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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____ to _____.

Commission file number 1-34682

Eagle Bancorp Montana, Inc.
(Exact name of small business issuer as specified in its charter)

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

1400 Prospect Avenue, Helena, MT 59601
(Address of principal executive offices)

(406) 442-3080
(Issuer's telephone number)

Website address: www.opportunitybank.com

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

| | |
|---|---|
| Common stock, par value $0.01 per share | 3,822,981 shares outstanding |

As of August 12, 2015

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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101.LAB XBRL Taxonomy Extension Label Linkbase Document

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

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

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

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

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- changes or volatility in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired businesses;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;
- the impact of a recurring recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the Company’s ability to develop and maintain secure and reliable information technology systems or recover from breaches to its cybersecurity infrastructure;
- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and

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

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the transition period from July 1, 2014 to December 31, 2014, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| LIABILITIES: | | |
| Deposit accounts: | | |
| Noninterest bearing | $69,565 | $60,507 |
| Interest bearing | 396,016 | 380,476 |
| Total deposits | 465,581 | 440,983 |
| | | |
| Accrued expenses and other liabilities | 5,463 | 4,578 |
| Federal Home Loan Bank advances and other borrowings | 43,611 | 54,993 |
| Subordinated debentures: | | |
| Principal amount | 15,155 | 5,155 |
| Unamortized debt issuance costs | (150) | - |
| Total subordinated debentures less unamortized debt issuance costs | 15,005 | 5,155 |
| | | |
| Total liabilities | 529,660 | 505,709 |
| | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock (no par value; 1,000,000 shares authorized; no shares issued or outstanding) | - | - |
| Common stock (par value $0.01 per share; 8,000,000 shares authorized; 4,083,127 shares issued; 3,822,981 and 3,878,781 shares outstanding at June 30, 2015 and December 31, 2014, respectively) | 41 | 41 |
| Additional paid-in capital | 22,129 | 22,122 |
| Unallocated common stock held by Employee Stock Ownership Plan | (1,057) | (1,141) |
| Treasury stock, at cost | (2,810) | (2,194) |
| Retained earnings | 36,490 | 35,885 |
| Net accumulated other comprehensive loss | (1,086) | (215) |
| Total shareholders' equity | 53,707 | 54,498 |
| | | |
| Total liabilities and shareholders' equity | $583,367 | $560,207 |

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
(Unaudited)

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2015 and 2014
(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

| | PREFERRED STOCK | COMMON STOCK | PAID-IN CAPITAL | UNALLOCATED ESOP SHARES | TREASURY STOCK | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | $ - | $ 41 | $ 22,118 | $ (1,307 ) | $ (1,800 ) | $ 34,422 | $ (5,717 ) | $ 47,757 |
| Net income | | | | | | 970 | | 970 |
| Other comprehensive income | | | | | | | 3,458 | 3,458 |
| Dividends paid ($0.0725 per share) | | | | | | (568 ) | | (568 ) |
| Employee Stock Ownership Plan shares allocated or committed to be released for allocation (8,308 shares) | | | 5 | 83 | | | | 88 |
| Balance at June 30, 2014 | $ - | $ 41 | $ 22,123 | $ (1,224 ) | $ (1,800 ) | $ 34,824 | $ (2,259 ) | $ 51,705 |
| | | | | | | | | |
| Balance at December 31, 2014 | $ - | $ 41 | $ 22,122 | $ (1,141 ) | $ (2,194 ) | $ 35,885 | $ (215 ) | $ 54,498 |
| Net income | | | | | | 1,178 | | 1,178 |
| Other comprehensive loss | | | | | | | (871 ) | (871 ) |
| Dividends paid ($0.0750 per share) | | | | | | (573 ) | | (573 ) |

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $1,178 | $970 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loan loss provision | 650 | 296 |
| Write-down on real estate owned and other repossessed assets | - | 10 |
| Depreciation | 605 | 572 |
| Net amortization of investment securities premium and discounts | 1,033 | 1,233 |
| Amortization of mortgage servicing rights | 422 | 296 |
| Amortization of core deposit intangible and tax credits | 201 | 210 |
| Deferred income tax benefit | (40) | (112) |
| Net gain on sale of loans | (3,487) | (2,032) |
| Net gain on sale of available-for-sale securities | (234) | (237) |
| Net loss on sale of real estate owned and other repossessed assets | 2 | - |
| Net loss on fair value hedge | 93 | 134 |
| Net (gain) loss on sale/disposal of premises and equipment | (304) | 11 |
| Net appreciation in cash surrender value of life insurance | (163) | (156) |
| Net change in: | | |
| Accrued interest and dividends receivable | (19) | (41) |
| Loans held-for-sale | 3,856 | (408) |
| Other assets | (1,404) | (457) |
| Accrued expenses and other liabilities | 954 | 536 |
| Net cash provided by operating activities | 3,343 | 825 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Activity in available-for-sale securities: | | |
| Sales | 31,043 | 17,680 |
| Maturities, principal payments and calls | 6,008 | 7,853 |
| Purchases | (26,266) | (15,333) |
| Federal Home Loan Bank stock (purchased) redeemed | (358) | 18 |
| Federal Reserve Bank stock purchased | (1) | - |
| Loan origination and principal collection, net | (40,633) | (27,484) |
| Proceeds from Bank owned life insurance | - | 109 |
| Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans | 21 | 2 |
| Insurance proceeds related to premises and equipment | - | 3 |
| Proceeds from sale of premises and equipment | 1,437 | - |
| Additions to premises and equipment | (246) | (1,532) |
| Net cash used in investing activities | (28,995) | (18,684) |

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 1. BASIS OF PRESENTATION

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

The results of operations for the six month period ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle's Form 10-K for the six month transition period ended December 31, 2014.

