Eagle Bancorp Montana, Inc.
Form 10-K
March 13, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017
or

[ ] 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 registrant as specified in its charter)

Delaware	27-1449820
State or other jurisdiction of	(I.R.S. Employer

incorporation or organization Identification No.)

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

Registrant's telephone number, including area code 406-442-3080

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01	The Nasdaq Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (Do not check if a smaller reporting company)	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 (as defined in Rule 12b-2 of the Act).
Yes No

The aggregate market value of the common stock held by non-affiliates of Eagle, computed by reference to the closing price at which the stock was sold as of June 30, 2017 was $61,482,000. The outstanding number of shares of common stock of Eagle as of February 1, 2018, was 5,460,452.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement relating to its 2018 annual meeting of stockholders ("2018 Proxy Statement") are incorporated by reference into Part III of this Form 10-K. The 2018 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end to which this report relates.

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CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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,” “ “project,” “could,” “intend,” “target” and other similar words and expressions of the future. These forward-looking statements include, but are not limited to: (i) statements of our goals, intentions and expectations; (ii) statements regarding our business plans, prospects, growth and operating strategies; (iii) statements regarding the asset quality of our loan and investment portfolios; and (iv) estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- changes or volatility in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired 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 other reports that we file with the SEC.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Overview

Eagle Bancorp Montana, Inc. (“Eagle” or “the Company”), is a Delaware corporation that holds 100.0% of the capital stock of Opportunity Bank of Montana (“the Bank”), formerly American Federal Savings Bank (“AFSB”). The Bank was founded in 1922 as a Montana-chartered building and loan association and has conducted operations and maintained its administrative office in Helena, Montana since that time. In 1975, the Bank adopted a federal thrift charter and in October 2014 converted to a Montana chartered commercial bank. The Bank currently has 17 branch offices and 16 automated teller machines located in our market areas and we participate in the Money Pass® ATM network.

In November 2012, we completed a significant transaction with Sterling Financial Corporation, or Sterling, of Spokane, Washington in which we purchased all of Sterling’s retail bank branches in Montana. As a result of this transaction, we added two mortgage origination offices and a wealth management division, and the Bank’s assets grew to over $500.00 million and the retail branch network grew from six to 13 full service branches immediately following the transaction, with six branches in new markets. In 2014, we applied to the State of Montana to form an interim bank for the purpose of facilitating the conversion of AFSB from a federally-chartered savings bank to a Montana-chartered commercial bank. Concurrent with the conversion, the Bank applied, and was approved, for membership in the Federal Reserve. In connection with the conversion, AFSB changed its name to Opportunity Bank of Montana.

We provide loan and deposit services to customers who are predominantly small businesses and individuals throughout Montana. We are a diversified lender with a focus on residential mortgage loans, commercial real estate mortgage loans, commercial business loans and second mortgage/home equity loan products. In addition, we offer wealth management products and services through our wealth management division and financial consultants located in several of our markets.

The Bank is headquartered at 1400 Prospect Avenue, Helena, Montana, 59601. Investor information for the Company may be found at www.opportunitybank.com. The contents on or accessible through our website are not incorporated into this report.

The Bank has equity investments in Certified Development Entities which have received allocations of New Markets Tax Credits ("NMTC"). Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities.

Recent Developments

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., a Montana corporation ("TwinCo"), 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. Ruby Valley Bank operated two branches in Madison County, Montana with approximately $96.00 million in assets, $81.00 million in deposits and $57.00 million in gross loans as of December 31, 2017. This acquisition closed January 31, 2018, after receipt of approvals from regulatory authorities, approval of TwinCo shareholders and satisfaction of other closing conditions.

Business Strategy

Our principal strategy is to continue our profitability through building a diversified loan portfolio and operating the Bank as a full-service community bank that offers both retail and commercial loan and deposit products in all of its markets. We believe that this focus will enable us to continue to grow our franchise, while maintaining our commitment to customer service, high asset quality, and sustained net earnings.

