

Eagle Bancorp Montana, Inc.
Form 10-Q
May 10, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from _____ to _____.

Commission file number 1-34682

Eagle Bancorp Montana, Inc.

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

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

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.opportunitybank.com

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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 5,460,452 shares outstanding
As of May 10, 2018

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Note Regarding Forward-Looking Statements

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

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

These forward-looking statements are based on current beliefs and expectations of the management of Eagle Bancorp Montana, Inc. (“Eagle” or the “Company”) and Opportunity Bank of Montana (the “Bank”), Eagle’s wholly-owned subsidiary, 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 insurance 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;
our ability to develop and maintain secure and reliable information technology systems, effectively defend ourselves against cyberattacks or recover from breaches to our cybersecurity infrastructure;
the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and
the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the year ended December 31, 2017, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS:		
Cash and due from banks	\$7,679	\$5,517
Interest bearing deposits in banks	1,641	1,920
Federal funds sold	3,591	-
Total cash and cash equivalents	12,911	7,437
Securities available-for-sale	158,417	132,044
Federal Home Loan Bank stock	3,704	4,086
Federal Reserve Bank stock	2,019	1,465
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	8,979	8,949
Loans receivable, net of deferred loan fees of \$1,008 at March 31, 2018 and \$1,093 at December 31, 2017 and allowance for loan losses of \$6,130 at March 31, 2018 and \$5,750 at December 31, 2017	560,852	507,404
Accrued interest and dividends receivable	3,212	2,555
Mortgage servicing rights, net	6,613	6,578
Premises and equipment, net	27,364	21,958
Cash surrender value of life insurance	14,575	14,481
Real estate and other repossessed assets acquired in settlement of loans, net	639	525
Goodwill	12,124	7,034
Core deposit intangible, net	1,859	273
Deferred tax asset, net	2,040	1,360
Other assets	472	478
Total assets	\$815,935	\$716,782

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)

	March 31, 2018	December 31, 2017
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	\$ 133,933	\$ 99,799
Interest bearing	492,002	420,765
Total deposits	625,935	520,564
Accrued expenses and other liabilities	4,697	4,822
Federal Home Loan Bank advances and other borrowings	69,528	82,969
Other Long-term debt:		
Principal amount	25,155	25,155
Unamortized debt issuance costs	(328)	(344)
Total other long-term debt less unamortized debt issuance costs	24,827	24,811
Total liabilities	724,987	633,166
SHAREHOLDERS' EQUITY:		
Preferred stock (par value \$0.01 per share; 1,000,000 shares authorized; no shares issued or outstanding)	-	-
Common stock (par value \$0.01 per share; 8,000,000 shares authorized; 5,718,942 and 5,272,168 shares issued; 5,460,452 and 5,013,678 shares outstanding at March 31, 2018 and December 31, 2017)	57	53
Additional paid-in capital	51,849	42,780
Unallocated common stock held by Employee Stock Ownership Plan	(601)	(643)
Treasury stock, at cost	(2,826)	(2,826)
Retained earnings	44,020	43,939
Net accumulated other comprehensive (loss) income	(1,551)	313
Total shareholders' equity	90,948	83,616
Total liabilities and shareholders' equity	\$ 815,935	\$ 716,782

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 March 31,	
	2018	2017
INTEREST AND DIVIDEND INCOME:		
Interest and fees on loans	\$6,872	\$5,570
Securities available-for-sale	989	729
Federal Home Loan Bank dividends	79	40
Interest on deposits with banks	17	-
Other interest income	-	1
Total interest and dividend income	7,957	6,340
INTEREST EXPENSE:		
Deposits	426	380
Federal Home Loan Bank advances and other borrowings	337	205
Long-term debt	347	272
Total interest expense	1,110	857
NET INTEREST INCOME	6,847	5,483
Loan loss provision	502	301
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	6,345	5,182
NONINTEREST INCOME:		
Service charges on deposit accounts	226	232
Net gain on sale of loans (includes \$325 and \$558 for the three months ended March 31, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassification)	1,439	1,825
Mortgage loan servicing fees	560	547
Wealth management income	132	141
Interchange and ATM fees	225	206
Appreciation in cash surrender value of life insurance	124	124
Net loss on sale of available-for-sale securities (includes \$105 and \$0 for the three months ended March 31, 2018 and 2017, respectively, related to accumulated other comprehensive earnings)	(105)	-

reclassification)

Net loss on sale of real estate owned and other repossessed property	(25)	(1)
Other noninterest income	103	134
Total noninterest income	2,679	3,208

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017 (As Restated)
NONINTEREST EXPENSE:		
Salaries and employee benefits	4,909	4,433
Occupancy and equipment expense	828	717
Data processing	637	567
Advertising	278	189
Amortization of mortgage servicing rights	241	262
Amortization of core deposit intangible and tax credits	102	107
Federal insurance premiums	69	84
Postage	50	48
Legal, accounting and examination fees	142	85
Consulting fees	17	49
Acquisition costs	234	-
Write-down on real estate owned and other repossessed property	-	36
Other noninterest expense	817	862
Total noninterest expense	8,324	7,439
INCOME BEFORE INCOME TAXES	700	951
Income tax expense (includes (\$677) and \$25 for the three months ended March 31, 2018 and 2017, respectively, related to income tax (benefit) expense from reclassification items)	127	188
NET INCOME	\$573	\$763
BASIC EARNINGS PER SHARE	\$0.11	\$0.20
DILUTED EARNINGS PER SHARE	\$0.11	\$0.20
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC EPS)	5,311,527	3,811,409
WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED EPS)	5,375,987	3,875,677

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
NET INCOME	\$573	\$763
OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME:		
Change in fair value of investment securities available-for-sale, before income taxes	(2,583)	279
Reclassification for realized gains and losses on investment securities included in income, before income tax	105	-
Change in fair value of derivatives designated as cash flow hedges, before income taxes	262	341
Reclassification for realized gains on derivatives designated as cash flow hedges, before income taxes	(325)	(558)
Total other items of comprehensive (loss) income	(2,541)	62
Income tax benefit (expense) related to:		
Investment securities	660	(113)
Derivatives designated as cash flow hedges	17	88
Total income tax benefit (expense)	677	(25)
COMPREHENSIVE (LOSS) INCOME	\$(1,291)	\$800

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Months Ended March 31, 2018 and March 31, 2017

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL CAPITAL	ESOP SHARES	UNALLOCATED TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance at January 1, 2017	\$ -	\$ 41	\$ 22,366	\$ (809)	\$ (2,971)	\$ 41,240	\$ (411)	\$ 59,456
Net income						763		763
Other comprehensive income							37	37
Dividends paid (\$0.08 per share)						(304)		(304)
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (4,154 shares)			41	42				83
Balance at March 31, 2017	\$ -	\$ 41	\$ 22,407	\$ (767)	\$ (2,971)	\$ 41,699	\$ (374)	\$ 60,035
Balance at January 1, 2018	\$ -	\$ 53	\$ 42,780	\$ (643)	\$ (2,826)	\$ 43,939	\$ 313	\$ 83,616
Net income						573		573
Other comprehensive loss							(1,864)	(1,864)

Dividends paid (\$0.09 per share)					(492)			(492)
Stock issued in connection with TwinCo acquisition	4	9,026						9,030
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (4,154 shares)		43	42					85
Balance at March 31, 2018	\$ -	\$ 57	\$ 51,849	\$ (601)	\$ (2,826)	\$ 44,020	\$ (1,551)	\$ 90,948

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)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$573	\$763
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	502	301
Write-down on real estate owned and other repossessed assets	-	36
Depreciation	273	238
Net amortization of investment securities premium and discounts	307	412
Amortization of mortgage servicing rights	241	262
Amortization of core deposit intangible and tax credits	102	107
Deferred income tax expense (benefit)	189	(96)
Net gain on sale of loans	(1,439)	(1,825)
Net loss on sale of available-for-sale securities	105	-
Net loss on sale of real estate owned and other repossessed assets	25	1
Net appreciation in cash surrender value of life insurance	(116)	(96)
Net change in:		
Accrued interest and dividends receivable	48	22
Loans held-for-sale	1,346	11,406
Other assets	10	87
Accrued expenses and other liabilities	(59)	101
Net cash provided by operating activities	2,107	11,719
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	25,994	-
Maturities, principal payments and calls	2,578	2,093
Purchases	(27,107)	(1,002)
Federal Home Loan Bank stock redeemed	493	668
Federal Reserve Bank stock purchased	(554)	-
Cash paid for TwinCo acquisition, net of cash received	(4,243)	-
Loan origination and principal collection, net	827	(22,994)

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Proceeds from bank owned life insurance	205	-
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	-	120
Additions to premises and equipment	(4,074)	(595)
Net cash used in investing activities	(5,881)	(21,710)

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)

	Three Months Ended March 31, 2018 2017	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$23,181	\$13,490
Net short-term payments on Federal Home Loan Bank and other borrowings	(11,495)	(14,993)
Long-term advances from Federal Home Loan Bank and other borrowings	-	5,000
Payments on long-term Federal Home Loan Bank and other borrowings	(1,946)	(4,154)
Dividends paid	(492)	(304)
Proceeds from issuance of long-term debt	-	10,000
Payments for debt issuance costs	-	(200)
Net cash provided by financing activities	9,248	8,839
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,474	(1,152)
CASH AND CASH EQUIVALENTS, beginning of period	7,437	7,318
CASH AND CASH EQUIVALENTS, end of period	\$12,911	\$6,166
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$1,229	\$776
Cash paid during the period for income taxes	\$-	\$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
(Decrease) increase in market value of securities available-for-sale	\$(2,478)	\$279
Mortgage servicing rights recognized	\$276	\$301
Loans transferred to real estate and other assets acquired in foreclosure	\$4	\$-
Stock issued in connection with TwinCo acquisition	\$9,030	\$-

Employee Stock Ownership Plan shares released	\$85	\$83
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See Note 12. Mergers and Acquisitions for additional information related to assets acquired and liabilities assumed in the TwinCo acquisition.

