

Eagle Bancorp Montana, Inc.
Form 10-Q
November 12, 2014

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, 2014

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
(State or other jurisdiction of incorporation or organization)

27-1449820
(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 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.

Accelerated filer

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Large accelerated
filer

Non-accelerated []
filer

(Do not check if smaller
reporting company)

Smaller reporting [X]
company

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common stock, par value \$0.01 per share

As of November 12, 2014

3,866,233 shares outstanding

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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Exhibit 32.1

101.INS XBRL	Instance Document
101.SCH XBRL	Taxonomy Extension Schema Document
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document
101.LAB XBRL	Taxonomy Extension Label Linkbase Document
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document

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,” “could,” “intend,” “target” and other similar words and expressions of the future. These forward-looking statements include, but are not limited to:

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

These forward-looking statements are based on current beliefs and expectations of our management 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 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 entities or businesses;
 - the possibility of goodwill impairment charges in the future;
 - 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;
- cyber- security risks, including “denial of service,” “hacking” and “identity theft,” that could adversely affect our business and financial performance, or our reputation;
 - the level of future deposit premium assessments;
- the impact of the current economic conditions on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of recently enacted legislation to restructure the U.S. financial and regulatory system, including proposals to reform the housing markets and government-sponsored enterprises serving such markets;
- 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 fiscal year ended June 30, 2014, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	September 30, 2014	June 30, 2014
ASSETS:		
Cash and due from banks	\$ 3,295	\$ 6,208
Interest-bearing deposits with banks	615	611
Total cash and cash equivalents	3,910	6,819
Securities available-for-sale	178,428	189,553
Federal Home Loan Bank stock	1,878	1,878
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	21,656	17,245
Loans receivable, net of deferred loan fees of \$456 at September 30, 2014 and \$413 at June 30, 2014 and allowance for loan losses of \$2,300 at September 30, 2014 and \$2,125 at June 30, 2014	298,613	273,991
Accrued interest and dividends receivable	2,340	2,429
Mortgage servicing rights, net	3,913	3,756
Premises and equipment, net	20,037	20,101
Cash surrender value of life insurance	11,653	11,082
Real estate and other repossessed assets acquired in settlement of loans, net	619	458
Goodwill	7,034	7,034
Core deposit intangible, net	703	745
Other assets	2,927	3,862
Total assets	\$ 553,866	\$ 539,108

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	September 30, 2014	June 30, 2014
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	\$ 66,263	\$ 58,432
Interest bearing	373,882	368,613
Total deposits	440,145	427,045
Accrued expenses and other liabilities	4,749	3,749
Federal Home Loan Bank advances and other borrowings	51,172	51,454
Subordinated debentures	5,155	5,155
Total liabilities	501,221	487,403
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; 3,866,233 and 3,916,233 shares outstanding at September 30, 2014 and June 30, 2014, respectively)	41	41
Additional paid-in capital	22,126	22,123
Unallocated common stock held by Employee Stock Ownership Plan	(1,182)	(1,224)
Treasury stock, at cost	(2,333)	(1,800)
Retained earnings	35,252	34,824
Net accumulated other comprehensive loss	(1,259)	(2,259)
Total shareholders' equity	52,645	51,705
Total liabilities and shareholders' equity	\$ 553,866	\$ 539,108

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

	Three Months Ended September 30,	
	2014	2013
INTEREST AND DIVIDEND INCOME:		
Interest and fees on loans	\$3,658	\$3,121
Securities available-for-sale	1,044	1,019
Interest on deposits with banks	1	1
Total interest and dividend income	4,703	4,141
INTEREST EXPENSE:		
Deposits	338	321
Federal Home Loan Bank advances and other borrowings	156	182
Subordinated debentures	21	21
Total interest expense	515	524
NET INTEREST INCOME	4,188	3,617
Loan loss provision	215	159
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	3,973	3,458
NONINTEREST INCOME:		
Service charges on deposit accounts	284	279
Net gain on sale of loans (includes \$461 and \$582 for the three months ended September 30, 2014 and 2013, respectively, related to accumulated other comprehensive earnings reclassification)	1,398	1,591
Mortgage loan servicing fees	380	314
Wealth management income	112	122
Net gain on sale of available-for-sale securities (includes \$194 and \$431 for the three months ended September 30, 2014 and 2013, respectively, related to accumulated other comprehensive earnings reclassification)	194	431
Net loss on sale of real estate owned and other repossessed property	(1)	(28)
Net (loss) gain on fair value hedge	(47)	23
Other noninterest income	337	366
Total noninterest income	2,657	3,098

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

	Three Months Ended September 30,	
	2014	2013
NONINTEREST EXPENSE:		
Salaries and employee benefits	3,131	3,342
Occupancy and equipment expense	695	687
Data processing	540	448
Advertising	166	251
Amortization of mortgage servicing rights	166	193
Amortization of core deposit intangible and tax credits	105	109
Federal insurance premiums	73	84
Postage	44	42
Legal, accounting and examination fees	262	124
Consulting fees	176	86
Other noninterest expense	507	487
Total noninterest expense	5,865	5,853
INCOME BEFORE INCOME TAXES	765	703
Income tax expense (includes \$688 and (\$1,011) for the three months ended September 30, 2014 and 2013, respectively, related to income tax expense (benefit) from reclassification items)	47	36
NET INCOME	\$718	\$667
BASIC EARNINGS PER SHARE	\$0.18	\$0.17
DILUTED EARNINGS PER SHARE	\$0.18	\$0.17
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC EPS)	3,889,603	3,898,685
WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED EPS)	3,944,406	3,977,542

