

*Advances from the FHLB and Subordinated Debentures* – The fair value of the Company's advances and debentures are estimated using discounted cash flow analysis based on the interest rate that would be effective September 30, 2016 and December 31, 2015, respectively if the borrowings repriced according to their stated terms.

*Off-Balance-Sheet Instruments* – Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values of these financial instruments are considered insignificant. Additionally, those financial instruments have no carrying value.

**NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, Revenue from Contracts with Customers (Topic 606). This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance

obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective in the first quarter of 2018 and is not expected to have a significant impact to the Company's financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments." The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendment is effective for annual and interim reporting periods beginning after December 15, 2015 and is not expected to have a significant impact to the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-01 "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The amendment has a number of provisions including the requirements that public business entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans receivables), and eliminating the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendment is effective for annual and interim reporting periods beginning after December 15, 2017. The Company is evaluating the potential impact of the amendment on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-2, Leases (Topic 842) intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the potential impact of the amendment on the Company's financial statements.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS - continued**

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company believes the amendments in this update will have an impact on the Company’s financial statements and is working to evaluate the significance of that impact.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

**Overview**

The Company's primary business activity is the ownership of its wholly owned subsidiary, Opportunity Bank of Montana (the "Bank"). The Bank is a Montana chartered commercial bank that focuses on both consumer and commercial lending. It engages in typical banking activities: acquiring deposits from local markets and originating loans and investing in securities. Its deposits are insured by the Federal Deposit Insurance Corporation. The Bank's primary component of earnings is its net interest margin (also called spread or margin), the difference between interest income and interest expense. The net interest margin is managed by management (through the pricing of its products and by the types of products offered and kept in portfolio), and is affected by changes in market interest rates. The Bank also generates noninterest income in the form of fee income and gain on sale of loans.

The Bank has a strong mortgage lending focus, with a large portion of its loan originations represented by single-family residential mortgages, which has enabled it to successfully market home equity loans, as well as a wide range of shorter term consumer loans for various personal needs (automobiles, recreational vehicles, etc.). In recent years, the Bank has focused on adding commercial loans to its portfolio, both real estate and non-real estate. We have made significant progress in this initiative. The purpose of this diversification is to mitigate the Bank's dependence on the residential mortgage market, as well as to improve its ability to manage its spread. The Bank's management recognizes that fee income will also enable it to be less dependent on specialized lending and it now maintains a significant loan serviced portfolio which provides a steady source of fee income. Fee income is also supplemented with fees generated from the Bank's deposit accounts. The Bank has a high percentage of non-maturity deposits, such as checking accounts and savings accounts, which allows management flexibility in managing its spread. Non-maturity deposits and certificates of deposits do not automatically reprice as interest rates rise. Gain on sale of loans also provides significant noninterest income in periods of high mortgage loan origination volumes. Such income will be adversely affected in periods of lower mortgage activity.

In recent years, management's focus has been on improving the Bank's core earnings. Core earnings can be described as income before taxes, with the exclusion of gain on sale of loans and adjustments to the market value of the Bank's loan servicing portfolio. Management believes that the Bank will need to continue to focus on increasing net interest

margin, other areas of fee income and control of operating expenses to achieve earnings growth going forward. Management's strategy of growing the bank's loan portfolio and deposit base is expected to help achieve these goals as follows: loans typically earn higher rates of return than investments; a larger deposit base should yield higher fee income; increasing the asset base will reduce the relative impact of fixed operating costs. The biggest challenge to the strategy is funding the growth of the Bank's balance sheet in an efficient manner. Though deposit growth has been steady, it may become more difficult to maintain due to significant competition and possible reduced customer demand for deposits as customers may shift into other asset classes.

The level and movement of interest rates impacts the Bank's earnings as well. The Federal Open Market Committee ("FOMC") changed the federal funds target rate from 0.25% to 0.50% in December 2015. The rate remained at 0.50% during the nine months ended September 30, 2016.

From time to time the Bank has considered growth through mergers or acquisition as an alternative to its strategy of organic growth. In this regard, the Bank has experienced an increase in mortgage loan originations due to the Sterling branch acquisition which closed in December 2012. Deposit fee income has also increased due to the increase in the number of accounts. The addition of the wealth management division from the acquisition has also increased noninterest income and furthered the Bank's strategy to increase fee income to complement margin. Operating expenses, primarily salaries and employee benefits also increased as a result of the acquisition.

The Bank completed a core systems conversion during the year ended December 31, 2015. Future cost savings are anticipated due to the core systems conversion.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Financial Condition**

Comparisons of financial condition in this section are between September 30, 2016 and December 31, 2015.