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

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

## NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

The amortized cost and fair value of securities at June 30, 2015 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

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

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (In Thousands) | | | |
| U.S. government and agency | $2,347 | $(25) | $8,461 | $(173) |
| Municipal obligations | 25,871 | (725) | 23,990 | (1,391) |
| Corporate obligations | 6,398 | (45) | 1,964 | (36) |
| MBSs and CMOs - government-backed | 21,886 | (213) | 15,908 | (362) |
| Total | $56,502 | $(1,008) | $50,323 | $(1,962) |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (In Thousands) | | | |
| U.S. government and agency | $1,611 | $(19) | $27,733 | $(314) |
| Municipal obligations | 2,330 | (48) | 44,386 | (1,154) |
| Corporate obligations | 997 | (2) | 1,990 | (10) |

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of June 30, 2015 and December 31, 2014, there were 105 and 87, respectively, securities in an unrealized loss position and that were considered to be temporarily impaired and therefore an impairment charge has not been recorded.

At June 30, 2015, 75 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 3.67% from the Company’s amortized cost basis of these securities. At December 31, 2014, 69 U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 1.98% from the Company’s amortized cost basis of these securities. These unrealized losses are principally due to changes in interest rates and credit spreads. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

At June 30, 2015, 12 corporate obligations had an unrealized loss of approximately 0.96% from the Company’s amortized cost basis of these securities. At December 31, 2014, 3 corporate obligations had an unrealized loss with aggregate depreciation of approximately 0.40% from the Company's cost basis. This unrealized loss is principally due to changes in interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

At June 30, 2015, 18 MBSs and CMOs had unrealized losses with aggregate depreciation of approximately 1.50% from the Company’s cost basis of these securities. At December 31, 2014, 15 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of approximately 1.56% from the Company’s cost basis. We believe these unrealized losses are principally due to the credit market’s concerns regarding the stability of the mortgage market, changes in interest rates and credit spreads and uncertainty of future prepayment speeds. Management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligor, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. There has been no disruption of the scheduled cash flows on any of the securities. Management’s analysis as of June 30, 2015 revealed no expected credit losses on the securities and therefore, declines are not deemed to be other than temporary.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consisted of the following:

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

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

The following table includes information regarding nonperforming assets.

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

Allowance for loan losses activity was as follows:

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

| | Residential Mortgage (1-4 Family) | Commercial Real Estate | Real Estate Construction | Home Equity | Consumer | Commercial | Total |
|---|---|---|---|---|---|---|---|
| | | | | (In Thousands) | | | |
| Allowance for loan losses: | | | | | | | |
| Beginning balance, April 1, 2014 | $ 471 | $ 916 | $ 27 | $ 325 | $ 44 | $ 392 | $ 2,175 |
| Charge-offs | - | - | - | (68 ) | (24 ) | (144 ) | (236 ) |
| Recoveries | - | 17 | - | - | 1 | - | 18 |
| Provision | 14 | 41 | 3 | 42 | 28 | 40 | 168 |
| Ending balance, June 30, 2014 | $ 485 | $ 974 | $ 30 | $ 299 | $ 49 | $ 288 | $ 2,125 |
| | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Beginning balance, January 1, 2014 | $ 463 | $ 914 | $ 25 | $ 324 | $ 51 | $ 343 | $ 2,120 |
| Charge-offs | - | (21 ) | - | (68 ) | (77 ) | (144 ) | (310 ) |
| Recoveries | - | 17 | - | - | 2 | - | 19 |
| Provision | 22 | 64 | 5 | 43 | 73 | 89 | 296 |
| Ending balance, June 30, 2014 | $ 485 | $ 974 | $ 30 | $ 299 | $ 49 | $ 288 | $ 2,125 |
| | | | | | | | |
| Ending balance, June 30, 2014 allocated to loans individually evaluated for impairment | $ - | $ - | $ - | $ 31 | $ 20 | $ 15 | $ 66 |
| | | | | | | | |
| Ending balance, June 30, 2014 allocated to loans collectively evaluated for impairment | $ 485 | $ 974 | $ 30 | $ 268 | $ 29 | $ 273 | $ 2,059 |
| | | | | | | | |
| Loans receivable: | | | | | | | |
| Ending balance, June 30, 2014 | $ 92,321 | $ 92,043 | $ 6,923 | $ 37,866 | $ 12,964 | $ 34,412 | $ 276,529 |

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

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

Loans rated Pass: loans that are considered to be protected by the current net worth and paying capacity of the obligor, or by the value of the asset or the underlying collateral.

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

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

Internal classification of the loan portfolio was as follows:

| | June 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Residential Mortgage (1-4 Family) | Commercial Real Estate | Real Estate Construction | Home Equity | Consumer | Commercial | Total |
| | (In Thousands) | | | | | | |
| Grade: | | | | | | | |
| Pass | $ 106,220 | $ 138,905 | $ 10,513 | $ 40,683 | $ 14,438 | $ 46,117 | $ 356,876 |
| Special mention | - | - | - | - | - | - | - |
| Substandard | 632 | 907 | - | 263 | 35 | 230 | 2,067 |
| Doubtful | - | - | - | - | 6 | - | 6 |
| Loss | - | - | - | - | 1 | 25 | 26 |
| Total | $ 106,852 | $ 139,812 | $ 10,513 | $ 40,946 | $ 14,480 | $ 46,372 | $ 358,975 |
| | | | | | | | |
| Credit risk profile based on payment activity | | | | | | | |
| Performing | $ 106,814 | $ 139,480 | $ 10,513 | $ 40,808 | $ 14,457 | $ 46,315 | $ 358,387 |
| Restructured loans | - | - | - | 47 | - | - | 47 |
| Nonperforming | 38 | 332 | - | 91 | 23 | 57 | 541 |
| Total | $ 106,852 | $ 139,812 | $ 10,513 | $ 40,946 | $ 14,480 | $ 46,372 | $ 358,975 |

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables include information regarding impaired loans.

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS

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

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

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

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

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued

The following tables present troubled debt restructurings.

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

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

The Bank's policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appears relatively certain. The Bank's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

During the three and six months ended June 30, 2015 and 2014, there were no new restructured loans.

There were no loans modified as a troubled debt restructured loan within the previous six months for which there was a payment default during the six months ended June 30, 2015.