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three Months Ended September 30,	
	2014	2013
NET INCOME	\$718	\$667
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):		
Change in fair value of investment securities available for sale, before income taxes	1,713	(2,058)
Reclassification for realized gains and losses on investment securities included in income, before income tax	(194)	(431)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	630	590
Reclassification for realized gains and losses on derivatives designated as cash flow hedges, before income taxes	(461)	(582)
Total other items of comprehensive income (loss)	1,688	(2,481)
Income tax (expense) benefit related to:		
Investment securities	(619)	1,014
Derivatives designated as cash flow hedges	(69)	(3)
	(688)	1,011
COMPREHENSIVE INCOME (LOSS)	\$1,718	\$(803)

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Months Ended September 30, 2014 and 2013

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	PREFERRED STOCK	COMMON STOCK	PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Balance at July 1, 2013	\$ -	\$ 41	\$ 22,109	\$ (1,390)	\$ (1,993)	\$ 33,849	\$ (3,384)	\$ 49,232
Net income						667		667
Other comprehensive loss							(1,470)	(1,470)
Dividends paid (\$0.0725 per share)						(283)		(283)
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (4,154 shares)			5	42				47
Balance at September 30, 2013	\$ -	\$ 41	\$ 22,114	\$ (1,348)	\$ (1,993)	\$ 34,233	\$ (4,854)	\$ 48,193
Balance at July 1, 2014	\$-	\$41	\$22,123	\$(1,224)	\$(1,800)	\$34,824	\$(2,259)	\$51,705
Net income						718		718
Other comprehensive income							1,000	1,000
Dividends paid (\$0.0750 per share)						(290)		(290)
Employee Stock Ownership Plan shares allocated or committed to be			3	42				45

released for allocation
(4,154 shares)

Treasury stock
purchased
(50,000 shares at \$10.65
average
cost per share)

(533)

(533)

Balance at September

30, 2014 \$- \$41 \$22,126 \$(1,182) \$(2,333) \$35,252 \$(1,259) \$52,645

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

	Three Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$718	\$667
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Loan loss provision	215	159
Depreciation	292	283
Net amortization of investment securities premium and discounts	559	895
Amortization of mortgage servicing rights	166	193
Amortization of core deposit intangible and tax credits	105	109
Net gain on sale of loans	(1,398)	(1,591)
Net gain on sale of available-for-sale securities	(194)	(431)
Net appreciation in cash surrender value of life insurance	(76)	(83)
Net loss on sale of real estate owned and other repossessed assets	1	28
Net loss (gain) on fair value hedge	47	(23)
Change in assets and liabilities:		
Decrease (increase) in assets:		
Accrued interest and dividends receivable	89	48
Loans held-for-sale	(2,844)	1,688
Other assets	185	43
Increase in liabilities:		
Accrued expenses and other liabilities	997	297
Net cash (used in) provided by operating activities	(1,138)	2,282
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	9,646	16,149
Maturities, principal payments and calls	4,060	9,738
Purchases	(1,427)	(11,710)
Federal Home Loan Bank stock redeemed	-	17
Loan origination and principal collection, net	(25,325)	(19,247)
Purchases of bank owned life insurance	(495)	-
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	3	26
Additions to premises and equipment	(228)	(141)
Net cash used in investing activities	(13,766)	(5,168)

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Three Months Ended September 30,	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$13,100	\$10,529
Net short-term payments on Federal Home Loan Bank and other borrowings	(232)	(6,345)
Payments on long-term Federal Home Loan Bank and other borrowings	(50)	(50)
Dividends paid	(290)	(283)
Purchase of treasury stock, at cost	(533)	-
Net cash provided by financing activities	11,995	3,851
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,909)	965
CASH AND CASH EQUIVALENTS, beginning of period	6,819	6,161
CASH AND CASH EQUIVALENTS, end of period	\$3,910	\$7,126
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$545	\$532
Cash paid during the period for income taxes	\$80	\$-
NON-CASH INVESTING ACTIVITIES:		
Increase (decrease) in market value of securities available-for-sale	\$1,519	\$(2,489)
Mortgage servicing rights recognized	\$323	\$421
Loans transferred to real estate and other assets acquired in foreclosure	\$165	\$-
Employee Stock Ownership Plan shares released	\$45	\$46

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete 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.

In August 2014, the Board of Directors of Eagle Bancorp Montana, Inc. (“the Company” or “Eagle”) approved a change in the Company’s year end from June 30 to December 31 of each year. The year change is effective beginning with the Company’s 2015 fiscal year, which will now begin on January 1, 2015 and end on December 31, 2015. The results of operations for the three month period ended September 30, 2014 are not necessarily indicative of the results to be expected for the six months ending December 31, 2014 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 fiscal year ended June 30, 2014.

The Company evaluated subsequent events for potential recognition and/or disclosure through November 12, 2014 the date the consolidated financial statements were issued.

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	September 30, 2014			June 30, 2014				
	Amortized	Gross		Fair	Amortized	Gross		Fair
	Cost	Unrealized	(Losses)	Value	Cost	Unrealized	(Losses)	Value
				(In Thousands)				
Available-for-Sale:								
U.S. government and agency obligations	\$ 36,643	\$ 45	\$ (446)	\$ 36,242	\$ 41,955	\$ 48	\$ (697)	\$ 41,306
Municipal obligations	82,964	1,316	(2,523)	81,757	82,882	1,079	(3,597)	80,364
Corporate obligations	5,987	25	(58)	5,954	5,984	22	(42)	5,964
Mortgage-backed securities - government backed	25,173	27	(339)	24,861	29,448	79	(369)	29,158
CMOs - government backed	30,415	29	(830)	29,614	33,557	40	(836)	32,761
Total	\$ 181,182	\$ 1,442	\$ (4,196)	\$ 178,428	\$ 193,826	\$ 1,268	\$ (5,541)	\$ 189,553