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The following are the key elements of our business strategy:

- Continue to diversify our portfolio by emphasizing our recent growth in commercial real estate and commercial business loans as a complement to our traditional single family residential real estate lending. As of December 31, 2017, such loans constituted approximately 60.41% of total loans;

- Continue to emphasize the attraction and retention of lower cost core deposits;

- Seek opportunities where presented to acquire other institutions or expand our branch network through opening new branches and/or loan production offices;

- Maintain our strong asset quality; and

- Operate as a community-oriented independent financial institution that offers a broad array of financial services with high levels of customer service.

Our results of operations may be significantly affected by our ability to effectively implement our business strategy including our plans for expansion through strategic acquisitions. If we are unable to effectively integrate and manage acquired or merged businesses or attract significant new business through our branching efforts, our financial performance may be negatively affected.

Market Areas

From our headquarters in Helena, Montana, we operate 17 full service retail banking offices, including our main office. Our other full service branches are located in Helena – Neill (opened 1987), Helena – Skyway (opened 2009), Bozeman – Oak (opened 1980, relocated 2009), Butte (opened 1979), Townsend (opened 1979), Twin Bridges (opened 2018) and Sheridan (opened 2018), Montana. The Sterling Montana branch acquisition that was completed in 2012 included retail banking offices in: Bozeman, Big Timber, Livingston, Billings, Missoula and Hamilton. The Bozeman Mendenhall location was sold in June 2015, reconstructed by the new owners and we lease a portion of the new building. Our loan production office in Great Falls, Montana transitioned to a full service branch in 2017. In addition, a new location in Billings Heights opened its doors in November 2017. The TwinCo acquisition in January 2018 included retail banking offices in Twin Bridges and Sheridan.

Montana is one of the largest states in terms of land mass but ranks as one of the least populated states. According to U.S. Census Bureau data for 2010, it had a population of 989,415 (1.05 million estimated for 2017). Helena, where we are headquartered, is Montana’s state capital. It is also the county seat of Lewis and Clark County, which has a population of approximately 67,282 and is located within 120 miles of four of Montana's other five largest cities: Missoula, Great Falls, Bozeman and Butte. Helena is approximately midway between Yellowstone and Glacier National Parks. Its economy has shown moderate growth, in terms of both employment and income. State government and the numerous offices of the federal government comprise the largest employment sector. Helena also has significant employment in the service industries. Specifically, it has evolved into a central health care center with employment in the medical and the supporting professions as well as the medical insurance industry. The local economy is also dependent to a lesser extent upon ranching and agriculture. These have been more cyclical in nature and remain vulnerable to severe weather conditions, increased competition, both domestic and international, as well as commodity prices.

Butte, Montana is approximately 64 miles southwest of Helena. Butte and the surrounding Silver-Bow County have a population of approximately 34,553. Butte's economy was historically reliant on the mining industry and fluctuations in metal and mineral commodity prices have had a corresponding impact on the local economy.

Bozeman is approximately 95 miles southeast of Helena. It is located in Gallatin County, which has a population of approximately 104,502. Bozeman is home to Montana State University and has experienced significant growth, in part due to the growth of the University as well as the increased tourism for resort areas in and near Bozeman. Agriculture, however, remains an important part of Bozeman's economy. Bozeman has also become an attractive location for retirees, primarily from the West Coast, owing to its many winter and summer recreational opportunities and the presence of the University.

Townsend, Montana is approximately 34 miles southeast of Helena. Townsend is located in Broadwater County which has a population of approximately 5,747. Many of its residents commute to other Montana locations for work, particularly Helena. Other employment in Townsend is primarily in agriculture and services.

Livingston, Montana is approximately 124 miles southeast of Helena. Livingston and the surrounding Park County have a population of approximately 16,114. Livingston's economy is somewhat reliant on the wood products and tourism industry.

Big Timber, Montana is approximately 158 miles southeast of Helena. Big Timber and the surrounding Sweet Grass County have a population of approximately 3,623. Big Timber's economy is somewhat reliant on the wood products, agriculture and tourism industries.

Billings, Montana is approximately 239 miles southeast of Helena. Billings and the surrounding Yellowstone County have a population of approximately 158,437. Billings is a significant trade center for eastern Montana. Select manufacturing is also a significant contributing portion of its economy.

Missoula, Montana is approximately 116 miles west of Helena. Missoula and the surrounding Missoula County have a population of approximately 116,130. The University of Montana is located in Missoula and the local economy is reliant on the University and the corresponding trade and services resulting from the University's presence.