A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. As of June 30, 2015 and December 31, 2014, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. DEPOSITS

Deposits are summarized as follows:

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

NOTE 6. SUBORDINATED DEBENTURES

Subordinated debentures consisted of the following:

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

In September 2005, the Company completed the private placement of $5,155,000 in subordinated debentures to Eagle Bancorp Statutory Trust I (“the Trust”). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank, N.A. with a liquidation value of $5,155,000. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders in December 2005. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities was fixed at 6.02% until December 2010 then became variable at 3-Month LIBOR plus 1.42%, making the rate 1.703% and 1.676% as of June 30, 2015 and December 31, 2014, respectively. Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in December 2035 unless the Company elects and obtains regulatory approval to accelerate the maturity date.

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7. EARNINGS PER SHARE

Basic earnings per share for the three months ended June 30, 2015 was computed using 3,822,981 weighted average shares outstanding. Basic earnings per share for the three months ended June 30, 2014 was computed using 3,916,233 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,860,236 for the three months ended June 30, 2015 and 3,971,036 for the three months ended June 30, 2014.

Basic earnings per share for the six months ended June 30, 2015 was computed using 3,833,739 weighted average shares outstanding. Basic earnings per share for the six months ended June 30, 2014 was computed using 3,916,233 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,870,994 for the six months ended June 30, 2015 and 3,971,036 for the six months ended June 30, 2014.

NOTE 8. DIVIDENDS AND STOCK REPURCHASE PROGRAM

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

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

On July 1, 2014, the Company announced that its Board of Directors had authorized the repurchase of up to 200,000 shares of its common stock. Under the plan, shares may be purchased by the company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. The Company has purchased 110,800 shares of its common stock. The repurchase program expired on June 30, 2015.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

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

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. DERIVATIVES AND HEDGING ACTIVITIES - continued

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

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

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

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

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

| | Location of | Amount of Gain or (Loss) |
|---|---|---|

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

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

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of interest rate lock commitments was $17,165,000 and $12,276,000 at June 30, 2015 and December 31, 2014, respectively.

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall
not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and, (iv) willing to transact.

FASB ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, FASB ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date, or convert to cash in the short term.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs - Significant unobservable inputs that reflect an entity’s own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Available-for-Sale Securities – Securities classified as available-for-sale are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES – continued

Loans Held-for-Sale – These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds based on sales contracts and commitments and are considered Level 2 inputs.

Repossessed Assets – Fair values are valued at the time the loan is foreclosed upon and the asset is transferred from loans. The value is based upon primary third party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in Level 3 classification of the inputs for determining fair value. Repossessed assets are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on same or similar factors above.

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES - continued

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| | | (In Thousands) | | |
| Financial Assets: | | | | |
| Available-for-sale securities | | | | |
| U.S. government and agency | $ - | $ 12,372 | $ - | $ 12,372 |
| Municipal obligations | - | 65,496 | - | 65,496 |
| Corporate obligations | - | 11,179 | - | 11,179 |
| MBSs - government-backed | - | 33,450 | - | 33,450 |
| CMOs - government backed | - | 26,269 | - | 26,269 |
| Loans held-for-sale | - | 17,184 | - | 17,184 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| | | (In Thousands) | | |
| Financial Assets: | | | | |
| Available-for-sale securities | | | | |
| U.S. government and agency | $ - | $ 33,181 | $ - | $ 33,181 |
| Municipal obligations | - | 71,885 | - | 71,885 |
| Corporate obligations | - | 6,005 | - | 6,005 |
| MBSs - government-backed | - | 21,964 | - | 21,964 |
| CMOs - government backed | - | 28,752 | - | 28,752 |
| Loans held-for-sale | - | 17,587 | - | 17,587 |
| Financial Liability: | | | | |
| Derivative financial instruments | - | 579 | - | 579 |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES - continued

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

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

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

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

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

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

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

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. FAIR VALUE DISCLOSURES - continued

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

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

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs (In Thousands) | Total Estimated Fair Value | Carrying Amount |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 8,727 | $ - | $ - | $ 8,727 | $ 8,727 |
| Federal Home Loan Bank stock | 2,326 | - | - | 2,326 | 2,326 |
| Federal Reserve Bank stock | 642 | - | - | 642 | 642 |
| Loans receivable, net | - | - | 360,449 | 360,449 | 353,347 |
| Accrued interest and dividends receivable | 2,337 | - | - | 2,337 | 2,337 |
| Mortgage servicing rights | - | - | 5,849 | 5,849 | 4,517 |
| Cash surrender value of life insurance | 11,898 | - | - | 11,898 | 11,898 |
| Financial Liabilities: | | | | | |
| Non-maturing interest bearing deposits | - | 238,105 | - | 238,105 | 238,105 |
| Non-interest bearing deposits | 69,565 | - | - | 69,565 | 69,565 |
| Time certificates of deposit | - | - | 158,637 | 158,637 | 157,911 |
| Accrued expenses and other liabilities | 5,463 | - | - | 5,463 | 5,463 |
| Federal Home Loan Bank advances and other borrowings | - | - | 43,768 | 43,768 | 43,611 |
| Subordinated debentures | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| less debt issuance costs | - | - | 13,785 | 13,785 | 15,005 |
| 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 11. FAIR VALUE DISCLOSURES – continued

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs (In Thousands) | Total Estimated Fair Value | Carrying Amount |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 12,502 | - | $ - | $ 12,502 | $ 12,502 |
| Federal Home Loan Bank stock | 1,968 | - | - | 1,968 | 1,968 |
| Federal Reserve Bank stock | 641 | - | - | 641 | 641 |
| Loans receivable, net | - | - | 321,312 | 321,312 | 314,334 |
| Accrued interest and dividends receivable | 2,318 | - | - | 2,318 | 2,318 |
| Mortgage servicing rights | - | - | 5,168 | 5,168 | 4,115 |
| Cash surrender value of life insurance | 11,735 | - | - | 11,735 | 11,735 |
| Financial Liabilities: | | | | | |
| Non-maturing interest bearing deposits | - | 230,253 | - | 230,253 | 230,253 |
| Non-interest bearing deposits | 60,507 | - | - | 60,507 | 60,507 |
| Time certificates of deposit | - | - | 151,004 | 151,004 | 150,223 |
| Accrued expenses and other liabilities | 4,578 | - | - | 4,578 | 4,578 |
| Federal Home Loan Bank advances and other borrowings | - | - | 55,273 | 55,273 | 54,993 |
| 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 Form 10-K for the six month transition period ended December 31, 2014 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 and FRB – The fair value of stock approximates redemption value.