For the three months ended September 30, 2014 and 2013, net proceeds from sales of securities available-for-sale were \$9,646,000 and \$16,149,000, respectively. For the three months ended September 30, 2014 and 2013 gross realized gains were \$245,000 and \$480,000, respectively and gross realized losses were \$51,000 and \$49,000,

respectively.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

The amortized cost and fair value of securities at September 30, 2014 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$ 1,480	\$ 1,489
Due from one to five years	3,348	3,349
Due from five to ten years	19,435	19,133
Due after ten years	101,331	99,982
	125,594	123,953
Mortgage-backed securities - government-backed	25,173	24,861
CMOs - government backed	30,415	29,614
Total	\$ 181,182	\$ 178,428

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, 2014			
	Less Than 12 Months Fair Value	Gross Unrealized Losses	12 Months or Longer Estimated Market Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency	\$16,710	\$110	\$11,438	\$336
Municipal obligations	535	42	56,827	2,481
Corporate obligations	991	9	1,952	49
Mortgage-backed and CMOs	10,569	151	37,528	1,018
Total	\$28,805	\$312	\$107,745	\$3,884

	June 30, 2014			
	Less Than 12 Months Fair Value	Gross Unrealized Losses	12 Months or Longer Estimated Market Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency	\$20,607	\$284	\$13,593	\$413
Municipal obligations	871	49	56,700	3,548
Corporate obligations	-	0	2,958	42
Mortgage-backed & CMOs	14,724	143	38,742	1,062

Total	\$36,202	\$476	\$111,993	\$5,065
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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of September 30, 2014 and June 30, 2014, there were, respectively, 107 and 114 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, 2014, 86 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 3.36% from the Company's amortized cost basis of these securities. At June 30, 2014, 90 U.S. Government and agency securities and municipal obligations have unrealized losses with aggregate depreciation of approximately 4.47% from the Company's amortized cost basis. 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, 2014, 3 corporate obligations had an unrealized loss of approximately 1.93% from the Company's amortized cost basis of this security. At June 30, 2014, 3 corporate obligations had an unrealized loss with aggregate depreciation of approximately 1.40% from the Company's cost basis. This unrealized loss is principally due to changes in interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

At September 30, 2014, 18 mortgage backed and CMO securities had unrealized losses with aggregate depreciation of approximately 2.37% from the Company's cost basis of these securities. At June 30, 2014, 21 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of approximately 2.20% from the Company's cost basis. We believe these unrealized losses are principally due to the credit market's concerns regarding the stability of the mortgage market, changes in interest rates and credit spreads and uncertainty of future prepayment speeds. Management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligor, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. There has been no disruption of the scheduled cash flows on any of the securities. Management's analysis as of June 30, 2014 revealed no expected credit losses on the securities and therefore, declines are not deemed to be other than temporary.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consisted of the following:

	September 30, 2014	June 30, 2014
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	\$ 98,543	\$ 92,321
Commercial real estate	102,377	92,043
Real estate construction	8,962	6,923
Other loans:		
Home equity	39,408	37,866
Consumer	13,692	12,964
Commercial	38,387	34,412
Total	301,369	276,529
Allowance for loan losses	(2,300)	(2,125)
Deferred loan fees, net	(456)	(413)
Total loans, net	\$ 298,613	\$ 273,991

Within the commercial real estate loan category above, \$12,714,000 and \$12,830,000 was guaranteed by the United States Department of Agriculture Rural Development, at September 30, 2014 and June 30, 2014, respectively. In addition, within the commercial loan category above, \$3,825,000 and \$3,880,000 were in loans originated through a syndication program where the business resides outside of Montana, at September 30, 2014, and June 30, 2014, respectively.

The following table includes information regarding nonperforming assets.

	September 30, 2014	June 30, 2014
	(Dollars in Thousands)	
Non-accrual loans	\$ 486	\$ 342
Accruing loans delinquent 90 days or more	-	-
Restructured loans, net	50	180
Total nonperforming loans	536	522
Real estate owned and other repossessed assets, net	619	458
Total	\$ 1,155	\$ 980
Total non-performing assets as a percentage of total assets	0.21	0.18
	%	%

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Allowance for loan losses	\$	2,300		\$	2,125
Percent of allowance for loan losses to non-performing loans		429.1	%		407.1 %
Percent of allowance for loan losses to non-performing assets		199.1	%		216.8 %

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

Allowance for loan losses activity was as follows:

	Three Months Ended September 30, 2014						Total
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	
	(In Thousands)						
Allowance for loan losses:							
Beginning balance, July 1, 2014	\$ 485	\$ 974	\$ 30	\$ 299	\$ 49	\$ 288	\$ 2,125
Charge-offs	-	-	-	(31)	(34)	(15)	(80)
Recoveries	-	31	-	-	9	-	40
Provision	20	43	4	90	25	33	215
Ending balance, September 30, 2014	\$ 505	\$ 1,048	\$ 34	\$ 358	\$ 49	\$ 306	\$ 2,300
Ending balance allocated to loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 128	\$ 20	\$ 9	\$ 157
Ending balance allocated to loans collectively evaluated for impairment	\$ 505	\$ 1,048	\$ 34	\$ 230	\$ 29	\$ 297	\$ 2,143
Loans receivable:							
Ending balance September 30, 2014	\$ 98,543	\$ 102,377	\$ 8,962	\$ 39,408	\$ 13,692	\$ 38,387	\$ 301,369
Ending balance of loans individually evaluated for impairment September 30, 2014	\$ 656	\$ -	\$ 217	\$ 438	\$ 86	\$ 636	\$ 2,033
Ending balance of loans collectively							