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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 *three* month period ended *March 31, 2018* are *not* necessarily indicative of the results to be expected for the year ending *December 31, 2018* or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle Bancorp Montana, Inc.'s ("the Company" or "Eagle") Form *10-K* for the year ended *December 31, 2017*.

Certain loan amounts were reclassified for prior periods to conform to the presentation for *2018*. These reclassifications had *no* impact on net income or total shareholders' equity. During the quarter ended *March 31, 2018*, Eagle completed the acquisition of TwinCo, Inc. ("TwinCo"). See Note *12*. Mergers and Acquisitions for more information. The acquisition included the addition of over *\$55,000,000* in gross loans and added a considerable amount to Eagle's agricultural loans. There was *no* impact to Eagle's loan policies due to the acquisition.

The Company evaluated subsequent events for potential recognition and/or disclosure through *May 10, 2018*, the date the unaudited consolidated financial statements were issued.

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	March 31, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	(Losses)	Fair Value	Amortized Cost	Gross Unrealized Gains	(Losses)	Fair Value
	<i>(In Thousands)</i>							
Available-for-Sale:								
U.S. government and agency obligations	\$9,619	\$-	\$(103)	\$9,516	\$4,881	\$13	\$(37)	\$4,857
Municipal obligations	78,745	385	(1,555)	77,575	67,508	807	(429)	67,886
Corporate obligations	14,199	6	(244)	13,961	14,725	18	(99)	14,644
Mortgage-backed securities	26,916	274	(453)	26,737	24,770	364	(265)	24,869
Collateralized mortgage obligations	23,843	5	(640)	23,208	20,051	7	(270)	19,788
Asset-backed securities	7,464	-	(44)	7,420	-	-	-	-
Total	\$160,786	\$670	\$(3,039)	\$158,417	\$131,935	\$1,209	\$(1,100)	\$132,044

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 2. INVESTMENT SECURITIES - continued

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

	Three Months Ended March 31, 2018 2017 (In Thousands)	
Proceeds from sale of available-for-sale securities	\$25,994	\$ -
Gross realized gain on sale of available-for-sale securities	\$-	\$ -
Gross realized loss on sale of available-for-sale securities	(105)	-
Net realized loss on sale of available-for-sale securities	\$(105)	\$ -

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

	March 31, 2018 Amortized Fair Cost Value (In Thousands)	
Due in one year or less	\$3,231	\$3,224
Due from one to five years	14,399	14,136
Due from five to ten years	18,191	17,957

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Due after ten years	74,206	73,155
	110,027	108,472
Mortgage-backed securities	26,916	26,737
Collateralized mortgage obligations	23,843	23,208
Total	\$160,786	\$158,417

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 2. INVESTMENT SECURITIES – continued

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:

	March 31, 2018		12 Months or Longer	
	Less Than 12 Months			
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency	\$8,175	\$ (60)	\$1,342	\$ (43)
Municipal obligations	40,648	(740)	15,263	(815)
Corporate obligations	9,969	(227)	2,485	(17)
Mortgage-backed securities and collateralized mortgage obligations	15,424	(388)	21,319	(705)
Asset-backed securities	7,420	(44)	-	-
Total	\$81,636	\$ (1,459)	\$40,409	\$ (1,580)
	December 31, 2017			
	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	\$2,493	\$ (14)	\$1,363	\$ (23)
Municipal obligations	15,404	(87)	16,675	(342)
Corporate obligations	7,643	(71)	3,981	(28)
Mortgage-backed securities and collateralized mortgage obligations	9,107	(81)	21,653	(454)
Asset-backed securities	-	-	-	-
Total	\$34,647	\$ (253)	\$43,672	\$ (847)

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 *March 31, 2018* and *December 31, 2017*, there were, respectively, *134* and *87* securities in unrealized loss positions that were considered to be temporarily impaired and therefore an impairment charge has *not* been recorded.

As of *March 31, 2018*, *93* U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately *2.47%* from the Company's amortized cost basis of these securities. At *December 31, 2017*, *52* U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately *1.28%* from the Company's amortized cost basis of these securities. As of *March 31, 2018*, *15* corporate obligations had unrealized losses of approximately *1.92%* from the Company's amortized cost basis of these securities. At *December 31, 2017*, *15* corporate obligations had an unrealized loss with aggregate depreciation of approximately *0.84%* from the Company's amortized cost basis of these securities. 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.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 2. INVESTMENT SECURITIES – continued

As of *March 31, 2018*, 23 mortgage-backed securities (“MBSs”) and collateralized mortgage obligations (“CMOs”) had unrealized losses with aggregate depreciation of approximately 2.89% from the Company’s amortized cost basis of these securities. At *December 31, 2017*, 20 MBSs and CMOs had unrealized losses with aggregate depreciation of approximately 1.71% from the Company’s amortized cost basis. Management’s analysis as of *March 31, 2018* revealed *no* expected credit losses on the securities and therefore, declines are *not* deemed to be other than temporary.

As of *March 31, 2018*, 3 asset-backed securities (“ABSs”) had unrealized losses with aggregate depreciation of approximately 0.59% from the Company’s amortized cost basis of these securities. The ABSs were purchased during the quarter ended *March 31, 2018*. Management’s analysis as of *March 31, 2018* revealed *no* expected credit losses on the securities and therefore, declines are *not* deemed to be other than temporary.

NOTE 3. LOANS RECEIVABLE

Loans receivable consisted of the following:

	March 31, 2018	December 31, 2017
	(In Thousands)	
First mortgage loans:		
Residential 1-4 family	\$ 139,499	\$ 135,217
Commercial real estate	272,915	244,783

Other loans:

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Home equity	52,028	52,672
Consumer	17,252	15,712
Commercial	86,296	65,863
Total	567,990	514,247
Deferred loan fees, net	(1,008)	(1,093)
Allowance for loan losses	(6,130)	(5,750)
Total loans, net	\$560,852	\$507,404

Within the commercial real estate loan category, \$12,957,000 and \$13,114,000 was guaranteed by the United States Department of Agriculture Rural Development, at *March 31, 2018* and *December 31, 2017*, respectively. The commercial real estate loan category and the commercial category also include \$2,567,000 and \$1,973,000 of loans guaranteed by the United States Department of Agriculture Farm Service Agency at *March 31, 2018*, respectively. The United States Department of Agriculture Farm Service Agency guaranteed loans were acquired through the TwinCo acquisition. In addition, within the commercial loan category, \$283,000 and \$486,000 were in loans originated through a syndication program where the business resides outside of Montana, at *March 31, 2018*, and *December 31, 2017*, respectively.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE – continued

The following table includes information regarding nonperforming assets.

	March 31, 2018 (Dollars in Thousands)	December 31, 2017		
Non-accrual loans	\$1,740	\$ 977		
Accruing loans delinquent 90 days or more	-	-		
Restructured loans, net	1,622	-		
Total nonperforming loans	3,362	977		
Real estate owned and other repossessed assets, net	639	525		
Total nonperforming assets	\$4,001	\$ 1,502		
Total nonperforming assets as a percentage of total assets	0.49 %	0.21 %		
Allowance for loan losses	\$6,130	\$ 5,750		
Percent of allowance for loan losses to nonperforming loans	182.33 %	588.54 %		
Percent of allowance for loan losses to nonperforming assets	153.21 %	382.82 %		

Allowance for loan losses activity was as follows:

Residential Commercial Home

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	1-4 Family (In Thousands)	Real Estate	Equity	Consumer	Commercial	Total
<i>Allowance for loan losses:</i>						
Beginning balance, January 1, 2018	\$1,301	\$ 2,778	\$506	\$ 225	\$ 940	\$5,750
Charge-offs	-	-	(80)	(27)	(23)	(130)
Recoveries	-	3	1	2	2	8
Provision	-	421	-	-	81	502
Ending balance, March 31, 2018	\$1,301	\$ 3,202	\$427	\$ 200	\$ 1,000	\$6,130
Ending balance, March 31, 2018 allocated to loans individually evaluated for impairment	\$-	\$ -	\$-	\$ 4	\$ -	\$4
Ending balance, March 31, 2018 allocated to loans collectively evaluated for impairment	\$1,301	\$ 3,202	\$427	\$ 196	\$ 1,000	\$6,126
<i>Loans receivable:</i>						
Ending balance, March 31, 2018	\$139,499	\$ 272,915	\$52,028	\$ 17,252	\$ 86,296	\$567,990
Ending balance, March 31, 2018 of loans individually evaluated for impairment	\$1,325	\$ 1,524	\$241	\$ 110	\$ 162	\$3,362
Ending balance, March 31, 2018 of loans collectively evaluated for impairment	\$138,174	\$ 271,391	\$51,787	\$ 17,142	\$ 86,134	\$564,628