Total assets at September 30, 2016 were \$674.50 million, an increase of \$44.15 million, or 7.0%, from \$630.35 million at December 31, 2015. Loans receivable increased by \$53.12 million, or 13.2%, to \$456.85 million at September 30, 2016. Securities available-for-sale decreased by \$11.99 million, or 8.2%, to \$133.75 million at September 30, 2016. Total liabilities at September 30, 2016 were \$614.46 million, an increase of \$39.56 million, or 6.9%, from \$574.90 million at December 31, 2015. Total deposits increased \$32.10 million or 6.6%, to \$515.28 million at September 30, 2016. Federal Home Loan Bank (“FHLB”) advances and other borrowings increased \$6.14 million, or 8.4%, to \$78.86 million at September 30, 2016.

**Balance Sheet Details**

*Investment Activities*

The following table summarizes investment activities:

	September 30, 2016	Percentage of Total	December 31, 2015	Percentage of Total
	Fair Value		Fair Value	
	(Dollars in Thousands)			

Securities available-for-sale:

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

U.S. government and agency	\$5,976	4.28	%	\$10,615	7.03	%
Municipal obligations	70,169	50.29	%	67,069	44.42	%
Corporate obligations	9,335	6.69	%	9,450	6.26	%
MBSs - government-backed	31,049	22.26	%	32,735	21.68	%
CMOs - government-backed	17,225	12.35	%	25,869	17.13	%
Total securities available-for-sale	133,754	95.87	%	145,738	96.52	%
Interest-bearing deposits with banks	1,029	0.74	%	970	0.64	%
FHLB capital stock, at cost	3,870	2.77	%	3,397	2.25	%
FRB capital stock, at cost	871	0.62	%	887	0.59	%
Total	\$139,524	100.00	%	\$150,992	100.00	%

Securities available-for-sale were \$133.75 million at September 30, 2016, a decrease of \$11.99 million, or 8.2%, from \$145.74 million at December 31, 2015. The largest decrease in securities available-for-sale was in CMOs, which decreased \$8.64 million primarily due to sales activity. U.S. government and agency securities decreased by \$4.64 million largely due to a security sale. MBSs decreased \$1.69 million. This decrease was due to MBSs sales and principal payments received partially offset by MBSs purchases. Municipal obligations increased by \$3.10 million due to purchase activity partially offset by sales activity.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Financial Condition – continued***Lending Activities*

The following table includes the composition of the Bank's loan portfolio by loan category:

	September 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
(Dollars in Thousands)				
Real estate loans:				
Residential mortgage (1-4 family) <sup>(1)</sup>	\$113,287	24.50 %	\$118,133	28.95 %
Commercial real estate	205,819	44.50 %	167,930	41.15 %
Real estate construction	20,649	4.47 %	22,958	5.63 %
Total real estate loans	339,755	73.47 %	309,021	75.73 %
Other loans:				
Home equity	47,694	10.31 %	45,345	11.11 %
Consumer	14,867	3.22 %	14,641	3.59 %
Commercial	60,102	13.00 %	39,072	9.57 %
Total other loans	122,663	26.53 %	99,058	24.27 %
Total loans	462,418	100.00 %	408,079	100.00 %
Deferred loan fees, net	(4,650 )		(795 )	
Allowance for loan losses	(919 )		(3,550 )	
Total loans, net	\$456,849		\$403,734	



<sup>(1)</sup> Excludes loans held for sale.

Loans receivable increased \$53.12 million to \$456.85 million at September 30, 2016. The increase was largely due to an increase in commercial real estate loans of \$37.89 million and commercial loans of \$21.03 million. Home equity loans increased by \$2.34 million. Consumer loans remained consistent period over period only increasing \$226,000. These increases were slightly offset by decreases in residential mortgage loans of \$4.84 million and construction loans of \$2.31 million. Total loan originations were \$310.44 million for the nine months ended September 30, 2016, with residential mortgages accounting for \$236.87 million of the total. Commercial real estate and land loan originations were \$45.00 million. Home equity and construction loan originations were \$729,000 and \$1.44 million, respectively, for the same period. Consumer loan originations were \$6.06 million. Commercial loan originations were \$20.34 million, with none originating from loan syndication programs with borrowers residing outside of Montana. Loans held-for-sale increased slightly to \$19.42 million at September 30, 2016 from \$18.70 million at December 31, 2015.

*Nonperforming Assets.* Generally, our collection procedures provide that when a loan is 15 or more days delinquent, the borrower is sent a past due notice. If the loan becomes 30 days delinquent, the borrower is sent a written delinquency notice requiring payment. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower, including face to face meetings and counseling to resolve the delinquency. All collection actions are undertaken with the objective of compliance with the Fair Debt Collection Act.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Financial Condition – continued*****Lending Activities – continued***

For mortgage loans and home equity loans, if the borrower is unable to cure the delinquency or reach a payment agreement, we will institute foreclosure actions. If a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure, or by deed in lieu of foreclosure, is classified as real estate owned until such time as it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. As of September 30, 2016, the Bank had \$512,000 of real estate owned.