evaluated for
impairment

September 30, 2014	\$ 97,887	\$ 102,377	\$ 8,745	\$ 38,970	\$ 13,606	\$ 37,751	\$ 299,336
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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	Three Months Ended September 30, 2013						Total
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	
	(In Thousands)						
Allowance for loan losses:							
Beginning balance, July 1, 2013	\$ 423	\$ 952	\$ 15	\$ 290	\$ 40	\$ 280	\$ 2,000
Charge-offs	-	(154)	-	(5)	(1)	-	(160)
Recoveries	-	-	-	-	1	-	1
Provision	20	20	10	39	32	38	159
Ending balance, September 30, 2013	\$ 443	\$ 818	\$ 25	\$ 324	\$ 72	\$ 318	\$ 2,000
Ending balance allocated to loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 30	\$ 4	\$ -	\$ 34
Ending balance allocated to loans collectively evaluated for impairment	\$ 443	\$ 818	\$ 25	\$ 294	\$ 68	\$ 318	\$ 1,966
Loans receivable:							
Ending balance September 30, 2013	\$ 76,017	\$ 79,399	\$ 4,224	\$ 36,117	\$ 12,883	\$ 26,920	\$ 235,560
Ending balance of loans individually evaluated for impairment September 30, 2013	\$ 308	\$ 130	\$ -	\$ 509	\$ 128	\$ 210	\$ 1,285
Ending balance of loans collectively evaluated for impairment September 30, 2013	\$ 75,709	\$ 79,269	\$ 4,224	\$ 35,608	\$ 12,755	\$ 26,710	\$ 234,275

The Company utilizes a 5 point internal loan rating system, largely based on regulatory classifications, for 1-4 family real estate, commercial real estate, construction, home equity and commercial loans as follows:

Loans rated Pass: these are 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: these loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset at some future date.

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

On an annual basis, or more often if needed, the Company formally reviews the ratings of all commercial real estate, construction, and commercial business loans that have a principal balance of \$500,000 or more. Quarterly, the Company reviews the rating of any consumer loan, broadly defined, that is delinquent 90 days or more. Likewise, quarterly, the Company reviews the rating of any commercial loan, broadly defined, that is delinquent 60 days or more. Annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

Internal classification of the loan portfolio was as follows:

Grade:	September 30, 2014 (In Thousands)						Total
	1-4 Family	Commercial	Home			Commercial	
	Real Estate	Real Estate	Construction	Equity	Consumer		
Pass	\$ 97,887	\$ 102,377	\$ 8,745	\$ 38,970	\$ 13,606	\$ 37,751	\$ 299,336
Special mention	-	-	-	-	-	-	-
Substandard	656	-	217	310	59	627	1,869
Doubtful	-	-	-	-	7	-	7
Loss	-	-	-	128	20	9	157
Total	\$ 98,543	\$ 102,377	\$ 8,962	\$ 39,408	\$ 13,692	\$ 38,387	\$ 301,369

Credit Risk Profile Based on Payment Activity

Performing	\$ 98,543	\$ 102,377	\$ 8,745	\$ 39,191	\$ 13,679	\$ 38,298	\$ 300,833
Restructured loans	-	-	-	50	-	-	50
Nonperforming	-	-	217	167	13	89	486
Total	\$ 98,543	\$ 102,377	\$ 8,962	\$ 39,408	\$ 13,692	\$ 38,387	\$ 301,369

Grade:	June 30, 2014 (In Thousands)						Total
	1-4 Family	Commercial	Home			Commercial	
	Real Estate	Real Estate	Construction	Equity	Consumer		
Pass	\$ 91,661	\$ 91,763	\$ 6,923	\$ 37,578	\$ 12,863	\$ 34,097	\$ 274,885
Special mention	-	-	-	-	-	-	-
Substandard	660	280	-	257	74	300	1,571
Doubtful	-	-	-	-	7	-	7
Loss	-	-	-	31	20	15	66
Total	\$ 92,321	\$ 92,043	\$ 6,923	\$ 37,866	\$ 12,964	\$ 34,412	\$ 276,529

Credit Risk Profile Based on Payment

Activity

Performing	\$ 92,271	\$ 91,913	\$ 6,923	\$ 37,674	\$ 12,921	\$ 34,305	\$ 276,007
Restructured loans	-	130	-	50	-	-	180
Nonperforming	50	-	-	142	43	107	342
Total	\$ 92,321	\$ 92,043	\$ 6,923	\$ 37,866	\$ 12,964	\$ 34,412	\$ 276,529

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

	September 30, 2014					Recorded Investment >90 Days and Still Accruing
	30-89 Days	90 Days	Total	Total	Total	
	Past Due	and Greater	Past Due	Current	Loans	
	(In Thousands)					
1-4 Family real estate	\$1,083	\$-	\$1,083	\$97,460	\$98,543	\$-
Commercial real estate	235	-	235	102,142	102,377	-
Construction	-	217	217	8,745	8,962	-
Home equity	560	167	727	38,681	39,408	-
Consumer	159	13	172	13,520	13,692	-
Commercial	420	89	509	37,878	38,387	-
Total	\$2,457	\$486	\$2,943	\$298,426	\$301,369	\$-

	June 30, 2014					Recorded Investment >90 Days and Still Accruing
	30-89 Days	90 Days	Total	Total	Total	
	Past Due	and Greater	Past Due	Current	Loans	
	(In Thousands)					
1-4 Family real estate	\$701	\$-	\$701	\$91,620	\$92,321	\$-
Commercial real estate	294	130	424	91,619	92,043	-
Construction	-	-	-	6,923	6,923	-
Home equity	583	192	775	37,091	37,866	-
Consumer	97	31	128	12,836	12,964	-
Commercial	79	107	186	34,226	34,412	-
Total	\$1,754	\$460	\$2,214	\$274,315	\$276,529	\$-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables include information regarding impaired loans.