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE - continued

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Consumer	Commercial	Total
	(In Thousands)					
<i>Allowance for loan losses:</i>						
Beginning balance, January 1, 2017	\$ 1,241	\$ 2,079	\$ 460	\$ 193	\$ 797	\$ 4,770
Charge-offs	-	-	-	(9)	-	(9)
Recoveries	-	-	5	8	-	13
Provision	10	199	6	18	68	301
Ending balance, March 31, 2017	\$ 1,251	\$ 2,278	\$ 471	\$ 210	\$ 865	\$ 5,075
Ending balance, March 31, 2017 allocated to loans individually evaluated for impairment	\$-	\$-	\$-	\$ 16	\$ 46	\$ 62
Ending balance, March 31, 2017 allocated to loans collectively evaluated for impairment	\$ 1,251	\$ 2,278	\$ 471	\$ 194	\$ 819	\$ 5,013
<i>Loans receivable:</i>						
Ending balance, March 31, 2017	\$ 136,990	\$ 234,467	\$ 49,037	\$ 14,786	\$ 54,614	\$ 489,894
Ending balance, March 31, 2017 of loans individually evaluated for impairment	\$ 221	\$-	\$ 336	\$ 136	\$ 146	\$ 839
Ending balance, March 31, 2017 of loans collectively evaluated for impairment	\$ 136,769	\$ 234,467	\$ 48,701	\$ 14,650	\$ 54,468	\$ 489,055

The Company utilizes an 8 point internal loan rating system, largely based on regulatory classifications, as follows:

Loans Rated Pass – these are loans in categories 1 – 5 that are considered to be protected by the current net worth and paying capacity of the obligor, or by the value of the asset or the underlying collateral.

Loans Rated Special Mention – these loans in category 6 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 – these loans in category 7 are inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are *not* corrected.

Loans Rated Doubtful – these loans in category 8 have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans Rated Loss – these loans are considered uncollectible and are *not* part of the 8 point rating system. They are of such small value that their continuance as assets without establishment of a specific reserve is *not* warranted. This classification does *not* mean that an asset has absolutely *no* recovery or salvage value, but, rather, that it is *not* practical or desirable to defer writing off a basically worthless asset even though practical recovery *may* be affected in the future.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE - continued

On an annual basis, or more often if needed, the Company formally reviews the ratings of all commercial real estate, construction, and commercial business loans that have a principal balance of \$750,000 or more. Quarterly, the Company reviews the rating of any consumer loan, broadly defined, that is delinquent 90 days or more. Likewise, quarterly, the Company reviews the rating of any commercial loan, broadly defined, that is delinquent 60 days or more. Annually, the Company engages an independent *third*-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

Internal classification of the loan portfolio was as follows:

	March 31, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)					
First mortgage loans:						
Residential 1-4 family	\$111,756	\$ -	\$ 1,135	\$ -	\$ -	\$112,891
Residential 1-4 family construction	26,152	-	456	-	-	26,608
Commercial real estate	213,383	-	1,825	-	-	215,208
Commercial construction and development	32,308	-	-	-	-	32,308
Farmland	25,399	-	-	-	-	25,399
Other loans:						
Home equity	51,787	-	241	-	-	52,028
Consumer	17,096	-	152	-	4	17,252
Commercial	69,337	-	201	-	-	69,538
Agricultural	16,624	-	134	-	-	16,758
Total	\$563,842	\$ -	\$ 4,144	\$ -	\$ 4	\$567,990

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December 31, 2017

Special

Pass Mention Substandard Doubtful Loss Total

(In Thousands)

First mortgage loans:

Residential 1-4 family	\$109,167	\$ -	\$ 744	\$ -	\$ -	\$109,911
Residential 1-4 family construction	24,850	-	456	-	-	25,306
Commercial real estate	194,502	-	303	-	-	194,805
Commercial construction and development	38,351	-	-	-	-	38,351
Farmland	11,627	-	-	-	-	11,627
Other loans:						
Home equity	52,430	-	242	-	-	52,672
Consumer	15,549	-	136	-	27	15,712
Commercial	63,165	-	113	-	22	63,300
Agricultural	2,563	-	-	-	-	2,563
Total	\$512,204	\$ -	\$ 1,994	\$ -	\$ 49	\$514,247

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE - continued

Credit risk profile based on payment activity of the loan portfolio was as follows:

	March 31, 2018			
	Performing	Restructured	Nonperforming	Total
	(In Thousands)			
First mortgage loans:				
Residential 1-4 family	\$112,022	\$ 626	\$ 243	\$112,891
Residential 1-4 family construction	26,152	-	456	26,608
Commercial real estate	213,684	996	528	215,208
Commercial construction and development	32,308	-	-	32,308
Farmland	25,399	-	-	25,399
Other loans:				
Home equity	51,787	-	241	52,028
Consumer	17,142	-	110	17,252
Commercial	69,376	-	162	69,538
Agricultural	16,758	-	-	16,758
Total	\$564,628	\$ 1,622	\$ 1,740	\$567,990

	December 31, 2017			
	Performing	Restructured	Nonperforming	Total
	(In Thousands)			
First mortgage loans:				
Residential 1-4 family	\$109,436	\$ -	\$ 475	\$109,911
Residential 1-4 family construction	25,306	-	-	25,306

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Commercial real estate	194,805	-	-	194,805
Commercial construction and development	38,351	-	-	38,351
Farmland	11,627	-	-	11,627
Other loans:				
Home equity	52,430	-	242	52,672
Consumer	15,559	-	153	15,712
Commercial	63,193	-	107	63,300
Agricultural	2,563	-	-	2,563
Total	\$513,270	\$	977	\$514,247

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE - continued

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

	March 31, 2018					
	Loans Past Due and Still					
	Accruing					
	90					
	Days					
	30-89	and		Non-Accrual	Current	Total
	Days	Greater	Total	Loans	Loans	Loans
	Past					
	Due					
	(In Thousands)					
First mortgage loans:						
Residential 1-4 family	\$253	\$ -	\$253	\$ 243	\$112,395	\$112,891
Residential 1-4 family construction	-	-	-	456	26,152	26,608
Commercial real estate	338	-	338	528	214,342	215,208
Commercial construction and development	-	-	-	-	32,308	32,308
Farmland	-	-	-	-	25,399	25,399
Other loans:						
Home equity	710	-	710	241	51,077	52,028
Consumer	230	-	230	110	16,912	17,252
Commercial	31	-	31	162	69,345	69,538
Agricultural	-	-	-	-	16,758	16,758
Total	\$1,562	-	\$1,562	\$ 1,740	\$564,688	\$567,990

December 31, 2017

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	Loans Past Due and Still Accruing					
	90 Days			Non-Accrual	Current	Total
	30-89 Days	and Greater	Total	Loans	Loans	Loans
	Past Due					
	(In Thousands)					
First mortgage loans:						
Residential 1-4 family	\$898	\$ -	\$898	\$ 475	\$108,538	\$109,911
Residential 1-4 family construction	409	-	409	-	24,897	25,306
Commercial real estate	291	-	291	-	194,514	194,805
Commercial construction and development	-	-	-	-	38,351	38,351
Farmland	-	-	-	-	11,627	11,627
Other loans:						
Home equity	212	-	212	242	52,218	52,672
Consumer	111	-	111	153	15,448	15,712
Commercial	116	-	116	107	63,077	63,300
Agricultural	-	-	-	-	2,563	2,563
Total	\$2,037	\$ -	\$2,037	\$ 977	\$511,233	\$514,247

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE - continued

The following tables include information regarding impaired loans.