The following table sets forth information regarding nonperforming assets:

	September 30, 2016	December 31, 2015
	(Dollars in Thousands)	
Non-accrual loans		
Real estate loans:		
Residential mortgage (1-4 family)	\$423	\$ 730
Commercial real estate	374	667
Other loans:		
Home equity	295	161
Consumer	68	145
Commercial	261	327
Accruing loans delinquent 90 days or more		
Residential mortgage (1-4 family)	297	221
Commercial real estate	4	4

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Real estate construction	-	247		
Restructured loans:				
Home equity	44	46		
Total nonperforming loans	1,766	2,548		
Real estate owned and other repossessed property, net	513	595		
Total nonperforming assets	\$2,279	\$ 3,143		
Total nonperforming loans to total loans	0.38	%	0.63	%
Total nonperforming loans to total assets	0.26	%	0.40	%
Total allowance for loan losses to nonperforming loans	263.31	%	139.32	%
Total nonperforming assets to total assets	0.34	%	0.50	%

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Financial Condition – continued***Deposits and Other Sources of Funds*

The following table includes deposit accounts by category:

	September 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)			
Noninterest checking	\$89,242	17.32 %	\$77,031	15.94 %
Interest bearing checking	89,873	17.44 %	87,350	18.08 %
Savings	80,669	15.65 %	71,474	14.79 %
Money market	85,880	16.67 %	94,880	19.64 %
Total	345,664	67.08 %	330,735	68.45 %
Certificates of deposit accounts:				
IRA certificates	32,436	6.29 %	33,262	6.88 %
Brokered certificates	18,066	3.51 %	7,071	1.46 %
Other certificates	119,111	23.12 %	112,114	23.21 %
Total certificates of deposit	169,613	32.92 %	152,447	31.55 %
Total deposits	\$515,277	100.00 %	\$483,182	100.00 %

*Deposits.* Deposits increased \$32.10 million, or 6.6%, to \$515.28 million at September 30, 2016 from \$483.18 million at December 31, 2015. The increase was largely due to an increase in certificates of deposit of \$17.17 million. This increase was impacted by additional brokered certificates obtained in the amount of \$11.00 million. Noninterest checking increased \$12.21 million and savings increased \$9.20 million. Interest bearing checking also increased slightly by \$2.52 million. These increases were partially offset by a decrease in money market accounts of \$9.00 million.

*Borrowings.* Advances from FHLB and other borrowings increased by \$6.14 million, or 8.4%, to \$78.86 million at September 30, 2016 from \$72.72 million at December 31, 2015. Borrowings were used to help fund the robust loan growth.

### ***Shareholders' Equity***

Total shareholders' equity increased \$4.59 million, or 8.3%, to \$60.04 million at September 30, 2016 from \$55.45 million at December 31, 2015. This was a result of an increase in accumulated other comprehensive income of \$1.63 million mainly due to an increase in net unrealized gains on available-for-sale securities and net income of \$3.68 million, partially offset by dividends paid of \$888,000.

### **Analysis of Net Interest Income**

The Bank's earnings have historically depended primarily upon net interest income, which is the difference between interest income earned on loans and investments and interest paid on deposits and any borrowed funds. It is the single largest component of Eagle's operating income. Net interest income is affected by (i) the difference between rates of interest earned on loans and investments and rates paid on interest-bearing deposits and borrowings (the "interest rate spread") and (ii) the relative amounts of loans and investments and interest-bearing deposits and borrowings.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Analysis of Net Interest Income – continued

The following tables include average balances for balance sheet items, as well as, interest and dividends and average yields related to the average balances. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income or expense.

	For the Three Months Ended September 30,						
	2016			2015			
	Average Daily Balance	Interest and Dividends	Yield/ Cost <sup>(4)</sup>		Average Daily Balance	Interest and Dividends	Yield/ Cost <sup>(4)</sup>
	(Dollars in Thousands)						
Assets:							
Interest-earning assets:							
Investment securities	\$ 134,388	\$ 709	2.11 %		\$ 148,013	\$ 759	2.05 %
FHLB and FRB stock	4,840	37	3.06 %		3,021	5	0.66 %
Loans receivable, net <sup>(1)</sup>	471,437	5,461	4.63 %		384,275	4,390	4.57 %
Other earning assets	390	1	1.03 %		4,913	-	0.00 %
Total interest-earning assets	611,055	6,208	4.06 %		540,222	5,154	3.82 %
Noninterest-earning assets	53,525				53,725		
Total assets	\$ 664,580				\$ 593,947		
Liabilities and equity:							
Interest-bearing liabilities:							
Deposit accounts:							
Money market	\$ 88,513	\$ 25	0.11 %		\$ 96,076	\$ 28	0.12 %
Savings	77,689	9	0.05 %		65,680	9	0.05 %
Checking	88,722	7	0.03 %		86,126	8	0.04 %
Certificates of deposit	160,483	342	0.85 %		154,259	355	0.92 %
Advances from FHLB and other borrowings including subordinated debt	99,245	404	1.63 %		60,623	321	2.12 %
Total interest-bearing liabilities	514,652	787	0.61 %		462,764	721	0.62 %