	September 30, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance (In Thousands)	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
1-4 Family	\$656	\$656	\$-	\$7	\$658
Commercial real estate	-	-	-	-	140
Construction	217	217	-	2	109
Home equity	310	330	-	3	284
Consumer	66	75	-	1	74
Commercial	627	670	-	7	464
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	128	128	128	-	80
Consumer	20	20	20	-	20
Commercial	9	9	9	-	12
Total:					
1-4 Family	656	656	-	7	658
Commercial real estate	-	-	-	-	140
Construction	217	217	-	2	109
Home equity	438	458	128	3	364
Consumer	86	95	20	1	94
Commercial	636	679	9	7	476
Total	\$2,033	\$2,105	\$157	\$20	\$1,841

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

			June 30, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
	(In Thousands)				
With no related allowance:					
1-4 Family	\$660	\$660	\$-	\$17	\$488
Commercial real estate	280	393	-	2	501
Construction	-	-	-	-	-
Home equity	257	277	-	7	329
Consumer	81	91	-	4	77
Commercial	300	328	-	6	211
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	31	31	31	-	205
Consumer	20	20	20	-	13
Commercial	15	15	15	-	8
Total:					
1-4 Family	660	660	-	17	488
Commercial real estate	280	393	-	2	501
Construction	-	-	-	-	-
Home equity	288	308	31	7	534
Consumer	101	111	20	4	90
Commercial	315	343	15	6	219
Total	\$1,644	\$1,815	\$66	\$36	\$1,832

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the quarter ended December 31, 2011. As required, the Company reassessed all restructurings that occurred on or after the beginning of that fiscal year starting July 1, 2011 for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying the reassessed receivables as troubled debt restructurings, the Company also identified them as impaired under the guidance in ASC 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. As of September 30, 2014, 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 \$50,000 (310-40-65-1(b)), and the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was \$34,000 (310-40-65-1(b)).

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

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

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

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued

The following tables present troubled debt restructurings.

	Accrual Status	September 30, 2014	
		Non-Accrual Status	Total Modification
(In Thousands)			
Residential mortgage (1-4 family)	\$ -	\$ -	\$ -
Commercial real estate	-	-	-
Real estate construction	-	-	-
Home equity	50	-	50
Consumer	-	-	-
Commercial	-	-	-
Total	\$ 50	\$ -	\$ 50

	Accrual Status	June 30, 2014	
		Non-Accrual Status	Total Modification
(In Thousands)			
Residential mortgage (1-4 family)	\$ -	\$ -	\$ -
Commercial real estate	-	130	130
Real estate construction	-	-	-
Home equity	-	50	50
Consumer	-	-	-
Commercial	-	-	-
Total	\$ -	\$ 180	\$ 180

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 months ended September 30, 2014 and 2013, there were no new restructured loans.

There were no loans modified as a troubled debt restructured loan within the previous three months for which there was a payment default during the three months ended September 30, 2014. 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, 2014 and June 30, 2014, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

The commercial real estate troubled debt restructure for \$130,000 at June 30, 2014 was foreclosed during the quarter ended September 30, 2014 and transferred to real estate owned.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. DEPOSITS

Deposits are summarized as follows:

	September 30, 2014	June 30, 2014
	(In Thousands)	
Noninterest checking	\$ 66,263	\$ 58,432
Interest-bearing checking	72,273	68,033
Savings	60,430	60,493
Money market	90,329	87,892
Time certificates of deposit	150,850	152,195
Total	\$ 440,145	\$ 427,045

NOTE 6. EARNINGS PER SHARE

Basic earnings per share for the three months ended September 30, 2014 was computed using 3,889,603 weighted average shares outstanding. Basic earnings per share for the three months ended September 30, 2013 was computed using 3,898,685 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 3,944,406 for the three months ended September 30, 2014 and 3,977,542 for the three months ended September 30, 2013.

NOTE 7. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the fiscal year July 1, 2013 through June 30, 2014, Eagle paid dividends of \$0.0725 per share each quarter. A dividend of \$0.075 per share was declared on July 24, 2014, and paid September 5, 2014 to shareholder of record on August 15, 2014. A dividend of \$0.075 per share was declared on October 23, 2014, payable on December 5, 2014 to shareholders of record on November 15, 2014.

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

On July 1, 2014, the Company announced that its Board of Directors had authorized the repurchase of up to 200,000 shares of its common stock. Under the plan, shares may be purchased by the company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. The Company purchased 50,000 shares of our common stock in August 2014. The repurchase program expires on June 30, 2015.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Gains (Losses) on Derivatives Designated as Cash Flow Hedges	Unrealized (Losses) Gains on Investment Securities Available for Sale	Total
Balance, July 1, 2014	\$ 273	\$ (2,532)	\$ (2,259)
Other comprehensive income before, reclassifications and income taxes	630	1,713	2,343
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(461)	(194)	(655)
Income tax expense	(69)	(619)	(688)
Total other comprehensive income	100	900	1,000
Balance, September 30, 2014	\$ 373	\$ (1,632)	\$ (1,259)
Balance, July 1, 2013	\$ 345	\$ (3,729)	\$ (3,384)
Other comprehensive income (loss), before reclassifications and income taxes	590	(2,058)	(1,468)
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(582)	(431)	(1,013)
Income tax (expense) benefit	(3)	1,014	1,011
Total other comprehensive income (loss)	5	(1,475)	(1,470)
Balance, September 30, 2013	\$ 350	\$ (5,204)	\$ (4,854)

NOTE 9. DERIVATIVES AND HEDGING ACTIVITIES

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

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to this agreement. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. DERIVATIVES AND HEDGING ACTIVITIES - continued

The hedged fixed rate loan has an original maturity of 20 years and is not callable. This loan is hedged with a “pay fixed rate, receive variable rate” swap with a similar notional amount, maturity, and fixed rate coupons. The swap is not callable. At September 30, 2014, and June 30, 2014, the loan had an outstanding principal balance of \$10,736,000, and \$10,830,000 and the interest rate swap had a notional value of \$10,736,000, and \$10,830,000, respectively.