Hamilton, Montana is approximately 161 miles southwest of Helena in Ravalli County. Ravalli County has a population of approximately 42,088. Hamilton is a relatively short distance from Missoula with a number of persons working in Missoula, residing in Hamilton. Medical research and the wood products industry are significant contributors to Ravalli County's economy.

Great Falls, Montana is approximately 91 miles northeast of Helena in Cascade County. Cascade County has a population of approximately 81,755. Health care, education services, and accommodation and food services are large contributors to Cascade County's economy.

Twin Bridges, Montana is approximately 94 miles south of Helena in Madison County. Sheridan, Montana is approximately 103 miles south of Helena and is also in Madison County. Madison County has a population of approximately 7,924. Construction, health care and social assistance are significant contributors to the economy of Madison County.

Competition

We face strong competition in our primary market areas for retail deposits and the origination of loans. Historically, Montana was a unit banking state. This means that the ability of Montana state banks to create branches was either prohibited or significantly restricted. As a result of unit banking, Montana has a significant number of independent financial institutions serving a single community in a single location. While the state's population is approximately 1.05 million people, there are 51 credit unions in Montana as well as 1 national thrift institution and 47 commercial banks as of December 31, 2017. Our most direct competition for depositors has historically come from locally owned and out-of-state commercial banks, thrift institutions and credit unions operating in our primary market areas. Competition in our primary market areas has increased in recent years. Our competition for loans also comes from banks, thrifts and credit unions, in addition to mortgage bankers and brokers. Our principal market areas can be characterized as markets with moderately increasing incomes, relatively low unemployment, increasing wealth (particularly in the growing resort areas such as Bozeman) and moderate population growth.

Lending Activities

General

The Bank primarily originates residential mortgages (1-4 family) and, commercial real estate loans, real estate construction loans, home equity loans, consumer loans and commercial loans. Commercial real estate loans include loans on multi-family dwellings, loans on nonresidential property and loans on developed and undeveloped land. Home equity loans include loans secured by the borrower's primary residence. Typically, the property securing such loans is subject to a prior lien. Consumer loans consist of loans secured by collateral other than real estate, such as automobiles, recreational vehicles and boats. Personal loans and lines of credit are made on deposits held by the Bank and on an unsecured basis. Commercial business loans consist of business loans and lines of credit on a secured and unsecured basis.

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Fee Income

The Bank receives lending related fee income from a variety of sources. Its principal source of this income is from the origination and servicing of sold mortgage loans. Fees generated from mortgage loan servicing, which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing for loans held by others, were $2.13 million and $1.84 million for the years ended December 31, 2017 and 2016, respectively. Other loan related fee income for late charges and other ancillary fees were $174,000 and $125,000 for the years ended December 31, 2017 and 2016, respectively.

Residential Lending

The Bank originates residential mortgage (1-4 family) loans secured by property located in the Bank's market areas. At December 31, 2017, $109.91 million or 21.37% of the Bank's total loans were such loans. The Bank generally originates residential mortgage (1-4 family) loans in amounts of up to 80.0% of the lesser of the appraised value or the selling price of the mortgaged property without requiring private mortgage insurance. A mortgage loan originated by the Bank, whether fixed rate or adjustable rate, can have a term of up to 30 years. The Bank holds substantially all of its adjustable rate and its 8, 10 and 12-year fixed rate loans in portfolio. Adjustable rate loans limit the periodic interest rate adjustment and the minimum and maximum rates that may be charged over the term of the loan. The Bank's fixed rate 15-year and 20-year loans are held in portfolio or sold in the secondary market depending on market conditions. Generally, all 30-year fixed rate loans are sold in the secondary market. The volume of loan sales is dependent on the volume, type and term of loan originations.

The Bank derives a significant portion of its noninterest income from servicing of loans that it has sold. The Bank offers many of the fixed rate loans it originates for sale in the secondary market on a servicing retained basis. This means that we process the borrower's payments and send them to the purchaser of the loan. This retention of servicing enables the Bank to increase fee income and maintain a relationship with the borrower. At December 31, 2017, the Bank had $891.65 million in residential mortgage (1-4 family) loans and $17.37 million in other loan categories sold with servicing retained. The Bank does not ordinarily purchase home mortgage loans from other financial institutions.