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Noninterest checking	84,974			76,494		
Other noninterest-bearing liabilities	4,996			795		
Total liabilities	604,622			540,053		
Total equity	59,958			53,894		
Total liabilities and equity	\$664,580			\$593,947		
Net interest income/interest rate spread <sup>(2)</sup>		\$ 5,421	3.45 %		\$ 4,433	3.20 %
Net interest margin <sup>(3)</sup>			3.55 %			3.28 %
Total interest-earning assets to interest-bearing liabilities			118.73%			116.74%

(1) Includes loans held-for-sale.

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

(3) Net interest margin represents income before the provision for loan losses divided by average interest-earning assets.

(4) For purposes of this table, tax exempt income is not calculated on a tax equivalent basis.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Analysis of Net Interest Income – continued

	For the Nine Months Ended September 30,						
	2016			2015			
	Average Daily Balance	Interest and Dividends	Yield/ Cost <sup>(4)</sup>	Average Daily Balance	Interest and Dividends	Yield/ Cost <sup>(4)</sup>	
	(Dollars in Thousands)						
Assets:							
Interest-earning assets:							
Investment securities	\$ 141,060	\$ 2,196	2.08 %	\$ 151,784	\$ 2,255	1.98 %	
FHLB and FRB stock	4,696	103	2.92 %	2,951	25	1.13 %	
Loans receivable, net <sup>(1)</sup>	449,334	15,253	4.53 %	361,355	12,607	4.65 %	
Other earning assets	1,768	5	0.38 %	4,835	6	0.17 %	
Total interest-earning assets	596,858	17,557	3.92 %	520,925	14,893	3.81 %	
Noninterest-earning assets	52,345			50,023			
Total assets	\$ 649,203			\$ 570,948			
Liabilities and equity:							
Interest-bearing liabilities:							
Deposit accounts:							
Money market	\$ 91,464	\$ 77	0.11 %	\$ 94,245	\$ 79	0.11 %	
Savings	73,978	24	0.04 %	65,566	22	0.05 %	
Checking	88,124	20	0.03 %	80,662	21	0.03 %	
Certificates of deposit	155,148	998	0.86 %	151,190	971	0.86 %	
Advances from FHLB and other borrowings including subordinated debt	94,122	1,206	1.71 %	54,178	655	1.61 %	
Total interest-bearing liabilities	502,836	2,325	0.62 %	445,841	1,748	0.52 %	
Noninterest checking	83,273			69,153			
Other noninterest-bearing liabilities	4,937			2,253			
Total liabilities	591,046			517,247			
Total equity	58,157			53,701			
Total liabilities and equity	\$ 649,203			\$ 570,948			
Net interest income/interest rate spread <sup>(2)</sup>		\$ 15,232	3.30 %		\$ 13,145	3.29 %	



Net interest margin <sup>(3)</sup>	3.40 %	3.36 %
Total interest-earning assets to interest-bearing liabilities	118.70%	116.84%

(1) Includes loans held-for-sale.

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

(3) Net interest margin represents income before the provision for loan losses divided by average interest-earning assets.

(4) For purposes of this table, tax exempt income is not calculated on a tax equivalent basis.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Rate/Volume Analysis

The following tables present the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume multiplied by the old rate; (2) changes in rate, which are changes in rate multiplied by the old volume; and (3) changes not solely attributable to rate or volume, which have been allocated proportionately to the change due to volume and the change due to rate.

	For the Three Months Ended September 30,					
	2016			2015		
	Due to Volume	Rate	Net	Due to Volume	Rate	Net
	(In Thousands)					
Interest-earning assets:						
Investment securities	\$(70 )	\$20	\$(50 )	\$(229)	\$(56 )	\$(285)
FHLB and FRB stock	3	29	32	-	5	5
Loans receivable, net	995	76	1,071	954	(222)	732
Other earning assets	-	1	1	-	(1 )	(1 )
Total interest-earning assets	928	126	1,054	725	(274)	451
Interest-bearing liabilities:						
Savings, money market and checking accounts	(1 )	(3 )	(4 )	4	2	6
Certificates of deposit	13	(26 )	(13 )	4	52	56
Advances from FHLB and other borrowings including subordinated debentures	204	(121)	83	15	129	144
Total interest-bearing liabilities	216	(150)	66	23	183	206
Change in net interest income	\$712	\$276	\$988	\$702	\$(457)	\$245



Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Rate/Volume Analysis – continued**

