

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

For the transition period from _____ to _____.

Commission file number 1-34682

Eagle Bancorp Montana, Inc.

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

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

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.opportunitybank.com

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Note Regarding Forward-Looking Statements

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

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

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

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

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

our ability to continue to increase and manage our commercial and residential real estate, multi-family and commercial business loans;

possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;

changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

the level of future deposit insurance premium assessments;

continued low interest rate environment or interest rate volatility;

the Company's ability to develop and maintain secure and reliable information technology systems, keep pace with technological changes, effectively defend itself against cyberattacks, or recover from breaches to its cybersecurity infrastructure;

the impact of the restructuring of the U.S. financial and regulatory system;

the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;

changes in the financial performance, creditworthiness and/or condition of our borrowers and their ability to repay their loans when due; and

the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

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

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Net (loss) gain on sale of available-for-sale securities (includes (\$14) and \$84 for the three months ended June 30, 2017 and 2016, respectively, and (\$14) and \$84 for the six months ended June 30, 2017 and 2016, respectively, related to accumulated other comprehensive earnings reclassification)

Net (loss) gain on sale of real estate owned and other repossessed property	(24)	12	(25)	12
Other noninterest income	63	124	197	290
Total noninterest income	3,570	3,806	6,778	6,702

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

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

WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED EPS)	3,869,885	3,873,171	3,872,765	3,873,171
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2017 and 2016

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

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

Other comprehensive
income

Dividends paid (\$0.08 per share)					(609)			(609)
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Employee Stock

Ownership Plan shares allocated or committed to be released for allocation (8,308 shares)		78		84				162
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Balance at June 30, 2017	\$ -	\$ 41	\$ 22,444	\$ (725)	\$ (2,971)	\$ 42,460	\$ 873	\$ 62,122
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

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

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

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

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

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

Available-for-Sale:

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

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

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

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

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

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

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

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

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

As of June 30, 2017, 13 mortgage-backed securities ("MBSs") and collateralized mortgage obligations ("CMOs") had unrealized losses with aggregate depreciation of approximately 1.07% from the Company's amortized cost basis of these securities. At December 31, 2016, 14 MBSs and CMOs had unrealized losses with aggregate depreciation of

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consisted of the following:

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

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

The following table includes information regarding nonperforming assets.

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

Allowance for loan losses activity was as follows:

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

Residential

Mortgage	Commercial	Real Estate	Home
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(1-4
Family)