Property appraisals on real estate securing the Bank's single-family residential loans are made by state certified and licensed independent appraisers who are approved annually by the Board. Appraisals are performed in accordance with applicable regulations and policies. The Bank generally obtains title insurance policies on all first mortgage real estate loans originated. On occasion, refinancing of mortgage loans are approved using title reports instead of title insurance. Title reports are also allowed on home equity loans. Borrowers generally remit funds with each monthly payment of principal and interest, to a loan escrow account from which the Bank makes disbursements for such items as real estate taxes and hazard and mortgage insurance premiums as they become due.

Home Equity Loans

The Bank also originates home equity loans. These loans are secured by the borrowers' primary residence, but are typically subject to a prior lien, which may or may not be held by the Bank. At December 31, 2017, $52.67 million or 10.2% of our total loans were home equity loans. Borrowers may use the proceeds from the Bank's home equity loans for many purposes, including home improvement, debt consolidation or other purchasing needs. The Bank offers fixed rate, fixed payment home equity loans as well as variable and fixed rate home equity lines of credit. Fixed rate home equity loans typically have terms of no longer than 15 years.

Home equity loans are secured by real estate but they have historically carried a greater risk than first lien residential mortgages because of the existence of a prior lien on the property securing the loan, as well as the flexibility the borrower has with respect to the loan proceeds. The Bank attempts to minimize this risk by maintaining conservative underwriting policies on such loans. We generally make home equity loans for not more than 85.0% of appraised value of the underlying real estate collateral, less the amount of any existing prior liens on the property securing the loan.

Commercial Real Estate and Land Loans

The Bank originates commercial real estate mortgage and land loans, including both developed and undeveloped land loans, and loans on multi-family dwellings. Commercial real estate and land loans made up 47.6% of the Bank's total loan portfolio, or $244.78 million at December 31, 2017. The Bank's commercial real estate mortgage loans are primarily permanent loans secured by improved property such as office buildings, retail stores, commercial warehouses and apartment buildings. The terms and conditions of each loan are tailored to the needs of the borrower and based on the financial strength of the project and any guarantors. Generally, commercial real estate loans originated by the Bank will not exceed 75.0% of the appraised value or the selling price of the property, whichever is less. The average loan size is approximately $420,000 and is typically made with fixed rates of interest and 5 to 15-year maturities. Upon maturity, the loan is repaid or the terms and conditions are renegotiated. Generally, all commercial real estate loans that we originate are secured by property located in the state of Montana and within the market areas of the Bank. The Bank's largest single commercial real estate loan had a balance of approximately $9.35 million ($8.41 million is guaranteed by Rural Development of the U.S. Department of Agriculture, leaving approximately $935,000 unguaranteed) on December 31, 2017, and is secured by a detention facility.

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Real Estate Construction Lending

The Bank also lends funds for the construction of one-to-four family homes. Real estate construction loans are made both to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Real estate construction loans accounted for $25.31 million or 4.9% of the Bank's total loan portfolio at December 31, 2017.

Consumer Loans

As part of its strategy to invest in higher yielding shorter term loans, the Bank emphasized growth of its consumer lending portfolio in recent years. This portfolio includes personal loans secured by collateral other than real estate, unsecured personal loans and lines of credit and loans secured by deposits held by the Bank. As of December 31, 2017, consumer loans totaled $15.71 million or 3.1% of the Bank's total loan portfolio. These loans consist primarily of auto loans, RV loans, boat loans, personal loans and credit lines and deposit account loans. Consumer loans are originated in the Bank's market areas and generally have maturities of up to 7 years. For loans secured by savings accounts, the Bank will lend up to 90.0% of the account balance on single payment loans and up to 100.0% for monthly payment loans.

Consumer loans have a shorter term and generally provide higher interest rates than residential loans. Consumer loans can be helpful in improving the spread between average loan yield and cost of funds and at the same time improve the matching of the maturities of rate sensitive assets and liabilities.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Creditworthiness of the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Commercial Business Loans

Commercial business loans amounted to $65.86 million, or 12.8% of the Bank's total loan portfolio at December 31, 2017. The Bank's commercial business loans are traditional business loans and are not secured by real estate. Such loans may be structured as unsecured lines of credit or may be secured by inventory, accounts receivable or other business assets. Within the commercial loan category, $486,000 was in loans originated through a syndication program where the business resides outside of Montana, at December 31, 2017.