	For the Nine Months Ended September 30,					
	2016			2015		
	Due to	Net	Due to	Net	Net	
	Volume	Rate	Volume	Rate	Net	
	(In Thousands)					
Interest-earning assets:						
Investment securities	\$(159 )	\$100	\$(59 )	\$(694 )	\$(278)	\$(972 )
FHLB and FRB stock	15	63	78	-	25	25
Loans receivable, net	3,069	(423)	2,646	2,850	(534)	2,316
Other earning assets	(4 )	3	(1 )	1	-	1
Total interest-earning assets	2,921	(257)	2,664	2,157	(787)	1,370
Interest-bearing liabilities:						
Savings, money market and checking accounts	3	(4 )	(1 )	8	(10 )	(2 )
Certificates of deposit	25	2	27	(15 )	111	96
Advances from FHLB and other borrowings including subordinated debentures	483	68	551	132	5	137
Total interest-bearing liabilities	511	66	577	125	106	231
Change in net interest income	\$2,410	\$(323)	\$2,087	\$2,032	\$(893)	\$1,139

**Results of Operations for the Three Months Ended September 30, 2016 and 2015**

*Net Income.* Eagle's net income for the three months ended September 30, 2016 was \$1.77 million compared to \$521,000 for the three months ended September 30, 2015. The increase of \$1.25 million was due to an increase in noninterest income of \$1.78 million and an increase in net interest income after loan loss provision of \$826,000, partially offset by an increase in noninterest expense of \$667,000 and an increase in income tax expense of \$685,000. Basic and diluted earnings per share were \$0.46 for the current period and \$0.14 per share for the prior year comparable period.

*Net Interest Income.* Net interest income increased to \$5.42 million for the three months ended September 30, 2016, from \$4.43 million for the same quarter in the prior year. This increase of \$988,000 was the result of an increase in interest and dividend income of \$1.06 million, slightly offset by an increase in interest expense of \$66,000.

*Interest and Dividend Income.* Interest and dividend income was \$6.21 million for the three months ended September 30, 2016, compared to \$5.15 million for the three months ended September 30, 2015, an increase of \$1.06 million, or 20.6%. Interest and fees on loans increased to \$5.46 million for the three months ended September 30, 2016 from \$4.39 million for the same period ended September 30, 2015. This increase of \$1.07 million, or 24.4%, was due to an increase in the average balance of loans, as well as, an increase in the average yield of loans for the three months ended September 30, 2016. Average balances for loans receivable, net, including loans held-for-sale, for the three months ended September 30, 2016 were \$471.44 million, compared to \$384.28 million for the prior year period. This represents an increase of \$87.16 million, or 22.7%. The average interest rate earned on loans receivable increased by 6 basis points, from 4.57% to 4.63%. Interest and dividends on investment securities available-for-sale decreased slightly by \$50,000 or 6.6% for the three months ended September 30, 2016. Average balances for investments decreased to \$134.39 million for the three months ended September 30, 2016, from \$148.01 million for the three months ended September 30, 2015. Average interest rates earned on investments increased slightly to 2.11% from 2.05%.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Results of Operations for the Three Months Ended September 30, 2016 and 2015 – continued**

*Interest Expense.* Total interest expense was \$787,000 for the three months ended September 30, 2016 compared to \$721,000 for the three months ended September 30, 2015, an increase of \$66,000 or 9.2%. Interest expense for total borrowings was \$404,000 for the three months ended September 30, 2016 compared to \$321,000 for the comparable prior period. The average balance for total borrowings was \$99.25 million for September 30, 2016 compared to \$60.62 million for September 30, 2015. However, the average rate paid on total borrowings decreased from 2.12% last year to 1.63% for the three months ended September 30, 2016. Borrowings have been used to help fund continued loan growth. Interest expense on deposits was \$383,000 for the three months ended September 30, 2016 compared to \$400,000 for the same period in the prior year. The average balance for total deposits was \$500.38 million for September 30, 2016 compared to \$478.64 million for September 30, 2015. However, the overall average rate on deposits was 0.31% for the three months ended September 30, 2016 compared to 0.33% for the three months ended September 30, 2015.

*Loan Loss Provision.* Loan loss provisions are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management of the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank and past due loans in the portfolio. The Bank's policies require review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While management believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. The Bank recorded \$472,000 in loan loss provisions for the three months ended September 30, 2016 and \$310,000 in the three months ended September 30, 2015. The loan loss provision has been increased to keep pace with increasing loan production that is fueling loan growth.

*Noninterest Income.* Total noninterest income increased to \$4.69 million for the three months ended September 30, 2016, from \$2.91 million for the three months ended September 30, 2015, an increase of \$1.78 million or 61.2%. The increase is largely due to an increase in net gain on sale of loans which increased to \$3.16 million for the three months ended September 30, 2016 from \$1.64 million for the prior period. During the quarter ended September 30, 2016, \$100.83 million residential mortgages were originated compared to \$65.79 million for the quarter ended September 30, 2015. In addition, \$95.55 million mortgage loans were sold during the current quarter compared to \$57.55 million in the same quarter in the prior year.