	March 31, 2018		
	Recorded	Unpaid Principal	Related
	Investment	Balance	Allowance
	(In Thousands)		
With no related allowance:			
First mortgage loans:			
Residential 1-4 family	\$ 869	\$ 885	\$ -
Residential 1-4 family construction	456	456	-
Commercial real estate	1,524	1,524	-
Commercial construction and development	-	-	-
Farmland	-	-	-
Other loans:			
Home equity	241	269	-
Consumer	106	157	-
Commercial	162	165	-
Agricultural	-	-	-
With a related allowance:			
First mortgage loans:			
Residential 1-4 family	-	-	-
Residential 1-4 family construction	-	-	-
Commercial real estate	-	-	-
Commercial construction and development	-	-	-
Farmland	-	-	-
Other loans:			
Home equity	-	-	-
Consumer	4	4	4
Commercial	-	-	-

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Agricultural	-	-	-
Total:			
First mortgage loans:			
Residential 1-4 family	869	885	-
Residential 1-4 family construction	456	456	-
Commercial real estate	1,524	1,524	-
Commercial construction and development	-	-	-
Farmland	-	-	-
Other loans:			
Home equity	241	269	-
Consumer	110	161	4
Commercial	162	165	-
Agricultural	-	-	-
Total	\$3,362	\$ 3,460	\$ 4

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE - continued

	December 31, 2017		
	Unpaid		
	Record	Principal	Related
	Investment	Balance	Allowance
	(In Thousands)		
With no related allowance:			
First mortgage loans:			
Residential 1-4 family	\$475	\$ 487	\$ -
Residential 1-4 family construction	-	-	-
Commercial real estate	-	-	-
Commercial construction and development	-	-	-
Farmland	-	-	-
Other loans:			
Home equity	242	263	-
Consumer	126	176	-
Commercial	85	87	-
Agricultural	-	-	-
With a related allowance:			
First mortgage loans:			
Residential 1-4 family	-	-	-
Residential 1-4 family construction	-	-	-
Commercial real estate	-	-	-
Commercial construction and development	-	-	-
Farmland	-	-	-
Other loans:			
Home equity	-	-	-
Consumer	27	27	27
Commercial	22	22	22
Agricultural	-	-	-
Total:			
First mortgage loans:			

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Residential 1-4 family	475	487	-
Residential 1-4 family construction	-	-	-
Commercial real estate	-	-	-
Commercial construction and development	-	-	-
Farmland	-	-	-
Other loans:			
Home equity	242	263	-
Consumer	153	203	27
Commercial	107	109	22
Agricultural	-	-	-
Total	\$977	\$ 1,062	\$ 49

The difference between the recorded investment for restructured loans and the unpaid contractual principal balance of those loans is considered insignificant at *March 31, 2018*. There were *no* restructured loans at *December 31, 2017*.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 3. LOANS RECEIVABLE – continued

	Three Months Ended March 31, 2018 2017 Average Recorded Investment (In Thousands)	
First mortgage loans:		
Residential 1-4 family	\$672	\$221
Residential 1-4 family construction	228	-
Commercial real estate	762	-
Commercial construction and development	-	-
Farmland	-	-
Other loans:		
Home equity	242	338
Consumer	131	116
Commercial	135	73
Agricultural	-	-
Total	\$2,170	\$748

Interest income recognized on impaired loans for the *three* months ended *March 31, 2018* and *2017* is considered insignificant.

NOTE 4. TROUBLED DEBT RESTRUCTURINGS

A troubled debt restructured (“TDR”) loan is a loan in which the Bank grants a concession to the borrower that it would *not* otherwise consider, for reasons related to a borrower's financial difficulties. The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are *not* limited to a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market rates; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites or a combination of these modification methods. A TDR loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

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.

The Company previously had *one* TDR loan at *December 31, 2016* with a recorded investment of *\$43,000* and a *\$34,000* charge-off at time of restructure. The loan was a home equity loan and was on accrual status. The remaining recorded investment of *\$42,000* was paid-off during the quarter ended *June 30, 2017* and the *\$34,000* charge-off was recovered.

During the *three* months ended *March 31, 2018* and *2017*, there were *no* new restructured loans. However, *three* TDR's were acquired through the TwinCo acquisition. See Note 12. Mergers and Acquisitions for more information related to the acquisition.

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

NOTE 4. TROUBLED DEBT RESTRUCTURINGS – continued

Information related to the acquired TDR's is as follows:

	March 31, 2018		
	Accrual Status	Non-Accrual Status	Total Modification
	(In Thousands)		
First mortgage loans:			
Residential 1-4 family	\$626	\$ -	\$ 626
Residential 1-4 family construction	-	-	-
Commercial real estate	996	-	996
Commercial construction and development	-	-	-
Farmland	-	-	-
Other loans:			
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	-	-
Agricultural	-	-	-
Total	\$1,622	\$ -	\$ 1,622

The difference between the recorded investment for restructured loans and the unpaid contractual principal balance of those loans is considered insignificant at *March 31, 2018*.

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.

There were *no* loans modified as a troubled debt restructured loan within the previous *three* months for which there was a payment default during the *three* months ended *March 31, 2018*.

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 *March 31, 2018* and *December 31, 2017*, the Company had *no* commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

NOTE 5. DEPOSITS

Deposits are summarized as follows:

	March 31, 2018 (In Thousands)	December 31, 2017
Noninterest checking	\$ 133,933	\$ 99,799
Interest bearing checking	110,636	99,255
Savings	106,244	88,603
Money market	108,934	89,558
Time certificates of deposit	166,188	143,349
Total	\$ 625,935	\$ 520,564

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

NOTE 6. OTHER LONG-TERM DEBT

Other long-term debt consisted of the following:

	March 31, 2018		December 31, 2017	
	Principal Amount (In Thousands)	Unamortized Debt Issuance Costs	Principal Amount	Unamortized Debt Issuance Costs
Senior notes fixed at 5.75%, due 2022	\$ 10,000	\$ (169)	\$ 10,000	\$ (180)
Subordinated debentures fixed at 6.75%, due 2025	10,000	(159)	10,000	(164)
Subordinated debentures variable at 3-Month Libor plus 1.42%, due 2035	5,155	-	5,155	-
Total other long-term debt	\$ 25,155	\$ (328)	\$ 25,155	\$ (344)

In February 2017, the Company completed the issuance, through a private placement, of \$10,000,000 aggregate principal amount of 5.75% fixed senior unsecured notes due in 2022. The interest will be paid semi-annually through

maturity date. The notes are *not* subject to redemption at the option of the Company.

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

In *September 2005*, the Company completed the private placement of *\$5,155,000* in subordinated debentures to Eagle Bancorp Statutory Trust I (“the Trust”). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank, N.A. with a liquidation value of *\$5,155,000*. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders in *December 2005*. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities was fixed at *6.02%* until *December 2010* then became variable at 3-Month LIBOR plus *1.42%*, making the rate *3.732%* and *3.114%* as of *March 31, 2018* and *December 31, 2017*, 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.

For the *three* months ended *March 31, 2018* and *2017*, interest expense on other long-term debt was *\$347,000* and *\$272,000*, respectively.

NOTE 7. EARNINGS PER SHARE

Basic earnings per share for the *three* months ended *March 31, 2018* was computed using *5,311,527* weighted average shares outstanding. Basic earnings per share for the *three* months ended *March 31, 2017* was computed using *3,811,409* 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 *5,375,987* for the *three* months ended *March 31, 2018* and *3,875,677* for the *three* months ended *March 31, 2017*.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 8. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the year ended *December 31, 2017*, Eagle paid dividends of *\$0.08* per share for the quarters ended *March 31* and *June 30, 2017*. Eagle paid dividends of *\$0.09* per share for the quarters ended *September 30* and *December 31, 2017*. A dividend of *\$0.09* per share was declared on *January 25, 2018* and paid *March 1, 2018* to shareholders of record on *February 9, 2018*. A dividend of *\$0.09* per share was declared on *April 19, 2018*, payable on *June 1, 2018* to shareholders of record on *May 11, 2018*.

On *July 20, 2017*, the Board authorized the repurchase of up to *100,000* shares of its common stock. Under the plan, shares *may* be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. *No* shares were purchased under this plan during the year ended *December 31, 2017* or the *three* months ended *March 31, 2018*. The plan expires on *July 20, 2018*.

On *July 21, 2016*, the Board authorized the repurchase of up to *100,000* shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. *No* shares were purchased under this plan. The plan expired on *July 21, 2017*.

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

Unrealized Unrealized

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	Gains (Losses) on Derivatives Designated as Cash Flow Hedges	Gains (Losses) on Investment Securities Available-for-Sale	Total
Balance, January 1, 2018	\$ 234	\$ 79	\$ 313
Other comprehensive income (loss), before reclassifications and income taxes	262	(2,583)	(2,321)
Amounts reclassified from accumulated other comprehensive income, before income taxes	(325)	105	(220)
Income tax benefit	17	660	677
Total other comprehensive loss	(46)	(1,818)	(1,864)
Balance, March 31, 2018	\$ 188	\$ (1,739)	\$(1,551)
Balance, January 1, 2017	\$ 330	\$ (741)	\$(411)
Other comprehensive income, before reclassifications and income taxes	341	279	620
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(558)	-	(558)
Income tax benefit (expense)	88	(113)	(25)
Total other comprehensive (loss) income	(129)	166	37
Balance, March 31, 2017	\$ 201	\$ (575)	\$(374)

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

NOTE 10. DERIVATIVES AND HEDGING ACTIVITIES

Mortgage 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.

Interest Rate Lock Commitments

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 \$31,067,000 and \$15,338,000 at March 31, 2018 and December 31, 2017, respectively. The fair value of such commitments was insignificant.

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

NOTE 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.

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

NOTE 11. FAIR VALUE DISCLOSURES – continued

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

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

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

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

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

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

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

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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.