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

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

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

Mortgage servicing rights – the fair value of servicing rights was determined using discount rates ranging from approximately 10.00% to 12.00%, prepayment speeds ranging from approximately 100.00% to 399.00% 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 11. FAIR VALUE DISCLOSURES - continued

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

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

Advances from the FHLB and Subordinated Debentures – The fair value of the Company's advances and debentures are estimated using discounted cash flow analysis based on the interest rate that would be effective June 30, 2015 and December 31, 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 12. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, Revenue from Contracts with Customers (Topic 606). This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective in the first quarter of 2018 and is not expected to have a significant impact to the Company's financial statements.

In 2015, the FASB amended its authoritative guidance related to debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. However, the recognition and measurement guidance related to debt issuance costs is not affected by this amendment. The amendment is effective for annual and interim reporting periods beginning after December 15, 2015 and is to be applied on a retrospective basis. Early adoption is permitted. The Company adopted this standard during the quarter ended June 30, 2015 and has included the required disclosures in this report on Form 10-Q.

NOTE 13. SUBSEQUENT EVENTS

On July 23, 2015, the Board of Directors authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations.  The repurchase program expires on July 23, 2016.

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

The Bank has a strong mortgage lending focus, with a large portion of its loan originations represented by single-family residential mortgages. 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.). Over the past several years the Bank has focused on adding commercial loans to its portfolio, both real estate and non-real estate. We have made significant progress in this initiative. The purpose of this diversification is to mitigate the Bank's dependence on the residential mortgage market, as well as to improve its ability to manage its spread. The Bank's investment portfolio grew substantially with the Sterling branch acquisition in December 2012. 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 six months ended June 30, 2015.

From time to time the Bank has considered growth through mergers or acquisition as an alternative to its strategy of organic growth. In this regard, the Bank has experienced an increase in mortgage loan originations due to the Sterling branch acquisition which closed in December 2012. Deposit fee income has also increased due to the increase in the number of accounts. The addition of the wealth management division from the acquisition has also increased noninterest income. Operating expenses, primarily salaries and employee benefits also increased as a result of the acquisition. The Bank is currently undergoing a core systems conversion that is expected to be completed in the third quarter of this year. Future cost savings are anticipated due to the core systems conversion.

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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 June 30, 2015 and December 31, 2014.

Total assets at June 30, 2015 were $583.37 million, an increase of $23.16 million, or 4.1%, from $560.21 million at December 31, 2014. Loans receivable increased by $39.15 million, or 12.4%, to $355.42 million at June 30, 2015. Securities available-for-sale decreased by $13.02 million, or 8.0%, to $148.77 million at June 30, 2015. Total liabilities at June 30, 2015 were $529.66 million, an increase of $23.95 million, or 4.7%, from $505.71 million at December 31, 2014. Total deposits increased $24.60 million or 5.6%, to $465.58 at June 30, 2015. Subordinated debentures less debt issuance costs increased $9.85 million to $15.01 million at June 30, 2015. FHLB advances and other borrowings decreased $11.38 million, or 20.7%, to $43.61 million at June 30, 2015.

Balance Sheet Details

Cash and Cash Equivalents and Investment Securities

The following table summarizes investment securities:

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total | Fair Value | Percentage of Total |
| | (Dollars in Thousands) | | | |
| Securities available-for-sale: | | | | |
| U.S. government and agency | $ 12,372 | 8.12 % | $ 33,181 | 20.11 % |
| Municipal obligations | 65,496 | 42.98 % | 71,885 | 43.57 % |
| Corporate obligations | 11,179 | 7.34 % | 6,005 | 3.64 % |
| MBSs - government-backed | 33,450 | 21.96 % | 21,964 | 13.31 % |
| CMOs - government-backed | 26,269 | 17.24 % | 28,752 | 17.42 % |
| Total securities available-for-sale | 148,766 | 97.64 % | 161,787 | 98.05 % |
| Interest-bearing deposits | 619 | 0.41 % | 613 | 0.37 % |
| FHLB capital stock, at cost | 2,326 | 1.53 % | 1,968 | 1.19 % |
| FRB capital stock, at cost | 642 | 0.42 % | 641 | 0.39 % |

| | | | | |
|---|---|---|---|---|
| Total | $ 152,353 | 100.00 % | $ 165,009 | 100.00 % |

Total cash and cash equivalents decreased $3.77 million from December 31, 2014 to June 30, 2015. Securities available-for-sale decreased $13.02 million or 8.0% during the same period. The largest decrease in securities available-for-sale was in U.S. government and agency securities which decreased $20.81 million largely due to sales activity. Municipal obligations decreased by $6.39 million and CMOs decreased by $2.48 million. These decreases were partially offset by increases in MBSs of $11.49 million and increases in corporate obligations of $5.17 million largely due to purchase activity.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Financial Condition – continued

Lending Activities

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

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Amount | Percent of Total | Amount | Percent of Total |
| | (Dollars in thousands) | | | |
| Real estate loans: | | | | |
| Residential mortgage (1-4 family) (1) | $ 106,852 | 29.77 % | $ 102,543 | 32.12 % |
| Commercial real estate | 139,812 | 38.94 % | 117,627 | 36.85 % |
| Real estate construction | 10,513 | 2.93 % | 8,002 | 2.51 % |
| Total real estate loans | 257,177 | 71.64 % | 228,172 | 71.48 % |
| Other loans: | | | | |
| Home equity | 40,946 | 11.41 % | 39,671 | 12.43 % |
| Consumer | 14,480 | 4.03 % | 13,827 | 4.33 % |
| Commercial | 46,372 | 12.92 % | 37,536 | 11.76 % |
| Total other loans | 101,798 | 28.36 % | 91,034 | 28.52 % |
| Total loans | 358,975 | 100.00 % | 319,206 | 100.00 % |
| Deferred loan fees, net | (605) | | (486) | |
| Allowance for loan losses | (2,950) | | (2,450) | |
| Total loans, net | $ 355,420 | | $ 316,270 | |

(1) Excludes loans held for sale.