*Noninterest Expense.* Noninterest expense was \$7.16 million for the three months ended September 30, 2016 compared to \$6.49 million for the three months ended September 30, 2015. The increase is largely due to increased salaries and employee benefits expenses of \$517,000. Increased salaries expense is due in part to higher commission-based compensation related to loan production for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

*Income Tax Expense.* Income tax expense was \$707,000 for the three months ended September 30, 2016, compared to \$22,000 for the three months ended September 30, 2015. The effective tax rate for the three months ended September 30, 2016 was 28.5%.

### **Results of Operations for the Nine Months Ended September 30, 2016 and 2015**

*Net Income.* Eagle's net income for the nine months ended September 30, 2016 was \$3.68 million compared to \$1.70 million for the nine months ended September 30, 2015. The increase of \$1.98 million, or 116.5%, was primarily due to an increase in net interest income after loan loss provision of \$1.66 million and an increase in noninterest income of \$2.32 million, partially offset by an increase in noninterest expense of \$1.06 million and an increase in income tax expense of \$936,000. Basic earnings per share were \$0.97 for the current period and diluted earnings per share were \$0.95 for the current period. Basic and diluted earnings per share were both \$0.44 for prior year comparable period.

*Net Interest Income.* Net interest income increased to \$15.23 million for the nine months ended September 30, 2016, from \$13.15 million for the nine months ended September 30, 2015. This increase of \$2.08 million, or 15.8%, was the result of an increase in interest and dividend income of \$2.67 million, partially offset by an increase in interest expense of \$577,000.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Results of Operations for the Nine Months Ended September 30, 2016 and 2015 – continued**

*Interest and Dividend Income.* Interest and dividend income was \$17.56 million for the nine months ended September 30, 2016, compared to \$14.89 million for the nine months ended September 30, 2015, an increase of \$2.67 million, or 17.9%. Interest and fees on loans increased to \$15.25 million for the nine months ended September 30, 2016 from \$12.61 million for the nine months ended September 30, 2015. This increase of \$2.64 million, or 20.9%, was due to an increase in the average balance of loans partially offset by a decrease in the average yield of loans for the nine months ended September 30, 2016. Average balances for loans receivable, net, including loans held-for-sale, for the nine months ended September 30, 2016 were \$449.33 million, compared to \$361.36 million for the prior year period. This represents an increase of \$87.97 million, or 24.3%. The average interest rate earned on loans receivable decreased by 12 basis points, from 4.65% to 4.53%. Interest and dividends on investment securities available-for-sale decreased slightly by \$59,000 or 2.6% for the nine months ended September 30, 2016. Average balances for investments decreased to \$141.06 million for the nine months ended September 30, 2016, from \$151.78 million for the nine months ended September 30, 2015. However, average interest rates earned on investments increased to 2.08% from 1.98%.

*Interest Expense.* Total interest expense for the nine months ended September 30, 2016 was \$2.33 million compared to \$1.75 million for the nine months ended September 30, 2015. Interest expense for total borrowings was \$1.21 million for the nine months ended September 30, 2016 compared to \$655,000 for the prior year comparable period. The average balance for total borrowings was \$94.12 million for the nine months ended September 30, 2016 compared to \$54.18 million for the nine months ended September 30, 2015. The average rate paid on borrowings was also higher. The average rate paid on borrowings for the nine months ended September 30, 2016 was 1.71% compared to 1.61% for the comparable period. Borrowings have been used to help fund the robust loan growth. Also, in June 2015, the Company completed the issuance of \$10.00 million in aggregate principal amount of subordinated notes due in 2025. Interest expense on deposits increased by \$26,000 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The average balance for total deposits was \$491.99 million for the nine months ended September 30, 2016 compared to \$460.82 million for the nine months ended September 30, 2015. However, the overall average rate on deposits was down slightly from 0.32% for the nine months ended September 30, 2015 to 0.30% for the current year.

*Loan Loss Provision.* Loan loss provisions are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management of the Bank, to provide for probable loan losses based on prior loss



experience, volume and type of lending conducted by the Bank and past due loans in the portfolio. The Bank's policies require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While management believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. The Bank recorded \$1.38 million in loan loss provisions for the nine months ended September 30, 2016 and \$960,000 in the nine months ended September 30, 2015. The loan loss provision has been increased to keep pace with increasing loan production that is fueling loan growth. Total nonperforming loans were \$1.77 million at September 30, 2016. As of September 30, 2016, the Bank had \$513,000 in foreclosed real estate property and other repossessed property.