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government and agency	\$-	\$9,516	\$ -	\$9,516
Municipal obligations	-	77,575	-	77,575
Corporate obligations	-	13,961	-	13,961
Mortgage-backed securities	-	26,737	-	26,737
Collateralized mortgage obligations	-	23,208	-	23,208
Asset-backed securities	-	7,420	-	7,420
Loans held-for-sale	-	8,979	-	8,979

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair
	(In Thousands)			
Financial assets:				
Available-for-sale securities				
U.S. government and agency	\$-	\$4,857	\$ -	\$4,857
Municipal obligations	-	67,886	-	67,886
Corporate obligations	-	14,644	-	14,644
Mortgage-backed securities	-	24,869	-	24,869
Collateralized mortgage obligations	-	19,788	-	19,788

Asset-backed securities	-	-	-	-
Loans held-for-sale	-	8,949	-	8,949

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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:

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair Value
	(In Thousands)			
Impaired loans	\$-	\$ -	\$3,358	\$3,358
Repossessed assets	-	-	639	639

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair Value
	(In Thousands)			
Impaired loans	\$-	\$ -	\$ 928	\$ 928
Repossessed assets	-	-	525	525

As of *March 31, 2018*, 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 \$3,362,000 were reduced by specific valuation allowance allocations totaling \$4,000 to a total reported fair value of \$3,358,000 based on collateral valuations utilizing Level 3 valuation inputs.

As of *December 31, 2017*, 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 *\$977,000* were reduced by specific valuation allowance allocations totaling *\$49,000* to a total reported fair value of *\$928,000* based on collateral valuations utilizing Level 3 valuation inputs.

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

Instrument (Dollars In Thousands)	Fair Value at March 31, 2018	December 31, 2017	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	\$3,358	\$ 928	Appraisal of collateral ⁽¹⁾	Appraisal adjustments	10 - 30%
Repossessed assets	\$639	\$ 525	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 for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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

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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 *March 31, 2018* and *December 31, 2017*, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

The 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.

	March 31, 2018			Total	
	Level 1	Level 2	Level 3	Estimated	Carrying
	Inputs	Inputs	Inputs	Fair	Amount
	(In Thousands)			Value	
Financial assets:					
Cash and cash equivalents	\$12,911	\$-	\$-	\$12,911	\$12,911
Federal Home Loan Bank stock	3,704	-	-	3,704	3,704
Federal Reserve Bank stock	2,019	-	-	2,019	2,019
Loans receivable, net	-	-	552,644	552,644	557,494
Accrued interest and dividends receivable	3,212	-	-	3,212	3,212
Mortgage servicing rights	-	-	7,733	7,733	6,613
Cash surrender value of life insurance	14,575	-	-	14,575	14,575
Financial liabilities:					
Non-maturing interest bearing deposits	-	325,814	-	325,814	325,814
Noninterest bearing deposits	133,933	-	-	133,933	133,933

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Time certificates of deposit	-	-	164,377	164,377	166,188
Accrued expenses and other liabilities	4,697	-	-	4,697	4,697
Federal Home Loan Bank advances and other borrowings	-	-	68,993	68,993	69,528
Long-term debt	-	-	23,901	23,901	25,155
Off-balance-sheet instruments	-	-	-	-	-
Forward delivery commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

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

NOTE 11. FAIR VALUE DISCLOSURES – continued

	December 31, 2017			Total Estimated Fair Value	Carrying Amount
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs		
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	\$7,437	\$-	\$-	\$7,437	\$7,437
Federal Home Loan Bank stock	4,086	-	-	4,086	4,086
Federal Reserve Bank stock	1,465	-	-	1,465	1,465
Loans receivable, net	-	-	505,615	505,615	506,476
Accrued interest and dividends receivable	2,555	-	-	2,555	2,555
Mortgage servicing rights	-	-	7,312	7,312	6,578
Cash surrender value of life insurance	14,481	-	-	14,481	14,481
Financial liabilities:					
Non-maturing interest bearing deposits	-	277,416	-	277,416	277,416
Noninterest bearing deposits	99,799	-	-	99,799	99,799
Time certificates of deposit	-	-	142,202	142,202	143,349
Accrued expenses and other liabilities	4,822	-	-	4,822	4,822
Federal Home Loan Bank advances and other borrowings	-	-	82,579	82,579	82,969
Long-term debt	-	-	24,209	24,209	25,155
Off-balance-sheet instruments					
Forward delivery commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments. However, the Form 10-K for the year ended *December 31, 2017* 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 Federal Home Loan Bank of Des Moines (“FHLB”) and Federal Reserve Bank (“FRB”) – The fair value of stock approximates redemption value.

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

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

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

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NOTE 11. FAIR VALUE DISCLOSURES – continued

Mortgage Servicing Rights – the fair value of servicing rights was determined at loan level using a discount rate of 13.00% for all investor types, prepayment speeds ranging from 100.00% to 247.00% PSA, depending on stratification of the specific loan. The fair value was also adjusted for the effect of potential past dues and foreclosures. Individual mortgage servicing rights values were capped at a maximum of 1.25% for all investor types.

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/Other Borrowings and Other Long-Term Debt – 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 March 31, 2018 and December 31, 2017, 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. MERGERS AND ACQUISITIONS

On *September 5, 2017*, the Company entered into an Agreement and Plan of Merger with TwinCo, a Montana corporation, and TwinCo's wholly-owned subsidiary, Ruby Valley Bank, a Montana chartered commercial bank to acquire 100% of TwinCo's equity voting interests. The merger agreement provided that Ruby Valley Bank would merge with and into Opportunity Bank of Montana and that TwinCo would merge with and into the Company. Ruby Valley Bank operated 2 branches in Madison County, Montana. The transaction provided an opportunity to expand market presence and lending activities, particularly in agricultural lending. The acquisition closed *January 31, 2018*, after receipt of approvals from regulatory authorities, approval of TwinCo shareholders and the satisfaction of other closing conditions. The total consideration paid was \$18,930,000 and included cash consideration of \$9,900,000 and common stock issued of \$9,030,000.

The transaction was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. In business combination transactions in which the consideration given is *not* in the form of cash (that is, in the form of non-cash assets, liabilities incurred, or equity interests issued), measurement of the acquisition consideration is based on the fair value of the consideration given or the fair value of the asset (or net assets) acquired, whichever is more clearly evident and, thus, a more reliable measure.

Under FASB ASC 805, all of the assets acquired and liabilities assumed in a business combination are recognized at acquisition at their acquisition-date fair value, while transaction costs and restructuring costs associated with the business combination are expensed as incurred. The excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill. Goodwill recorded in the acquisition was accounted for in accordance with the authoritative business combination guidance. Accordingly, goodwill will *not* be amortized, but will be tested for impairment annually. The goodwill recorded is *not* deductible for federal income tax purposes.

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

NOTE 12. MERGERS AND ACQUISITIONS – continued

The assets acquired and liabilities assumed were recorded on the consolidated statement of financial condition at estimated fair value on acquisition date. The following table summarizes the fair values of the assets acquired and liabilities assumed, consideration paid and the resulting goodwill.

	January 31, 2018 (In Thousands)
Assets acquired:	
Cash and cash equivalents	\$ 5,657
Investment securities	30,728
Loans	55,057
Premises and equipment	1,605
Other real estate owned	135
Core deposit intangible	1,609
Other assets	1,258
Total assets acquired	\$ 96,049
Liabilities assumed:	
Deposits	\$ 82,190
Accrued expenses and other liabilities	19
Total liabilities assumed	\$ 82,209
Net assets acquired	\$ 13,840
Consideration paid:	
Cash	\$ 9,900
Common stock issued (446,774 shares)	9,030
Total consideration paid	\$ 18,930
Goodwill resulting from acquisition	\$ 5,090

The fair value analysis of the loan portfolio resulted in a valuation adjustment for each loan based on an amortization schedule of expected cash flow. Individual amortization schedules were used for each loan over a certain amount and those with specifically identified loss exposure. The remainder of the loans were grouped by type and risk rating into loan pools (based on loans type, fixed or variable interest rate, revolving or term payments and risk rating). Yield inputs for the amortization schedules included contractual interest rates, estimated prepayment speeds, liquidity adjustments and market yields. Credit inputs for the amortization schedules included probability of payment default, loss given default rates and individually identified loss exposure.

Information regarding loans acquired as of acquisition date is as follows:

	January 31, 2018 (In Thousands)
Contractually required principal and interest at acquisition	\$ 56,891
Contractual cash flows not expected to be collected (nonaccretable discount)	(1,346)
Expected cash flows at acquisition	55,545
Interest component of expected cash flows (accretable discount)	(488)
Fair value of acquired loans	\$ 55,057

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

NOTE 12. MERGERS AND ACQUISITIONS – continued

Core deposit intangible assets of \$1,609,000 are being amortized using an accelerated method over the estimated useful lives of the related deposits of 10 years.

The core deposit intangible value is a function of the difference between the cost of the acquired core deposits and the alternative cost of funds. This cash flow stream was discounted to present value. The fair value of other deposit accounts acquired were valued by estimating future cash flows to be received or paid from individual or homogenous groups of assets and liabilities and then discounting those cash flows to a present value using rates of return that were available in financial markets for similar financial instruments on or near *January 31, 2018*.

Direct costs related to the acquisition were expensed as incurred. The Company recorded acquisition costs of \$234,000 during the quarter ended *March 31, 2018* and \$676,000 during the year ended *December 31, 2017*. Acquisition costs included legal and professional fees incurred related to the acquisition.