Commercial real estate loans increased by $22.19 million, commercial loans increased by $8.84 million and residential mortgage loans increased by $4.31 million. Construction, consumer and home equity loans also increased. Total loan originations were $183.55 million for the six months ended June 30, 2015, with single family mortgages accounting for $122.67 million of the total. Commercial real estate and land loan originations totaled $32.77 million. Home equity and construction loan originations totaled $5.58 million and $8.63 million, respectively, for the same period. Consumer loans originated totaled $4.32 million. Commercial loans originated totaled $9.58 million, with none originating from loan syndication programs with borrowers residing outside of Montana. Loans held-for-sale decreased slightly to $17.18 million at June 30, 2015 from $17.59 million at December 31, 2014.

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Financial Condition – continued

Lending Activities– continued

For mortgage loans and home equity loans, if the borrower is unable to cure the delinquency or reach a payment agreement, we will institute foreclosure actions. If a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure, or by deed in lieu of foreclosure, is classified as real estate owned until such time as it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. As of June 30, 2015, the Bank had $619,000 of real estate owned.

The following table sets forth information regarding nonperforming assets:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| | (Dollars in Thousands) | |
| Non-accrual loans | | |
| Real estate loans: | | |
| Residential mortgage (1-4 family) | $ 38 | $ 821 |
| Commercial real estate | 332 | - |
| Other loans: | | |
| Home equity | 91 | 48 |
| Consumer | 23 | 16 |
| Commercial | 57 | 77 |
| Accruing loans delinquent 90 days or more | - | - |
| Restructured loans: | | |
| Home equity | 47 | 48 |
| Total nonperforming loans | 588 | 1,010 |
| Real estate owned and other repossed property, net | 623 | 637 |
| Total nonperforming assets | $ 1,211 | $ 1,647 |
| | | |
| Total nonperforming loans to total loans | 0.16 % | 0.32 % |
| Total nonperforming loans to total assets | 0.10 % | 0.18 % |
| Total allowance for loan loss to nonperforming loans | 501.70 % | 242.57 % |
| Total nonperforming assets to total assets | 0.21 % | 0.29 % |

Residential mortgage (1-4 family) non-accrual loans decreased in the six months ended June 30, 2015 due to one loan paid off via a short sale. Commercial real estate non-accrual loans increased during the six months ended June 30, 2015 due to one loan moving to non-accrual status.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Financial Condition – continued

Deposits and Other Sources of Funds

The following table includes deposit accounts by category:

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Amount | Percent of Total | Amount | Percent of Total |
| | (Dollars in Thousands) | | | |
| Noninterest checking | $ 69,565 | 14.94 % | $ 60,507 | 13.72 % |
| Interest bearing checking | 79,654 | 17.11 % | 76,367 | 17.32 % |
| Savings | 66,104 | 14.20 % | 62,455 | 14.16 % |
| Money market accounts | 92,347 | 19.83 % | 91,431 | 20.73 % |
| Total | 307,670 | 66.08 % | 290,760 | 65.93 % |
| Certificates of deposit accounts: | | | | |
| IRA certificates | 34,271 | 7.36 % | 34,216 | 7.76 % |
| Brokered certificates | 11,266 | 2.42 % | 4,195 | 0.95 % |
| Other certificates | 112,374 | 24.14 % | 111,812 | 25.36 % |
| Total certificates of deposit | 157,911 | 33.92 % | 150,223 | 34.07 % |
| Total deposits | $ 465,581 | 100.00 % | $ 440,983 | 100.00 % |

Deposits. Deposits increased $24.60 million, or 5.6%, to $465.58 million at June 30, 2015 from $440.98 million at December 31, 2014. Growth occurred across all deposit products. Management attributes the continued organic increase in deposits to increased marketing of checking accounts as well as customers' preference for placing funds in secure, federally insured accounts. Brokered certificates increased $7.07 million to $11.27 million at June 30, 2015 from $4.20 million at December 31, 2014. The increase is due to the purchase of three brokered certificates with coupon rates ranging from 0.55% to 1.35% and maturities ranging from December 2016 through December 2018.

Borrowings. Advances from the FHLB and other borrowings decreased $11.38 million, or 20.7%, to $43.61 million at June 30, 2015 from $54.99 million at December 31, 2014. The decrease is largely due to decreases in other short-term borrowings. Other short-term borrowings were paid down with deposit inflows described above. Subordinated debentures increased $9.85 million to $15.01 million at June 30, 2015 compared to $5.16 million at December 31, 2014. In June 2015, the Company completed the issuance of $10.00 million in aggregate principal amount of subordinated notes due in 2025 in a private placement transaction to an institutional accredited investor. The notes will bear interest at an annual fixed rate of 6.75% and interest will be paid quarterly through maturity date or earlier redemption.

Shareholders’ Equity

Total shareholders’ equity decreased $791,000, or 1.5%, to $53.71 million at June 30, 2015 from $54.50 million at December 31, 2014. This was a result of an increase in accumulated other comprehensive loss of $871,000 (mainly due to an increase in net unrealized losses on securities available-for-sale), treasury stock purchased of $616,000 and dividends paid of $573,000 partially offset by net income of $1.18 million.