*Noninterest Income.* Total noninterest income increased to \$11.39 million for the nine months ended September 30, 2016, from \$9.07 million for the prior year comparable period, an increase of \$2.32 million or 25.6%. The increase is largely due to an increase in net gain on sale of loans which increased to \$7.32 million for the nine months ended September 30, 2016 from \$5.13 million for the nine months ended September 30, 2015. During the nine months ended September 30, 2016, \$236.87 million residential mortgages were originated compared to \$188.46 million for the nine months ended September 30, 2015. In addition, \$217.60 million mortgage loans were sold during the nine months ended September 30, 2016 compared to \$177.17 million in the same period in the prior year.

*Noninterest Expense.* Noninterest expense was \$20.39 million for the nine months ended September 30, 2016 compared to \$19.33 million for the nine months ended September 30, 2015. The increase of \$1.06 million, or 5.5%, is largely due to increased salaries and employee benefits expenses of \$1.10 million. Increased salaries expense is due in part to higher commission-based compensation related to loan production for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

*Income Tax Expense.* Income tax expense was \$1.17 million for the nine months ended September 30, 2016, compared to \$230,000 for the nine months ended September 30, 2015. The effective tax rate for the nine months ended September 30, 2016 was 24.0%. Income tax expense has increased with our increased income levels. However, tax free municipal bond income and Bank owned life insurance income help to lower the overall effective tax rate. The effective tax rate is further reduced by a tax credit investment entered into by the Company in fiscal year 2013. The Bank made an investment in Certified Development Entities which have received allocations of New Markets Tax Credits ("NMTC"). Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over an estimated seven-year credit allowance period.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Liquidity and Capital Resources**

*Liquidity*

The Bank is required to maintain minimum levels of liquid assets as defined by the Montana Division of Banking and Federal Reserve Bank ("FRB") regulations. The liquidity requirement is retained for safety and soundness purposes, and appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with the FHLB of Des Moines. The Bank exceeded those minimum ratios as of both September 30, 2016 and December 31, 2015.

The Bank's primary sources of funds are deposits, repayment of loans and mortgage-backed and collateralized mortgage obligation securities, maturities of investments, funds provided from operations, and advances from the FHLB and other borrowings. Scheduled repayments of loans and mortgage-backed and collateralized mortgage obligation securities and maturities of investment securities are generally predictable. However, other sources of funds, such as deposit flows and loan prepayments, can be greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses liquidity resources principally to fund existing and future loan commitments. It also uses them to fund maturing certificates of deposit, demand deposit withdrawals and to invest in other loans and investments, maintain liquidity and meet operating expenses.

Liquidity may be adversely affected by unexpected deposit outflows, higher interest rates paid by competitors and similar matters. Management monitors projected liquidity needs and determines the level desirable, based in part on commitments to make loans and management's assessment of the Bank's ability to generate funds.

*Capital Resources*

As of August 31, 2016 (the most recent report available for September 30, 2016), the Bank's internally determined measurement of sensitivity to interest rate movements as measured by a 200 basis point rise in interest rates scenario, increased the economic value of equity ("EVE") by 7.0% compared to a decrease of 1.8% as of November 30, 2015 (the most recent report available for December 31, 2015). The Bank is within the guidelines set forth by the Board of Directors for interest rate risk sensitivity in rising interest rate scenarios.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements, and amends the methodologies for determining risk-weighted assets. These changes are expected to increase the amount of capital required by community banking organizations. Basel III includes a multiyear transition period from January 1, 2015 through December 31, 2019.

The Banks's Tier I leverage ratio, as measured under State of Montana and FRB rules, decreased slightly from 9.36% as of December 31, 2015 to 9.18% as of September 30, 2016. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

As of September 30, 2016, the Bank's regulatory capital was in excess of all applicable regulatory requirements. As of September 30, 2016, the Bank's total capital, Tier 1 capital, common equity Tier 1 capital and Tier 1 leverage ratios were 14.02%, 13.01%, 13.01% and 9.18%, respectively, compared to regulatory requirements of 8.0%, 6.0%, 4.5% and 4.0%, respectively.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Liquidity and Capital Resources – continued***Capital Resources – continued*

	September 30, 2016 (Unaudited)	
	Dollar Amount (Dollars in Thousands)	% of Assets
Total risk-based capital to risk weighted assets:		
Capital level	\$64,612	14.02 %
Requirement	36,866	8.00
Excess	\$27,746	6.02 %
Tier I capital to risk weighted assets:		
Capital level	\$59,962	13.01 %
Requirement	27,649	6.00
Excess	\$32,313	7.01 %
Common equity tier I capital to risk weighted assets:		
Capital level	\$59,962	13.01 %
Requirement	20,737	4.50
Excess	\$39,225	8.51 %
Tier I capital to adjusted total assets:		
Capital level	\$59,962	9.18 %
Requirement	26,128	4.00
Excess	\$33,834	5.18 %

**Interest Rate Risk**

Interest rate risk is the potential for loss of future earnings resulting from adverse changes in the level of interest rates. Interest rate risk results from several factors and could have a significant impact on the Company's net interest income, which is the Company primary source of net income. Net interest income is affected by changes in interest rates, the relationship between rates on interest bearing assets and liabilities, the impact of interest fluctuations on asset prepayments and the mix of interest bearing assets and liabilities.