Operations of TwinCo have been included in the consolidated financial statements since *February 1, 2018*. The Company does *not* consider TwinCo a separate reporting segment and does *not* track the amount of revenues and net income attributable to TwinCo since acquisition. As such, it is impracticable to determine such amounts for the period from *February 1, 2018* through *March 31, 2018*.

The accompanying consolidated statements of income include the results of operations of the acquired entity since the *January 31, 2018* acquisition date. The following table presents unaudited pro forma results of operations for the *three* months ended *March 31, 2018* and *2017* as if the acquisition had occurred on *January 1, 2017*. This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments and amortization of the core deposit intangible asset. The pro forma information does *not* necessarily reflect the results of operations that would have occurred had the Company purchased and assumed the assets and liabilities of TwinCo on *January 1, 2017*. Cost savings are also *not* reflected in the unaudited pro forma amounts for the *three* months ended *March 31,*

2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
	(In Thousands)	
Pro forma net income ¹⁾		
Net interest income after loan loss provision	\$6,628	\$6,110
Noninterest income	2,714	3,289
Noninterest expense	8,475	8,112
Income before income taxes	867	1,287
Income tax expense	173	360
Net income	\$694	\$927
Pro forma earnings per share ¹⁾		
Basic earnings per share	\$0.13	\$0.24
Diluted earnings per share	\$0.13	\$0.24
Weighted average shares outstanding, basic	5,311,527	3,811,409
Weighted average shares outstanding, diluted	5,375,987	3,875,677

¹⁾ Significant assumptions utilized include the acquisition cost noted above, accretion of interest rate fair value adjustments and a 20% effective tax rate.

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NOTE 13. RECENT ACCOUNTING PRONOUNCEMENTS

In *May 2014*, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance is a comprehensive new revenue recognition standard that supersedes 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. In *July 2015*, the FASB agreed to delay the effective date of the standard by *one* year. Therefore, the new standard was effective in the *first* quarter of 2018 and was adopted by the Company. Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. The largest percentage of our non-interest income is derived from the gain on sale of mortgage loans. The gains are recognized at the time of the sale of the loan, when proceeds are sent to us by the investor purchasing the loan. *No* change in the recognition of revenue on that portion of our noninterest income was recognized. We also evaluated the impact of this standard on our revenue from our wealth management division and it did *not* have a significant impact on our consolidated financial statements.

In *January 2016*, the FASB issued ASU No. 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendment has a number of provisions including the requirements that public business entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans receivables), and eliminating the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendment is effective for annual and interim reporting periods beginning after *December 15, 2017* and was adopted by the Company in the *first* quarter of 2018. The Company's Note 11. Fair Value Disclosures for *March 31, 2018*, reflects the provisions of this pronouncement.

In *February 2016*, the FASB issued ASU No. 2016-02, Leases (Topic 842) intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The

standard will require organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after *December 15, 2018*, including interim periods within those fiscal years. The Company is evaluating the potential impact of the amendment on the Company's consolidated financial statements. We currently lease *four* locations that serve as full-service branches, with the longest running lease expiring in 2027. We are exploring options to use a *third* party vendor to assist with the implementation of this standard.

In *September 2016*, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after *December 15, 2019*, including interim periods within those fiscal years. All entities *may* adopt the amendments in this update earlier as of the fiscal years beginning after *December 15, 2018*, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the *first* reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company believes the amendments in this update will have an impact on the Company's consolidated financial statements and is working to evaluate the significance of that impact. In that regard, we have established a working group under the direction of our Chief Financial Officer and Chief Credit Officer. The group is composed of individuals from the finance and credit administration areas of the Company. We are currently developing an implementation plan, including assessment of processes, segmentation of the loan portfolio and identifying and adding data fields necessary for analysis. The adoption of this standard is likely to result in an increase in the allowance for loan and lease losses as a result of changing from an "incurred loss" model to an "expected loss" model. While we currently cannot reasonably estimate the impact of adopting this standard, we expect the impact will be influenced by the composition, characteristics and quality of our loan and securities portfolios, as well as the general economic conditions and forecasts as of the adoption date.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

NOTE 13. RECENT ACCOUNTING PRONOUNCEMENTS – continued

In *January 2017*, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350) to amend and simplify current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. The guidance will be effective for the Company on *January 1, 2020* and is *not* expected to have a significant impact on the Company's consolidated financial statements. We have improved our internal reporting systems as it relates to profitability by divisions and markets within the Company. We expect these systems to help in our evaluation of potential impairment.

In *March 2017*, the FASB issued ASU No. 2017-08, Receivables–Nonrefundable Fees and Other Costs (Subtopic 310-20) to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Currently, entities generally amortize the premium as a yield adjustment over the contractual life of the security. The guidance does *not* change the accounting for callable debt securities held at a discount. For public business entities, the guidance is effective for fiscal years beginning after *December 15, 2018*, and interim periods within those fiscal years. Early adoption is permitted, including in an interim period. We have currently been following this guidance based on our internal investment policy guidelines. There is little impact on our consolidated financial statements, as we typically do *not* invest in these types of securities.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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

Overview

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

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

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

The level and movement of interest rates impacts the Bank's earnings as well. The Federal Open Market Committee changed the federal funds target rate from 0.75% to 1.50% during the year ended December 31, 2017. The rate increased from 1.50% to 1.75% during the three months ended March 31, 2018.

On October 13, 2017, the Company successfully completed a public offering of its common stock, and issued 1,189,041 shares and received approximately \$20.16 million in net cash proceeds.

On September 5, 2017, the Company entered into an Agreement and Plan of Merger with TwinCo Inc. ("TwinCo"), a Montana corporation, and TwinCo's wholly-owned subsidiary, Ruby Valley Bank, a Montana chartered commercial bank. The merger agreement provided that Ruby Valley Bank would merge with and into Opportunity Bank of Montana and that TwinCo would merge with and into the Company. Ruby Valley Bank operated 2 branches in Madison County, Montana. The transaction provided an opportunity to expand market presence and lending activities, particularly in agricultural lending. The acquisition closed January 31, 2018, after receipt of approvals from regulatory authorities, approval of TwinCo shareholders and the satisfaction of other closing conditions. The total consideration paid was \$18.93 million and included cash consideration of \$9.90 million and common stock issued of \$9.03 million.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Financial Condition

Comparisons of financial condition in this section are between March 31, 2018 and December 31, 2017.

Total assets were \$815.94 million at March 31, 2018, an increase of \$99.16 million, or 13.8%, from \$716.78 million at December 31, 2017. The increase was largely due to the change in securities and loans receivable as a result of the acquisition of TwinCo. Securities available-for-sale increased \$26.38 million, or 20.0%, to \$158.42 million at March 31, 2018 from \$132.04 million at December 31, 2017. Loans receivable increased by \$53.45 million, or 10.5%, to \$560.85 million at March 31, 2018, from \$507.40 million at December 31, 2017. Total liabilities were \$724.99 million at March 31, 2018, an increase of \$91.82 million, or 14.5%, from \$633.17 million at December 31, 2017. The increase was mainly due to an increase in deposits largely due to the TwinCo acquisition partially offset by a decrease in Federal Home Loan Bank (“FHLB”) advances and other borrowings. Total deposits increased by \$105.38 million, or 20.2%, to \$625.94 million at March 31, 2018, from \$520.56 million at December 31, 2017. FHLB advances and other borrowings decreased \$13.44 million to \$69.53 million at March 31, 2018 from \$82.97 million at December 31, 2017.

Balance Sheet Details

Investment Activities

The following table summarizes investment activities:

March 31, 2018		December 31, 2017	
Fair Value	Percentage	Fair Value	Percentage

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	of Total (Dollars in Thousands)			of Total		
Securities available-for-sale:						
U.S. government and agency	\$9,516	5.62	%	\$4,857	3.48	%
Municipal obligations	77,575	45.80	%	67,886	48.66	%
Corporate obligations	13,961	8.24	%	14,644	10.50	%
Mortgage-backed securities	26,737	15.79	%	24,869	17.83	%
Collateralized mortgage obligations	23,208	13.70	%	19,788	14.18	%
Asset-backed securities	7,420	4.38	%	-	0.00	%
Total securities available-for-sale	158,417	93.53	%	132,044	94.65	%
Interest bearing deposits	1,641	0.97	%	1,920	1.38	%
Federal funds sold	3,591	2.12	%	-	0.00	%
FHLB capital stock, at cost	3,704	2.19	%	4,086	2.93	%
FRB capital stock, at cost	2,019	1.19	%	1,465	1.05	%
Total	\$169,372	100.00	%	\$139,515	100.01	%

Securities available-for-sale were \$158.42 million at March, 31, 2018, an increase of \$26.38 million, or 20.0%, from \$132.04 million at December 31, 2017. All categories of securities available-for-sale securities increased during the period with the exception of corporate obligations. The increases were mainly related to the acquisition of TwinCo. The decrease in corporate obligations was primarily due to a call prior to maturity.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Financial Condition – continued*Lending Activities*

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

	March 31, 2018		December 31, 2017	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
First mortgage loans:				
Residential 1-4 family ⁽¹⁾	\$ 112,891	19.88 %	\$ 109,911	21.37 %
Residential 1-4 family construction	26,608	4.68 %	25,306	4.92 %
Commercial real estate	215,208	37.89 %	194,805	37.88 %
Commercial construction and development	32,308	5.69 %	38,351	7.46 %
Farmland	25,399	4.47 %	11,627	2.26 %
Total first mortgage loans	412,414	72.61 %	380,000	73.89 %
Other loans:				
Home equity	52,028	9.16 %	52,672	10.24 %
Consumer	17,252	3.04 %	15,712	3.06 %
Commercial	69,538	12.24 %	63,300	12.31 %
Agricultural	16,758	2.95 %	2,563	0.50 %
Total other loans	155,576	27.39 %	134,247	26.11 %
Total loans	567,990	100.00%	514,247	100.00%
Deferred loan fees	(1,008)		(1,093)	

Allowance for loan losses	(6,130)	(5,750)
Total loans, net	\$560,852	\$507,404

⁽¹⁾ Excludes loans held-for-sale.