Analysis of Net Interest Income

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Analysis of Net Interest Income – continued

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

| | For the Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Average Daily Balance | Interest and Dividends | Yield/ Cost(3) | Average Daily Balance | Interest and Dividends | Yield/ Cost(3) |
| | (Dollars in Thousands) | | | | | |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| FHLB and FRB stock | $ 3,222 | $ 20 | 2.45 % | $ 1,875 | $ - | 0.00 % |
| Loans receivable, net | 360,782 | 4,255 | 4.72 % | 281,557 | 3,379 | 4.80 % |
| Investment securities | 149,902 | 737 | 1.97 % | 194,155 | 1,117 | 2.30 % |
| Interest-bearing deposits with banks | 4,385 | 3 | 0.29 % | 4,127 | 3 | 0.25 % |
| Total interest-earning assets | 518,291 | 5,015 | 3.87 % | 481,714 | 4,499 | 3.74 % |
| Noninterest-earning assets | 49,262 | | | 46,720 | | |
| Total assets | $ 567,553 | | | $ 528,434 | | |
| | | | | | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposit accounts: | | | | | | |
| Money market | $ 92,965 | $ 27 | 0.12 % | $ 89,723 | $ 26 | 0.12 % |
| Savings | 66,791 | 7 | 0.04 % | 61,063 | 8 | 0.05 % |
| Checking | 80,388 | 6 | 0.03 % | 69,764 | 6 | 0.04 % |
| Certificates of deposit | 149,993 | 316 | 0.84 % | 153,766 | 292 | 0.76 % |
| Advances from FHLB and other borrowings including subordinated debt | 53,402 | 170 | 1.28 % | 44,050 | 168 | 1.53 % |
| Total interest-bearing liabilities | 443,539 | 526 | 0.47 % | 418,366 | 500 | 0.48 % |
| Non-interest checking | 67,606 | | | 57,717 | | |
| Other noninterest-bearing | 3,215 | | | 1,724 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| liabilities | | | | | | | | | |
| Total liabilities | 514,360 | | | | 477,807 | | | | |
| Total equity | 53,193 | | | | 50,627 | | | | |
| Total liabilities and equity | $ 567,553 | | | | $ 528,434 | | | | |
| Net interest income/interest rate spread(1) | | $ 4,489 | 3.40 | % | | $ 3,999 | 3.26 | % | |
| Net interest margin(2) | | | 3.46 | % | | | 3.32 | % | |
| Total interest-earning assets to interest-bearing liabilities | | | 116.85 | % | | | 115.14 | % | |

(1) Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
(2) Net interest margin represents income before the provision for loan losses divided by average interest-earning assets.
(3) For purposes of this table, tax exempt income is not calculated on a tax equivalent basis.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Analysis of Net Interest Income – continued

| | For the Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | 2014 | | | |
| | Average Daily Balance | Interest and Dividends | Yield/ Cost(3) | | Average Daily Balance | Interest and Dividends | Yield/ Cost(3) | |
| | (Dollars in Thousands) | | | | | | | |
| Assets: | | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| FHLB and FRB stock | $2,915 | $20 | 1.39 | % | $1,884 | $- | 0.00 | % |
| Loans receivable, net | 349,895 | 8,217 | 4.70 | % | 272,068 | 6,633 | 4.88 | % |
| Investment securities | 153,679 | 1,496 | 1.95 | % | 195,271 | 2,183 | 2.24 | % |
| Interest-bearing deposits with banks | 4,867 | 6 | 0.24 | % | 4,032 | 4 | 0.20 | % |
| Total interest-earning assets | 511,356 | 9,739 | 3.81 | % | 473,255 | 8,820 | 3.73 | % |
| Noninterest-earning assets | 48,168 | | | | 47,160 | | | |
| Total assets | $559,524 | | | | $520,415 | | | |
| Liabilities and equity: | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Deposit accounts: | | | | | | | | |
| Money market | $93,354 | $51 | 0.11 | % | $90,833 | $55 | 0.12 | % |
| Savings | 65,510 | 13 | 0.04 | % | 60,650 | 16 | 0.05 | % |
| Checking | 77,929 | 13 | 0.03 | % | 69,190 | 14 | 0.04 | % |
| Certificates of deposit | 149,655 | 616 | 0.82 | % | 154,612 | 576 | 0.74 | % |
| Advances from FHLB and other borrowings including subordinated debt | 50,960 | 334 | 1.31 | % | 36,925 | 341 | 1.85 | % |
| Total interest-bearing liabilities | 437,408 | 1,027 | 0.47 | % | 412,210 | 1,002 | 0.49 | % |
| Non-interest checking | 65,484 | | | | 57,302 | | | |
| Other noninterest-bearing liabilities | 2,990 | | | | 1,080 | | | |
| Total liabilities | 505,882 | | | | 470,592 | | | |
| Total equity | 53,642 | | | | 49,823 | | | |
| Total liabilities and equity | $559,524 | | | | $520,415 | | | |
| Net interest income/interest rate spread(1) | | $8,712 | 3.34 | % | | $7,818 | 3.24 | % |
| Net interest margin(2) | | | 3.41 | % | | | 3.30 | % |
| Total interest-earning assets to interest-bearing liabilities | | | 116.91 | % | | | 114.81 | % |

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

(2) Net interest margin represents income before the provision for loan losses divided by average interest-earning assets.
(3) For purposes of this table, tax exempt income is not calculated on a tax equivalent basis.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Rate/Volume Analysis

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

| | For the Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Volume | Due to Rate | Net | Volume | Due to Rate | Net |
| | | | (In Thousands) | | | |
| Interest earning assets: | | | | | | |
| Loans receivable, net | $951 | $(75) | $876 | $619 | $(124) | $495 |
| Investment securities | (255) | (125) | (380) | (171) | 211 | 40 |
| Interest-bearing deposits with banks | - | 1 | 1 | 3 | (1) | 2 |
| Other earning assets | - | 19 | 19 | - | - | - |
| Total interest earning assets | 696 | (180) | 516 | 451 | 86 | 537 |
| | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings, money market and checking accounts | 3 | (4) | (1) | 3 | (5) | (2) |
| Certificates of deposit | (7) | 32 | 25 | (4) | 25 | 21 |
| Advances from FHLB and other borrowings including subordinated debentures | 36 | (34) | 2 | 4 | (80) | (76) |
| Total interest-bearing liabilities | 32 | (6) | 26 | 3 | (60) | (57) |
| | | | | | | |
| Change in net interest income | $664 | $(174) | $490 | $448 | $146 | $594 |