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

	Asset Derivatives				Liabilities Derivatives			
	September 30, 2014		June 30, 2014		September 30, 2014		June 30, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In Thousands)							
Derivatives designated as hedging instruments under ASC 815					Other		Other	
Interest rate contracts	n/a	\$ -	n/a	\$ -	Liabilities	\$ 262	Liabilities	\$ 250
Change in fair value of financial instrument being hedged under ASC 815								
Interest rate contracts	Loans	\$ 138	Loans	\$ 173	n/a	\$ -	n/a	\$ -

Effect of Derivative Instruments on Statement of Income
For the three Months Ended September 30, 2014 and 2013
(In Thousands)

Derivatives Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in	Amount of Gain or (Loss) Recognized in	
		Income on Derivative	
		2014	2013

Under ASC 815	Income on Derivative		
Interest rate contracts	Noninterest income	\$ (47)	\$ 23

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

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of interest rate lock commitments was \$5,258,000 and \$5,241,000 at September 30, 2014 and June 30, 2014, respectively. The fair value of such commitments was insignificant.

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

NOTE 10. 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. FAIR VALUE DISCLOSURES – continued

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.

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. FAIR VALUE DISCLOSURES - continued

Loan Subject to Fair Value Hedge – The Company has one loan that is carried at fair value subject to a fair value hedge. Fair value is determined utilizing valuation models that consider the scheduled cash flows through anticipated maturity and is considered a Level 2 input.

Derivative financial instruments – Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts. These instruments are valued using Level 3 inputs utilizing valuation models that consider: (a) time value, (b) volatility factors and (c) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Although the Company utilizes counterparties' valuations to assess the reasonableness of its prices and valuation techniques, there is not sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2.

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, 2014			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
	(In Thousands)			
Financial Assets:				
Available-for-sale securities				
U.S. Government and agency	\$ -	\$ 36,242	\$ -	\$ 36,242
Municipal obligations	-	81,757	-	81,757
Corporate obligations	-	5,954	-	5,954
Mortgage backed securities				
government backed	-	24,861	-	24,861
CMOs - government backed	-	29,614	-	29,614
Loan subject to fair value hedge	-	10,874	-	10,874
Loans held-for-sale	-	21,656	-	21,656
Financial Liability:				
Derivative financial instruments	-	262	-	262

	June 30, 2014			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
	(In Thousands)			
Financial Assets:				
Available-for-sale securities				
U.S. Government and agency	\$ -	\$ 41,306	\$ -	\$ 41,306
Municipal obligations	-	80,364	-	80,364
Corporate obligations	-	5,964	-	5,964
Mortgage-backed securities				
government backed	-	29,158	-	29,158
CMOs - government backed	-	32,761	-	32,761

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Loan subject to fair value hedge	-	11,003	-	11,003
Loans held-for-sale	-	17,245	-	17,245
Financial Liability:				
Derivative financial instruments	-	250	-	250

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. FAIR VALUE DISCLOSURES - continued

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

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

	September 30, 2014			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
(In Thousands)				
Impaired loans	\$ -	\$ -	\$ 1,876	\$ 1,876
Repossessed assets	-	-	619	619

	June 30, 2014			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
(In Thousands)				
Impaired loans	\$ -	\$ -	\$ 1,578	\$ 1,578
Repossessed assets	-	-	458	458

During the quarter ended September 30, 2014, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of \$2,033,000 were reduced by specific valuation allowance allocations totaling \$157,000 to a total reported fair value of \$1,876,000 based on collateral valuations utilizing Level 3 valuation inputs.

During the year ended June 30, 2014, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of \$1,644,000 were reduced by specific valuation allowance allocations totaling \$66,000 to a total reported fair value of \$1,578,000 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	Fair Value at	Principal	Significant	Range of
	September 30, 2014	June 30, 2014	Valuation Technique	Unobservable Inputs
(Dollars In Thousands)				

Impaired loans	\$	1,876	\$	1,578	Appraisal of collateral (1)	Appraisal adjustments	10-30%
Reposessed Assets	\$	619	\$	458	Appraisal of collateral (1)(3)	Liquidation expenses (2)	10-30%

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less associated allowance.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. 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, 2014 and June 30, 2014, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

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

	September 30, 2014			Total	Carrying
	Level 1	Level 2	Level 3	Estimated	Amount
	Inputs	Inputs	Inputs	Fair Value	
	(In Thousands)				
Financial Assets:					
Cash and cash equivalents	\$ 3,910	\$ -	\$ -	\$ 3,910	\$ 3,910
FHLB stock	1,878	-	-	1,878	1,878
Loans receivable, net	-	-	292,295	292,295	285,863
Accrued interest on dividends receivable	2,340	-	-	2,340	2,340
Mortgage servicing rights	-	-	5,185	5,185	3,913
Cash surrender value of life insurance	11,653	-	-	11,653	11,653
Financial Liabilities:					
Non-maturing interest bearing deposits	-	223,032	-	223,032	223,032
Non-interest bearing deposits	66,263	-	-	66,263	66,263
Time certificates of deposit	-	-	151,544	151,544	150,850
Accrued expenses and other liabilities	4,749	-	-	4,749	4,749
Advances from the FHLB & other borrowings	-	-	51,474	51,474	51,172
Subordinated debentures	-	-	3,854	3,854	5,155

Off-balance-sheet
instruments

Forward loan sales commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. FAIR VALUE DISCLOSURES – continued

	June 30, 2014			Total	Carrying
	Level 1	Level 2	Level 3	Estimated	Amount
	Inputs	Inputs	Inputs	Fair Value	
	(In Thousands)				
Financial Assets:					
Cash and cash equivalents	\$ 6,819	\$ -	\$ -	\$ 6,819	\$ 6,819
FHLB stock	1,878	-	-	1,878	1,878
Loans receivable, net	-	-	267,945	267,945	261,410
Accrued interest on dividends receivable	2,429	-	-	2,429	2,429
Mortgage servicing rights	-	-	4,999	4,999	3,756
Cash surrender value of life insurance	11,082	-	-	11,082	11,082
Financial Liabilities:					
Non-maturing interest bearing deposits	-	216,418	-	216,418	216,418
Non-interest bearing deposits	58,432	-	-	58,432	58,432
Time certificates of deposit	-	-	153,078	153,078	152,195
Accrued expenses and other liabilities	3,749	-	-	3,749	3,749
Advances from the FHLB & other borrowings	-	-	51,917	51,917	51,454
Subordinated debentures	-	-	3,854	3,854	5,155
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 2014 Form 10-K provides additional description of valuation methodologies used in estimating fair value of these financial instruments.