Although interest rate risk is inherent in the banking industry, banks are expected to have sound risk management practices in place to measure, monitor and control interest rate exposures. The objective of interest rate risk management is to contain the risks associated with interest rate fluctuations. The process involves identification and management of the sensitivity of net interest income to changing interest rates.

The ongoing monitoring and management of this risk is an important component of the Company's asset/liability committee, which is governed by policies established by the Company's Board that are reviewed and approved annually. The Board delegates responsibility for carrying out the asset/liability management policies to the Bank's asset/liability committee. In this capacity, the asset/liability committee develops guidelines and strategies impacting the Company's asset/liability management related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends. The Company's goal of its asset and liability management practices is to maintain or increase the level of net interest income within an acceptable level of interest rate risk. Our asset and liability policy and strategies are expected to continue as described so long as competitive and regulatory conditions in the financial institution industry and market interest rates continue as they have in recent years.

Table Of Contents

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Interest Rate Risk – continued**

The Bank has established acceptable levels of interest rate risk as follows: Projected net interest income over the next twelve months will not be reduced by more than 15.0% given a change in interest rates of up to 200 basis points (+ or -).

The following table includes the Banks's net interest income sensitivity analysis.

Changes in Market Interest Rates (Basis Points)	Rate Sensitivity As of August 31, 2016		Policy Limits
	Year 1	Year 2	
+200	-0.49%	0.90%	-15.00%
-100	-1.53%	-6.22%	-15.00%

**Impact of Inflation and Changing Prices**

Our financial statements and the accompanying notes have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Interest rates have a greater impact on our performance than do the general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.



Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

This item has been omitted based on Eagle's status as a smaller reporting company.



Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONTROLS AND PROCEDURES

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”) of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of September 30, 2016, our disclosure controls and procedures were effective.

In connection with the preparation of our financial statements for the second quarter of fiscal year 2016, we identified a significant deficiency in our internal control over financial reporting. The significant deficiency consisted of two separate issues that resulted in the overstatement of interest income on mortgage loans for the quarter ended March 31, 2016. Management has determined that the misstatement occurred because of errors that occurred during loan setup for mortgage loans that were sold with servicing retained. The issue had been identified, but the severity had not been properly determined in a timely manner which allowed the misstatement to cross a quarterly reporting period.

We remediated the significant deficiency in our internal control over financial reporting noted above (and consequent deficiencies in our disclosure controls and procedures), by implementing certain changes to the design of our internal controls. Specifically, we have provided additional training and strengthened the oversight and review of loan transactions, particularly relative to the sold mortgage loans. We have also formulated a management level disclosure committee to review and certify accuracy of public filings, provided additional training to executive management regarding the escalation of issues to those involved in financial reporting, and created a written escalation process.

Except as described above, during the last quarter, there were no changes in the Company’s internal control over financial reporting that have materially affected, or were reasonably likely to materially affect, the Company’s internal control over financial reporting.



Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

**Part II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Neither the Company nor the Bank is involved in any pending legal proceeding other than non-material legal proceedings occurring in the ordinary course of business.

**Item 1A. Risk Factors.**

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On July 21, 2016, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. No shares were purchased under this plan during the three months ended September 30, 2016. The plan expires on July 21, 2017.

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

On July 1, 2014, the Board authorized the repurchase of up to 200,000 shares of its common stock. Under this plan, shares could be purchased on the open market or in privately negotiated transactions. Under this plan, 55,800 shares

were purchased at an average price of \$11.03 per share during the six months ended June 30, 2015. In addition, under this plan, 55,000 shares were purchased at an average price of \$10.66 per share during the six month transition period ended December 31, 2014. The plan expired on June 30, 2015.

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

**Part II - OTHER INFORMATION (CONTINUED)**

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**Exhibit Number Description**

31.1 Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Laura F. Clark, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

32.1

Edgar Filing: Eagle Bancorp Montana, Inc. - Form 10-Q

Certification by Peter J. Johnson, Chief Executive Officer, and Laura F. Clark, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEFBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

Table Of Contents

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

SIGNATURES

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

EAGLE BANCORP  
MONTANA, INC.

Date: November 9, 2016 By: /s/ Peter J. Johnson  
Peter J. Johnson  
President/CEO

Date: November 9, 2016 By: /s/ Laura F. Clark  
Laura F. Clark  
Senior Vice President/CFO