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Rate/Volume Analysis – continued

| | For the Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Volume | Due to Rate | Net | Volume | Due to Rate | Net |
| | | | (In Thousands) | | | |
| Interest earning assets: | | | | | | |
| Loans receivable, net | $1,897 | $(313) | $1,584 | $1,047 | $(310) | $737 |
| Investment securities | (465) | (222) | (687) | (288) | 307 | 19 |
| Interest-bearing deposits with banks | 1 | 1 | 2 | 1 | (8) | (7) |
| Other earning assets | - | 20 | 20 | - | - | - |
| Total interest earning assets | 1,433 | (514) | 919 | 760 | (11) | 749 |
| | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings, money market and checking accounts | 5 | (13) | (8) | 6 | (12) | (6) |
| Certificates of deposit | (18) | 59 | 41 | (9) | 58 | 49 |
| Advances from FHLB and other borrowings including subordinated debentures | 129 | (137) | (8) | (22) | (111) | (133) |
| Total interest-bearing liabilities | 116 | (91) | 25 | (25) | (65) | (90) |
| | | | | | | |
| Change in net interest income | $1,317 | $(423) | $894 | $785 | $54 | $839 |

Results of Operations for the Three Months Ended June 30, 2015 and 2014

Net Income. Eagle's net income for the quarter was $792,000 compared to $862,000 of net income for the three months ended June 30, 2014. The decrease of $70,000, or 8.1%, was due increases in noninterest expense of $729,000 and increases in income tax expense of $595,000, partially offset by increases in net interest income after loan loss provision of $330,000 and increases in noninterest income of $924,000. Basic earnings per share were $0.21 for the current period and $0.22 per share for the prior year comparable period. Diluted earnings per share were $0.21 for the current period and $0.21 per share for the prior year comparable period.

Net Interest Income. Net interest income increased to $4.49 million for the quarter ended June 30, 2015, from $4.00 million for the previous year's quarter. This increase of $490,000 was primarily the result of an increase in interest and dividend income.

Interest and Dividend Income. Interest and dividend income was $5.02 million for the quarter ended June 30, 2015, compared to $4.50 million for the quarter ended June 30, 2014, an increase of $516,000, or 11.5%. Interest and fees on loans increased to $4.26 million for the three months ended June 30, 2015 from $3.38 million for the same period ended June 30, 2014. This increase of $876,000, or 25.9%, was due to an increase in the average balance of loans partially offset by a decrease in the average yield of loans for the quarter ended June 30, 2015. Average balances for loans receivable, net, including loans held-for-sale, for the quarter ended June 30, 2015 were $360.78 million, compared to $281.56 million for the prior year period. This represents an increase of $79.22 million, or 28.1%. The average interest rate earned on loans receivable decreased by 8 basis points, from 4.80% to 4.72%. Interest and dividends on investment securities available-for-sale decreased by $380,000 or 34.0% for the quarter ended June 30, 2015. Average interest rates earned on investments decreased to 1.97% from 2.30%. Average balances for investments decreased to $149.90 million for the quarter ended June 30, 2015, from $194.16 million for the quarter ended June 30, 2014.

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 June 30, 2015 and 2014 – continued

Interest Expense. Total interest expense was $526,000 for the quarter ended June 30, 2015 compared to $500,000 for the quarter ended June 30, 2014. The slight increase was primarily due to increases in interest on deposits. The 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. Although the average borrowing balance (including subordinated debentures) increased, the average rate for the quarter ended June 30, 2015 decreased compared the previous year's quarter. The average balance for borrowings was $53.40 million for June 30, 2015 compared to $44.05 for June 30, 2014. The increase in the average balance is due to issuance of $10.00 million in aggregate principal amount of subordinated notes due in 2025. The average rate paid on borrowings decreased from 1.53% last year to 1.28% for the quarter ended June 30, 2015.

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 the portfolio. The Bank's policies require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While 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 $328,000 in provision for loan losses for the quarter ended June 30, 2015 and $168,000 in the quarter ended June 30, 2014. The provision for loan losses has been increased to keep pace with increasing loan production that is fueling loan growth.

Noninterest Income. Total noninterest income increased to $3.28 million for the quarter ended June 30, 2015, from $2.35 million for the quarter ended June 30, 2014, an increase of $924,000 or 39.3%. The increase is primarily due to increases in net gain on sale of loans which increased to $1.86 million for the quarter ended June 30, 2015 from $1.20 million.

Noninterest Expense. Noninterest expense was $6.47 million for the quarter ended June 30, 2015 compared to $5.74 million for the quarter ended June 30, 2014. The increase is largely due to increased salaries and employee benefits expenses of $456,000. The increased salaries expense is due to higher mortgage commissions for the quarter ended June 30, 2015 compared to the quarter ended June 30, 2014.

Income Tax Expense. Income tax expense was $172,000 for the quarter ended June 30, 2015, compared to income tax benefit of $423,000 for the quarter ended June 30, 2014. The effective tax rate for the quarter ended June 30, 2015 was 17.84%. 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 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 and are estimated to be $95,000 per quarter depending on Eagle's taxable income level.

Results of Operations for the Six Months Ended June 30, 2015 and 2014

Net Income. Eagle's net income for the six months was $1.18 million compared to $970,000 of net income for the six months ended June 30, 2014. The increase of $208,000, or 21.4%, was primarily due to increases in net interest income after loan loss provision of $540,000 and increases in noninterest income of $1.69 million, partially offset by increases in noninterest expense of $1.39 million and increases in income tax expense of $624,000. Basic earnings per share were $0.31 for the current period and $0.25 per share for the prior year comparable period. Diluted earnings per share were $0.30 for the current period and $0.24 per share for the prior year comparable period.

Net Interest Income. Net interest income increased to $8.71 million for the six months ended June 30, 2015, from $7.82 million for the previous year's six month period. This increase of $894,000 was primarily the result of an increase in interest and fees on loans of $1.59 million partially offset by a decrease in interest on securities available-for-sale of $687,000.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Results of Operations for the Six Months Ended June 30, 2015 and 2014 – continued

Interest and Dividend Income. Interest and dividend income was $9.74 million for the six months ended June 30, 2015, compared to $8.82 million for the six months ended June 30, 2014, an increase of $919,000, or 10.4%. Interest and fees on loans increased to $8.22 million for the six months ended June 30, 2015 from $6.63 million for the same period ended June 30, 2014. This increase of $1.59 million, or 24.0%, was due to an increase in the average balance of loans partially offset by a decrease in the average yield of loans for the six months ended June 30, 2015. Average balances for loans receivable, net, including loans held-for-sale, for the six months ended June 30, 2015 were $349.90 million, compared to $272.07 million for the prior year period. This represents an increase of $77.83 million, or 28.6%. The average interest rate earned on loans receivable decreased by 18 basis points, from 4.88% to 4.70%. Interest and dividends on investment securities available-for-sale decreased by $687,000 or 31.5% for the six months ended June 30, 2015. Average interest rates earned on investments decreased to 1.95% from 2.24%. Average balances for investments decreased to $153.68 million for the six months ended June 30, 2015, from $195.27 million for the six months ended June 30, 2014.