Loans receivable increased \$53.45 million to \$560.85 million at March 31, 2018 largely due to the TwinCo acquisition. The TwinCo acquisition included \$55.07 million of acquired loans. Excluding acquired loans, loans receivable decreased by \$1.61 million. Including acquired loans, commercial real estate loans increased \$20.40 million, farmland loans increased \$13.77 million, agricultural loans increased \$14.20 million, commercial loans increased \$6.24 million, residential 1-4 family loans increased \$2.98 million, consumer loans increased \$1.54 million and residential 1-4 family construction loans increased \$1.30 million. These increases were slightly offset by net decreases in commercial construction and development loans of \$6.04 million and home equity loans of \$644,000 including acquired loans. Total loan originations were \$84.57 million for the three months ended March 31, 2018, with residential mortgage accounting for \$50.82 million of the total. Commercial real estate loan originations were \$15.47 million and commercial construction and development loan originations were \$754,000. Residential 1-4 family construction loan originations were \$2.62 million. Consumer loan originations were \$1.91 million and home equity originations were \$1.99 million. Farmland loan originations were \$1.21 million and agricultural loan originations were \$1.40 million. Commercial loans originations were \$8.40 million, with none originating from loan syndication programs with borrowers residing outside of Montana. Loans held-for-sale increased slightly to \$8.98 million at March 31, 2018 from \$8.95 million at December 31, 2017.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Financial Condition – continued

Lending Activities – continued

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.

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. Subsequent write-downs are recorded as a charge to operations. As of March 31, 2018, the Bank had \$618,000 of real estate owned.

The following table sets forth information regarding nonperforming assets:

	March 31, 2018	December 31, 2017
Non-accrual loans		

(Dollars in
Thousands)

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First mortgage loans:				
Residential 1-4 family	\$243		\$ 475	
Residential 1-4 family construction	456		-	
Commercial real estate	528		-	
Other loans:				
Home equity	241		242	
Consumer	110		153	
Commercial	162		107	
Accruing loans delinquent 90 days or more	-		-	
Restructured loans:				
Residential 1-4 family	626		-	
Commercial real estate	996		-	
Total nonperforming loans	3,362		977	
Real estate owned and other repossessed property, net	639		525	
Total nonperforming assets	\$4,001		\$ 1,502	
Total nonperforming loans to total loans	0.59	%	0.19	%
Total nonperforming loans to total assets	0.41	%	0.14	%
Total allowance for loan loss to nonperforming loans	182.33	%	588.54	%
Total nonperforming assets to total assets	0.49	%	0.21	%

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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

The following table includes deposit accounts by category:

	March 31, 2018		December 31, 2017	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)			
Noninterest checking	\$133,933	21.40 %	\$99,799	19.17 %
Interest bearing checking	110,636	17.68 %	99,255	19.07 %
Savings	106,244	16.97 %	88,603	17.02 %
Money market accounts	108,934	17.40 %	89,558	17.20 %
Total	459,747	73.45 %	377,215	72.46 %
Certificates of deposit accounts:				
IRA certificates	27,679	4.42 %	28,189	5.42 %
Brokered certificates	4,601	0.74 %	4,601	0.88 %
Other certificates	133,908	21.39 %	110,559	21.24 %
Total certificates of deposit	166,188	26.55 %	143,349	27.54 %
Total deposits	\$625,935	100.00 %	\$520,564	100.00 %

Deposits increased by \$105.38 million, or 20.2%, to \$625.94 million at March 31, 2018 from \$520.56 million at December 31, 2017. The increase was largely due to increased deposits as a result of the TwinCo acquisition. Noninterest checking increased by \$34.13 million. Certificates of deposit increased by \$22.84 million. Money market

accounts increased by \$19.38 million. Savings and interest bearing checking also increased by \$17.64 million and \$11.38 million, respectively.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Financial Condition – continued

The following table summarizes borrowing activity:

	March 31, 2018		December 31, 2017	
	Net Amount	Percent of Total	Net Amount	Percent of Total
	(Dollars in Thousands)			
FHLB advances and other borrowings	\$69,528	73.69 %	\$82,969	76.98 %
Other long-term debt:				
Senior notes fixed at 5.75%, due 2022	9,831	10.42 %	9,820	9.11 %
Subordinated debentures fixed at 6.75%, due 2025	9,841	10.43 %	9,836	9.13 %
Subordinated debentures variable, due 2035	5,155	5.46 %	5,155	4.78 %
Total other long-term debt	24,827	26.31 %	24,811	23.02 %
Total borrowings	94,355	100.00 %	107,780	100.00 %

FHLB advances and other borrowings decreased by \$13.44 million, or 16.2%, to \$69.53 million at March 31, 2018 from \$82.97 million at December 31, 2017. The decreased borrowings are attributed to acquired deposits exceeding acquired loans and investments, as well as organic increase in deposits with slower loan growth.

Shareholders' Equity

Total shareholders' equity increased \$7.33 million, or 8.8%, to \$90.95 million at March 31, 2018 from \$83.62 million at December 31, 2017. This was primarily the result of stock issued in connection with the TwinCo acquisition of \$9.03 million and net income of \$573,000. These increases were partially offset by other comprehensive loss of \$1.86 million and dividends paid of \$492,000.

Analysis of Net Interest Income

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Analysis of Net Interest Income – continued

The following table includes 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 March 31,						
	2018			2017			
	Average Daily Balance	Interest and Dividends	Yield/ Cost ⁽⁴⁾		Average Daily Balance	Interest and Dividends	Yield/ Cost ⁽⁴⁾ (5)
	(Dollars in Thousands)						
Assets:							
Interest earning assets:							
Investment securities	\$ 151,316	\$ 989	2.65 %		\$ 128,074	\$ 729	2.31 %
FHLB and FRB stock	6,006	79	5.33 %		4,067	40	3.97 %
Loans receivable, net ⁽¹⁾	573,015	6,872	4.86 %		474,439	5,570	4.76 %
Other earning assets	5,665	17	1.22 %		468	1	0.87 %
Total interest earning assets	736,002	7,957	4.38 %		607,048	6,340	4.24 %
Noninterest earning assets	80,686				55,493		
Total assets	\$ 816,688				\$ 662,541		
Liabilities and equity:							
Interest bearing liabilities:							
Deposit accounts:							
Checking	\$ 108,836	\$ 9	0.03 %		\$ 94,266	\$ 7	0.03 %
Savings	101,183	14	0.06 %		81,502	9	0.04 %
Money market	106,763	48	0.18 %		91,536	25	0.11 %
Certificates of deposit	162,237	355	0.89 %		164,059	339	0.84 %
	108,885	684	2.55 %		83,667	477	2.31 %

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Advances from FHLB and other borrowings including long-term debt								
Total interest bearing liabilities	587,904	1,110	0.77	%	515,030	857	0.67	%
Noninterest checking	126,553				84,488			
Other noninterest bearing liabilities	13,554				4,271			
Total liabilities	728,011				603,789			
Total equity	88,677				58,752			
Total liabilities and equity	\$816,688				\$662,541			
Net interest income/interest rate spread ⁽²⁾		\$ 6,847	3.61	%		\$ 5,483	3.57	%
Net interest margin ⁽³⁾			3.77	%			3.57	%
Total interest earning assets to interest bearing liabilities			125.19%				117.87%	

(1) Includes loans held-for-sale.

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

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

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

(5) Calculated based on actual days. Previously calculated on a 360 day basis.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Rate/Volume Analysis

The following table presents 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 March 31,					
	2018			2017		
	Due to Volume	Due to Rate	Net	Due to Volume	Due to Rate	Net
	(In Thousands)					
Interest earning assets:						
Investment securities	\$ 132	\$ 128	\$ 260	\$(90)	\$ 72	\$(18)
FHLB and FRB stock	19	20	39	(3)	12	9
Loans receivable, net	1,157	145	1,302	520	213	733
Other earning assets	19	(3)	16	(3)	1	(2)
Total interest earning assets	1,327	290	1,617	424	298	722
Interest bearing liabilities:						
Checking, savings and money market accounts	7	23	30	2	(2)	-
Certificates of deposit	(4)	20	16	26	(1)	25
Advances from FHLB and other borrowings including long-term debt	144	63	207	(25)	107	82
Total interest bearing liabilities	147	106	253	3	104	107
Change in net interest income	\$ 1,180	\$ 184	\$ 1,364	\$ 421	\$ 194	\$ 615

Results of Operations for the Three Months Ended March 31, 2018 and March 31, 2017

Net Income. Eagle's net income for the three months ended March 31, 2018 was \$573,000 compared to \$763,000 for the three months ended March 31, 2017. This decrease of \$190,000, or 24.9%, was due to an increase in noninterest expense of \$885,000 and a decrease in noninterest income of \$529,000, partially offset by an increase in net interest income after loan loss provision of \$1.17 million and a decrease in income tax expense of \$61,000. Basic and diluted earnings per share were both \$0.11 for the current period. Basic and diluted earnings per share were both \$0.20 per share for the prior year comparable period.