Cash, interest-bearing accounts, accrued interest and dividend 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 FHLB – The fair value of stock in the FHLB 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 100.00% to 385.00% PSA, depending on stratification of the specific right. The fair value was also adjusted for the effect of potential past dues and foreclosures.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. 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 & 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, 2014 and June 30, 2014, 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 11. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued Accounting Standards Update No. 2014-4, Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40) related to residential real estate to clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The new guidance is effective for the Company on January 1, 2015 and is not expected to have a significant impact to the Company's financial statements.

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. The new standard will be effective in the first quarter of 2017 and is not expected to have a significant impact to the Company's financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-14, Receivables—Troubled Debt Restructuring by Creditors (Subtopic 310-40) — Classification of Certain Government-Guaranteed Mortgage Loans

upon Foreclosure: (a consensus of the FASB Emerging Issues Task Force. The amendment changes the accounting for foreclosed home loans with government backed guarantees. The amendment requires lenders to measure the unpaid principal and interest they expect to recover through the loan guarantee. The loan should be removed from the lender's asset total and added to the balance sheet as a new receivable. The amendments will become effective for public companies for fiscal years that begin after December 15, 2014. The Company does not expect this guidance to have a significant impact on the consolidated financial statements.

NOTE 12. SUBSEQUENT EVENTS

As previously disclosed, the Company applied to the State of Montana to form an interim bank for the purpose of facilitating the conversion of its wholly owned subsidiary, American Federal Savings Bank, from a federally chartered savings bank to a Montana-chartered commercial bank. All approvals from the Montana Division of Banking and Financial Institutions and the federal banking agencies for the conversion have been obtained, and the conversion became effective on October 14, 2014. As a result of the conversion, the Company's subsidiary has changed its name to Opportunity Bank of Montana.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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 activity is its ownership of its wholly owned subsidiary, Opportunity Bank of Montana (the "Bank"), formerly American Federal Savings Bank. The Bank was previously a federally chartered savings bank with the Federal Reserve Board (the "FRB") as the principal federal bank regulatory agency for the Company and the Office of the Comptroller of the Currency ("OCC") the principal federal regulator for the Bank. The Company applied to the State of Montana to form an interim bank for the purpose of facilitating the conversion of the Bank from a federally chartered savings bank to a Montana-chartered commercial bank. All approvals from the Montana Division of Banking and Financial Institutions and the federal banking agencies for the conversion have been obtained, and the conversion became effective on October 14, 2014. As a result of the conversion, the Company's subsidiary changed its name to Opportunity Bank of Montana and the Montana Division of Banking and Financial Institutions is now the principal state regulator for the Bank. The Bank 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. The Bank has also successfully marketed home equity loans to its customers, 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 investment portfolio grew substantially with the Sterling branch acquisition. As such, management is also focused on decreasing the investment portfolio as a percentage of total assets and offsetting this with growth in the loan portfolio. 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.

For the past several 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 for the previous year was 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 Reserve's Federal Open Market Committee ("FOMC") did not change the federal funds target rate which remained at 0.25% during the three months ended September 30, 2014.

From time to time the Bank has considered growth through mergers or acquisition as an alternative to its strategy of organic growth. The Sterling branch acquisition was completed in November 2012. The Bank has experienced an increase in mortgage loan originations due to the Sterling branch acquisition. 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. Operating expenses, primarily salaries and employee benefits also increased as a result of the acquisition. The Bank is currently engaged in a review of staffing and other efficiency measures which is anticipated to reduce operating expenses during the year.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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, 2014 and June 30, 2014.

Total assets at September 30, 2014 were \$553.87 million, an increase of \$14.76 million, or 2.7%, from \$539.11 million at June 30, 2014. Loans receivable increased by \$24.62 million, or 9.0%, to \$298.61 million at September 30, 2014, from \$273.99 million at June 30, 2014. Commercial real estate loans increased by \$10.34 million, residential mortgage loans increased by \$6.22 million and commercial loans increased by \$3.98 million. These were the largest increases among the various loan types. Construction loans, consumer loans and home equity loans increased more moderately. Total loan originations were \$92.02 million for the three months ended September 30, 2014, with single family mortgages accounting for \$66.02 million of the total. Commercial real estate and land loan originations totaled \$17.98 million. Home equity and construction loan originations totaled \$2.88 million and \$980,000, respectively, for the same period. Consumer loans originated totaled \$2.30 million. Commercial loans originated totaled \$1.86 million, with none originating from loan syndication programs with borrowers residing outside of Montana. Loans held-for-sale increased \$4.41 million, to \$21.66 million at September 30, 2014 from \$17.25 million at June 30, 2014.

Total cash and cash equivalents decreased by \$2.91 million and securities available-for-sale decreased \$11.12 million or 5.9%. Almost all categories of available-for-sale securities decreased during the period. The only increase during the period was in municipal obligations which increased \$1.39 million.

Deposits increased \$13.10 million, or 3.1%, to \$440.15 million at September 30, 2014 from \$427.05 million at June 30, 2014. Growth occurred across most deposit products with the exception of time certificates of deposits and savings which decreased slightly during the period. Management attributes the organic increase in deposits to increased marketing of checking accounts as well as customers' preference for placing funds in secure, federally insured accounts.

Total shareholders' equity increased \$940,000 or 1.8%, to \$52.65 million at September 30, 2014 from \$51.71 million at June 30, 2014. This was a result of a decrease in accumulated other comprehensive loss of \$1.00 million mainly due to a decrease in net unrealized losses on securities available-for-sale and net income of \$718,000, partially offset by treasury stock purchased of \$533,000 and dividends paid of \$290,000.