Interest Expense. Total interest expense for the six months was $1.03 million which is comparable to total interest expense of $1.00 million for the six months ended June 30, 2014. The slight increase was attributable to increases in interest expense on deposits. The 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 six months. Although the average borrowing balance (including subordinated debt) increased, the average rate paid decreased resulting in a decrease in interest paid on borrowings to $334,000 for the six months ended June 30, 2015 compared to $341,000 paid in the previous year's six month period. The average rate paid on borrowings decreased from 1.85% last year to 1.31% for the six months ended June 30, 2015. The increase in the average balance was impacted by the issuance of $10.00 million in aggregate principal amount of subordinated notes due in 2025.

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 the portfolio. The Bank's policies require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While 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 $650,000 in provision for loan losses for the six months ended June 30, 2015 and $296,000 in the six months ended June 30, 2014. The provision for loan losses has been increased to keep pace with increasing loan production that is fueling loan growth. Total nonperforming loans, including restructured loans, was $588,000 at June 30, 2015. As of June 30, 2015, the Bank had $623,000 in foreclosed real estate property and other repossessed property.

Noninterest Income. Total noninterest income increased to $6.16 million for the six months ended June 30, 2015, from $4.47 million for the six months ended June 30, 2014, an increase of $1.69 million or 37.8%. The increase is primarily due to increases in net gain on sale of loans which increased to $3.49 million for the six months ended June 30, 2015 from $2.03 million.

Noninterest Expense. Noninterest expense was $12.83 million for the six months ended June 30, 2015 compared to $11.44 million for the six months ended June 30, 2014. The increase of $1.39 million is largely due to increased salaries and employee benefits expenses of $626,000 and increased data processing fees of $106,000. The increased salaries expense is due to higher mortgage commissions for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Amortization of mortgage servicing fees also increased.

Income Tax Expense. Income tax expense was $208,000 for the six months ended June 30, 2015, compared to income tax benefit of $416,000 for the six months ended June 30, 2014. The effective tax rate for the six months ended June 30, 2015 was 15.01%. 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 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 and are estimated to be $95,000 per quarter depending on Eagle's taxable income level.

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

The Bank is required to maintain minimum levels of liquid assets as defined by the Montana Division of Banking and FRB regulations. The liquidity requirement is retained for safety and soundness purposes, and appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with FHLB. The Bank exceeded those minimum ratios as of both June 30, 2015 and December 31, 2014.

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

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

At May 31, 2015 (the most recent report available), the Bank's internally determined measurement 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 0.4% compared to a decrease of 11.6% at November 30, 2014 (the most recent report available for December 31, 2014). The change in the decrease in the EVE is partly due to the change in the average life assumptions of non-maturity deposits used in the calculation. The average lives were increased due to a recent non-maturity deposit analysis performed by the Company's consultant. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

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

The Bank's tier I core capital ratio, as measured under State of Montana and FRB rules, increased from 8.62% as of December 31, 2014 to 9.98% as of June 30, 2015. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

As of June 30, 2015, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At June 30, 2015, the Bank's tangible, core, and risk-based capital ratios amounted to 9.98%, 9.98% and 14.94%, respectively, compared to regulatory requirements of 1.50%, 3.00%, and 8.00%, respectively.

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

| | At June 30, 2015 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | | Dollar Amount | | % of Assets | |
| | (Dollars in Thousands) | | | | |
| Tangible capital: | | | | | |
| Capital level | $ | 56,570 | | 9.98 | % |
| Requirement | | 8,505 | | 1.50 | |
| Excess | $ | 48,065 | | 8.48 | % |
| | | | | | |
| Core capital: | | | | | |
| Capital level | $ | 56,570 | | 9.98 | % |
| Requirement | | 17,010 | | 3.00 | |
| Excess | $ | 39,560 | | 6.98 | % |
| | | | | | |
| Risk-based capital: | | | | | |
| Capital level | $ | 59,520 | | 14.94 | % |
| Requirement | | 31,874 | | 8.00 | |
| Excess | $ | 27,646 | | 6.94 | % |

Impact of Inflation and Changing Prices

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

CONTROLS AND PROCEDURES

Item 4. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO") of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of June 30, 2015, our disclosure controls and procedures were effective. During the last quarter, there were no changes in the Company's internal control over financial reporting that have materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the six month transition period ended December 31, 2014.

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

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 program was intended to be implemented through purchases made from time to time in the open market or through private transactions. 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 could be purchased by the company on the open market or in privately negotiated transactions. During the six month transition period ended December 31, 2014, 55,000 shares were purchased at an average price of $10.66 per share. During the three months ended March 31, 2015, 55,800 shares were purchased at an average price of $11.03 per share. There were no repurchases during the quarter ended June 30, 2015. The repurchase program expired on June 30, 2015.

On July 23, 2015, the Board of Directors authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. The repurchase program expires on July 23, 2016.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION (CONTINUED)

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit Number | Description |
|---|---|
| 4.1 | Form of 6.75% Subordinated Note due 2025 (Incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on June 19, 2015). |
| 10.1 | Form of Subordinated Note Purchase Agreement (Incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 19, 2015). |
| 31.1 | Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by Laura F. Clark, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification by Peter J. Johnson, Chief Executive Officer, and Laura F. Clark, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.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 SUBSIDIARY

SIGNATURES

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

EAGLE BANCORP MONTANA, INC.

| | | |
|---|---|---|
| Date: August 12, 2015 | By: | /s/ Peter J. Johnson<br>Peter J. Johnson<br>President/CEO |
| Date: August 12, 2015 | By: | /s/ Laura F. Clark<br>Laura F. Clark<br>Senior Vice President/CFO |