Net Interest Income. Net interest income increased to \$6.85 million for the three months ended March 31, 2018, from \$5.48 million for the same quarter in the prior year. This increase of \$1.37 million, or 25.0%, was primarily the result of an increase in interest and dividend income of \$1.62 million, partially offset by an increase in interest expense of \$253,000.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Results of Operations for the Three Months Ended March 31, 2018 and March 31, 2017 – continued

Interest and Dividend Income. Interest and dividend income was \$7.96 million for the three months ended March 31, 2018, compared to \$6.34 million for the three months ended March 31, 2017, an increase of \$1.62 million, or 25.6%. Interest and fees on loans increased to \$6.87 million for the three months ended March 31, 2018 from \$5.57 million for the three months ended March 31, 2017. This increase of \$1.30 million, or 23.3%, was due to an increase in the average balance of loans, as well as an increase in the average yield of loans for the three months ended March 31, 2018. Average balances for loans receivable, net, including loans held-for-sale, for the three months ended March 31, 2018 were \$573.02 million, compared to \$474.44 million for the prior year period. This represents an increase of \$98.58 million, or 20.8% and was largely due to the TwinCo acquisition. The average interest rate earned on loans receivable increased by 10 basis points, from 4.76% for the three months ended March 31, 2017, to 4.86% for the three months ended March 31, 2018. Interest and dividends on investment securities available-for-sale increased by \$260,000 or 35.7% for the three months ended March 31, 2018. Average balances for investments increased to \$151.32 million for the three months ended March 31, 2018, from \$128.07 million for the three months ended March 31, 2017. This increase was also largely due to the TwinCo acquisition. Average interest rates earned on investments also increased from 2.31% for the three months ended March 31, 2017, to 2.65% for the three months ended March 31, 2018.

Interest Expense. Total interest expense for the three months ended March 31, 2018 was \$1.11 million compared to \$857,000 for the three months ended March 31, 2017. The increase of \$253,000, or 29.5%, was largely attributable to an increase in interest expense on advances from FHLB and other borrowings including long-term debt. The average borrowing balance for advances from FHLB and other borrowings including long-term debt increased from \$83.67 million for the three months ended March 31, 2017 to \$108.89 million for the three months ended March 31, 2018. In addition, the average rate paid increased from 2.31% for the three months ended March 31, 2017, to 2.55% for the three months ended March 31, 2018. In February 2017, the Company completed the issuance of \$10.00 million in aggregate principal amount of 5.75% fixed senior unsecured notes due in 2022. The increase in interest on deposits of \$46,000 or 12.1% also contributed to the overall increase in total interest expense.

Loan Loss Provision. 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 and past due loans in the portfolio. The Bank's policies

require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While management believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. The Bank recorded \$502,000 in provision for loan losses for the three months ended March 31, 2018 and \$301,000 for the three months ended March 31, 2017. Management believes the level of total allowances is adequate. The Bank has \$639,000 in other real estate owned and other repossessed assets at March 31, 2018.

Noninterest Income. Total noninterest income was \$2.68 million for the three months ended March 31, 2018 compared to \$3.21 million for the three months ended March 31, 2017. The decrease of \$529,000 or 16.5% is largely due to a decrease in net gain on sale of loans of \$386,000 and a net loss on sale of available-for-sale securities for the three months ended March 31, 2018 of \$105,000. During the three months ended March 31, 2018, \$47.01 million mortgage loans were sold compared to \$56.57 million for the three months ended March 31, 2017.

Noninterest Expense. Noninterest expense was \$8.32 million for the three months ended March 31, 2018 compared to \$7.44 million for the three months ended March 31, 2017. The increase of \$885,000, or 11.9%, is largely due to an increase in salaries and employee benefits expenses of \$476,000. The increase in salaries expense is due in part to higher commission-based compensation related to the continued loan growth and additional staff related to compliance with mortgage rules. Salaries and employee benefits was also impacted by the addition of staff related to the TwinCo acquisition. In addition, the Company incurred acquisition costs of \$234,000 related to the TwinCo acquisition.

Income Tax Expense. Income tax expense was \$127,000 for the three months ended March 31, 2018, compared to \$188,000 for the three months ended March 31, 2017. The was due to lower income before income taxes for the three months ended March 31, 2018 compared to the same period in the prior year, as well as the impact of the Tax Cuts and Job Act enacted in December 2017.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Liquidity and Capital Resources

Liquidity

The Bank is required to maintain minimum levels of liquid assets as defined by the Montana Division of Banking and Federal Reserve Bank ("FRB") regulations. The liquidity requirement is retained for safety and soundness purposes, and appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with the FHLB of Des Moines. The Bank exceeded those minimum ratios as of both March 31, 2018 and December 31, 2017.

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

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

Capital Resources

As of March 31, 2018, the Bank's internally determined measurement of sensitivity to interest rate movements as measured by a 200 basis point rise in interest rates scenario, increased the economic value of equity ("EVE") by 4.7% compared to an increase of 2.7% as of December 31, 2017. The Bank is within the guidelines set forth by the Board of Directors for interest rate risk sensitivity in rising interest rate scenarios.

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

The Bank's Tier 1 leverage ratio, as measured under State of Montana and FRB rules, decreased from 12.175% as of December 31, 2017 to 11.124% as of March 31, 2018. The Bank's capital position helps to mitigate its interest rate risk exposure.

As of March 31, 2018, the Bank's regulatory capital was in excess of all applicable regulatory requirements and the Bank is deemed "well capitalized" pursuant to State of Montana and FRB rules. As of March 31, 2018, the Bank's total capital, Tier 1 capital, common equity Tier 1 capital and Tier 1 leverage ratios were 15.984%, 14.938%, 14.938% and 11.124%, respectively, compared to regulatory requirements of 9.875%, 7.875%, 6.375% and 4.00%, respectively. All of these ratios with the exception of the Tier 1 leverage ratio include the capital conservation buffer of 1.875% phased-in beginning January 1, 2018.

The Bank's regulatory capital was impacted by the TwinCo acquisition through an increase in paid-in capital by the amount invested in the acquired bank which was partially offset by a cash dividend to Eagle in the amount of the cash portion of the agreed upon deal with TwinCo shareholders.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

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

	March 31, 2018 (Unaudited)	
	Dollar Amount	% of Assets
	(Dollars in Thousands)	
Total risk-based capital to risk weighted assets:		
Capital level	\$93,641	15.984%
Requirement	57,852	9.875
Excess	\$35,789	6.109 %
Tier I capital to risk weighted assets:		
Capital level	\$87,511	14.938%
Requirement	46,135	7.875
Excess	\$41,376	7.063 %
Common equity tier I capital to risk weighted assets:		
Capital level	\$87,511	14.938%
Requirement	37,347	6.375
Excess	\$50,164	8.563 %
Tier I capital to adjusted total average assets:		
Capital level	\$87,511	11.124%
Requirement	31,468	4.000
Excess	\$56,043	7.124 %

Interest Rate Risk

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

Interest Rate Risk – continued

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

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

Changes in Market Interest Rates (Basis Points)	Rate Sensitivity As of March 31, 2018		Policy Limits
	Year 1	Year 2	
+200	1.86%	3.96%	-15.00%
-100	-2.21%	-6.61%	-15.00%

Impact of Inflation and Changing Prices

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONTROLS AND PROCEDURES

Item 4. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”) of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of March 31, 2018, 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.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

On July 20, 2017, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares may be purchased by the Company on the open market or in privately negotiated transactions. The extent to which the company repurchases its shares and the timing of such repurchase will depend upon market conditions and other corporate considerations. No shares were purchased under this plan during the year ended December 31, 2017 or the three months ended March 31, 2018. The plan expires on July 20, 2018.

On July 21, 2016, the Board authorized the repurchase of up to 100,000 shares of its common stock. Under the plan, shares could be purchased by the Company on the open market or in privately negotiated transactions. No shares were purchased under this plan. The plan expired on July 21, 2017.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Part II - OTHER INFORMATION (CONTINUED)

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit

Description

Number

- | | |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | <u>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.</u> |
| 31.2 | <u>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.</u> |
| 32.1 | <u>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.</u> |

101.INS XBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

SIGNATURES

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

EAGLE BANCORP
MONTANA, INC.

Date: May 10, 2018 By: /s/ Peter J. Johnson
Peter J. Johnson
President/CEO

Date: May 10, 2018 By: /s/ Laura F. Clark
Laura F. Clark
Senior Vice President/CFO