Results of Operations for the Three Months Ended September 30, 2014 and 2013

Net Income. Eagle's net income for the quarter was \$718,000 compared to \$667,000 of net income for the three months ended September 30, 2013. The increase of \$51,000, or 7.6%, was primarily due to increases in net interest income of \$571,000 partially offset by decreases in noninterest income of \$441,000. Basic and diluted earnings per share were \$0.18 for the current period and \$0.17 per share for the prior comparable period.

Net Interest Income. Net interest income increased to \$4.19 million for the quarter ended September 30, 2014, from \$3.62 million for the previous year's quarter. This increase of \$571,000 was primarily the result of an increase in interest and dividend income of \$562,000.

Interest and Dividend Income. Interest and dividend income was \$4.70 million for the quarter ended September 30, 2014, compared to \$4.14 million for the quarter ended September 30, 2013, an increase of \$562,000, or 13.6%. Interest and fees on loans increased to \$3.66 million for the three months ended September 30, 2014 from \$3.12 million for the same period ended September 30, 2013. This increase of \$537,000, or 17.2%, was due to an increase in the average balance of loans partially offset by a decrease in the average yield of loans for the quarter ended September 30, 2014. Average balances for loans receivable, net, including loans held-for-sale, for the quarter ended September 30, 2014 were \$304.79 million, compared to \$244.57 million for the prior year period. This represents an increase of \$60.22 million, or 24.6%. The average interest rate earned on loans receivable decreased by 32 basis points, from 5.10% to 4.78%. Interest and dividends on investment securities available-for-sale only increased by \$25,000 for the quarter ended September 30, 2014. Average interest rate earned on investments increased to 2.22% from 1.93%. However, average balances on investments decreased to \$189.47 million for the quarter ended September 30, 2014, from \$210.77 million for the quarter ended September 30, 2013.

Interest Expense. Total interest expense declined in the quarter to \$515,000 from \$524,000 for the quarter ended September 30, 2013, a decrease of \$9,000, or 1.7%. The decrease was attributable to slight decreases in interest on borrowings partially offset by slight increases in interest on deposits. Although the average borrowing balance increased, the average rate paid decreased resulting in a decrease in interest paid on borrowings to \$177,000 for the quarter ended September 30, 2014 compared to \$203,000 paid in the previous year's quarter. The average rate paid on borrowings decreased from 2.01% last year to 1.27% for the quarter ended September 30, 2014. The slight increase in interest on deposits is due to higher overall average balances for interest-bearing deposits. The overall average rate on interest-bearing deposits was consistent with the previous year's quarter.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Results of Operations for the Three Months Ended September 30, 2014 and 2013 – continued

Provision for Loan Losses. Provisions for loan losses 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, national and local economic conditions and past due loans in 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 the Bank 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 \$215,000 in provision for loan losses for the quarter ended September 30, 2014 and \$159,000 in the quarter ended September 30, 2013. This increase from 2013 was based on an analysis of a variety of factors including delinquencies within the loan portfolio. Total nonperforming loans, including restructured loans, net decreased from \$959,000 at September 30, 2013 to \$536,000 at September 30, 2014. The Bank currently has \$619,000 in foreclosed real estate property and other repossessed property.

Noninterest Income. Total noninterest income decreased to \$2.66 million for the quarter ended September 30, 2014, from \$3.10 million for the quarter ended September 30, 2013, a decrease of \$441,000 or 14.2%. Net gain on sale of loans decreased to \$1.40 million for the quarter ended September 30, 2014 from \$1.59 million for the quarter ended September 30, 2013. In addition, gain on sale of securities decreased to \$194,000 from the prior period's amount of \$431,000.

Noninterest Expense. Noninterest expense was \$5.87 million for the quarter ended September 30, 2014 compared to \$5.85 million for the quarter ended September 30, 2013. The slight increase is primarily due to increased legal, accounting and examination fees and consulting fees partially offset by a decrease in salaries and employee benefits. Consulting fees increased \$90,000 due to a continued review of staffing and efficiency measures.

Income Tax Expense. Our income tax expense was \$47,000 for the quarter ended September 30, 2014, compared to \$36,000 for the quarter ended September 30, 2013. The effective tax rate for the quarter ended September 30, 2014 was 6.14% compared to 5.12% for the quarter ended September 30, 2013. Tax free municipal bond income and Bank owned life insurance income contributed to the lower effective tax rates for the periods. In addition, the deductibility of goodwill that resulted from the Sterling branch acquisition, for tax purposes has helped to reduce the effective tax rate. The effective tax rate was further reduced by new markets tax credits that were first taken during the second quarter of fiscal year 2013. The Company has equity investments 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 a seven-year credit allowance period. The federal tax credit benefits were \$95,000 for the quarters ended September 30, 2014 and 2013.

Liquidity, Interest Rate Sensitivity and Capital Resources

The Bank was required to maintain minimum levels of liquid assets as defined by the OCC regulations. The OCC eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OCC states that liquidity requirements are retained for safety and soundness purposes, and that 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 Seattle. The Bank exceeded those minimum ratios as of both September 30, 2014 and September 30, 2013.

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 Federal Home Loan Bank of Seattle 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Liquidity, Interest Rate Sensitivity and Capital Resources - continued

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.

At August 31, 2014, the Bank's measure, as internally determined, of sensitivity to interest rate movements, as measured by a 200 basis point rise in interest rates scenario, decreased the economic value of equity ("EVE") by 13.9%. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity. The Bank's tier I core capital ratio, as measured under OCC rules, decreased slightly from 8.62% as of September 30, 2013 to 8.38% as of September 30, 2014. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

As of September 30, 2014, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2014, the Bank's tangible, core, and risk-based capital ratios amounted to 8.38%, 8.38%, and 13.81%,