The Bank intends to continue to increase commercial business lending by focusing on market segments such as business loans to doctors, lawyers, architects and other professionals, as well as, to small businesses within its market areas. Our management believes that this strategy provides opportunities for growth, without significant additional cost outlays for staff and infrastructure.

Commercial business loans of this nature usually involve greater credit risk than residential mortgage (1-4 family) loans. The collateral we receive is typically related directly to the performance of the borrower's business which means that repayment of commercial business loans is dependent on the successful operations and income stream of the borrower's business. Such risks can be significantly affected by economic conditions. In addition, commercial lending generally requires substantially greater oversight efforts compared to residential real estate lending.

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Loans to One Borrower

Under Montana law, commercial banks such as the Bank, are subject to certain exemptions and are allowed to select the Office of the Comptroller of the Currency (“OCC”) formula used to determine limits on credit concentrations to single borrowers to an amount equal to the greater of $500,000 or 15.0% of the institution’s total capital. As of December 31, 2017, the Bank’s limit to a single borrower was $13.55 million. Our largest aggregation of loans to one borrower was approximately $18.00 million at December 31, 2017. This consisted of four loans: two commercial real estate loans secured by two separate detention facilities, a commercial real estate loan secured by a chemical dependency treatment facility and a commercial loan. The first commercial real estate loan had a principal balance of $4.84 million at December 31, 2017. However, 80.0% of that amount, or $3.87 million at December 31, 2017 was sold to the Montana Board of Investments, leaving a net principal balance payable to the Bank of $968,000. As of December 31, 2017, the principal balance on the second commercial real estate loan was $9.35 million. However, 90.0% of this loan is guaranteed by the USDA Rural Development. Thus, 90.0% of the loan, or $8.41 million at December 31, 2017, is not required to be included in the Bank’s limitations to a single borrower under applicable banking regulations. This leaves approximately $935,000 subject to the lending limit described above. The third commercial real estate loan had a principal balance of $3.79 million as of December 31, 2017. The commercial loan had a principal balance of $30,000 at December 31, 2017. As a result, the total amount subject to the lending limit at December 31, 2017 was $5.72 million. At December 31, 2017, these loans were performing in accordance with their terms. The Bank maintains the servicing for these loans.

Loan Solicitation and Processing

Our customary sources of mortgage loan applications include repeat customers, walk-ins and referrals from home builders and real estate brokers. We also advertise in local newspapers and on local radio and television. We currently have the ability to accept online mortgage loan applications and provide pre-approvals through our website. Our branch managers and loan officers located at our headquarters and in branches, have authority to approve certain types of loans when presented with a completed application. Other loans must be approved at our main offices as disclosed below. No loan consultants or loan brokers are currently utilized for either residential or commercial lending activities.

After receiving a loan application from a prospective borrower, a credit report and verifications are obtained to confirm specific information relating to the loan applicant’s employment, income and credit standing. When required by our policies, an appraisal of the real estate intended to secure the proposed loan is undertaken by an independent fee appraiser. In connection with the loan approval process, our staff analyzes the loan applications and the property involved. Officers and branch managers are granted lending authority based on the nature of the loan and the managers’ level of experience. We have established a series of loan committees to approve any loans which may exceed the lending authority of particular officers or branch managers. Three Directors of the Board are required for approval of any loan, or aggregation of loans to a single borrower, that exceeds $1.25 million.

Loan applicants are promptly notified of the decision by a letter setting forth the terms and conditions of the decision. If approved, these terms and conditions include the amount of the loan, interest rate basis, amortization term, a brief description of real estate to be mortgaged, tax escrow and the notice of requirement of insurance coverage to be maintained. We generally require title insurance on first mortgage loans and fire and casualty insurance on all properties securing loans, which insurance must be maintained during the entire term of the loan.

Loan Commitments

We generally provide commitments to fund fixed and adjustable-rate single-family mortgage loans for periods up to 60 days at a specified term and interest rate, and other loan categories for shorter time periods. The total amount of our commitments to extend credit as of December 31, 2017, was approximately $15.34 million, all of which was for residential mortgage loans.

Investment Activities

General

State-chartered commercial banks such as the Bank have the authority to invest in various types of investment securities, including United States Treasury obligations, securities of various Federal agencies (including securities collateralized by mortgages), certificates of deposits of insured banks and savings institutions, municipal securities, corporate debt securities and loans to other banking institutions.

Eagle maintains liquid assets that may be invested in specified short-term securities and other investments. Liquidity levels may be increased or decreased depending on the yields on investment alternatives. They may also be increased based on management's judgment as to the attractiveness of yields available in relation to other opportunities. Liquidity levels can also change based on management's expectation of future yield levels, as well as management's projections as to the short-term demand for funds to be used in the Bank's loan origination and other activities. Eagle maintains an investment securities portfolio and a mortgage-backed securities ("MBSs") portfolio as part of its investment portfolio.

Investment Policies

The investment policy of Eagle, which is established by the Board, is designed to foster earnings and liquidity within prudent interest rate risk guidelines, while complementing the Bank's lending activities. The policy provides for available-for-sale (including those accounted for under ASC Topic 825), held-to-maturity and trading classifications. However, Eagle currently does not hold any securities for purposes of trading or held-to-maturity. The policy permits investments in high credit quality instruments with diversified cash flows while permitting us to maximize total return within the guidelines set forth in our interest rate risk and liquidity management policies. Permitted investments include but are not limited to U.S. government obligations, government agency or government-sponsored agency obligations, state, county and municipal obligations and mortgage-backed securities. Collateralized mortgage obligations ("CMOs"), investment grade corporate debt securities and commercial paper are also included. We also invest in Federal Home Loan Bank ("FHLB") overnight deposits and federal funds, but these instruments are not considered part of the investment portfolio.

Our investment policy also includes several specific guidelines and restrictions to ensure adherence with safe and sound activities. The policy prohibits investments in high-risk mortgage derivative products (as defined within the policy) without prior approval from the Board. To secure such approval, management must demonstrate the business advantage of such investments.

We do not participate in the use of off-balance sheet derivative financial instruments, except interest rate caps and certain financial instruments designated as cash flow hedges related to loans committed to be sold in the secondary market and interest rate swaps designated as fair-value hedges. Further, Eagle does not invest in securities which are not rated investment grade at time of purchase.

The Board, through its asset/liability committee, has charged the President and CEO with implementation of the investment policy. All transactions are reported to the Board monthly, as well as the current composition of the portfolio, including market values and unrealized gains and losses.

Sources of Funds

General

Deposits are the major source of our funds for lending and other investment purposes. Borrowings are also used to compensate for reductions in the availability of funds from other sources. In addition to deposits and borrowings, we derive funds from loans and investment securities principal payments. Funds are also derived from proceeds for the maturity, call and sale of investment securities and from the sale of loans. Loan and investment securities principal payments are a relatively stable source of funds, while loan prepayments and deposit inflows are significantly influenced by general interest rates and financial market conditions.

Deposits

We offer a variety of deposit accounts. Deposit account terms vary, primarily as to the required minimum balance amount, the amount of time that the funds must remain on deposit and the applicable interest rate.

Our current deposit products include certificates of deposit accounts ranging in terms from 90 days to five years, as well as, checking, savings and money market accounts. Individual retirement accounts ("IRAs") are included in certificates of deposit.

Deposits are obtained primarily from residents of Helena, Bozeman, Butte, Townsend, Billings, Missoula, Livingston, Big Timber and Hamilton, and since the merger with Ruby Valley Bank, Twin Bridges and Sheridan. We believe we are able to attract deposit accounts by offering outstanding service, competitive interest rates, convenient locations and service hours. We use traditional methods of advertising to attract new customers and deposits, including radio, television, print media advertising and sales training and incentive programs for employees. Management believes that non-residents of Montana hold an insignificant number and amount of deposit accounts.

We pay interest rates on deposits which are competitive in our market. Interest rates on deposits are set by senior management, based on a number of factors, including: projected cash flow; a current survey of a selected group of competitors' rates for similar products; external data which may influence interest rates; investment opportunities and loan demand; and scheduled certificate maturities and loan and investment repayments.

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Borrowings

Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances to supplement our supply of lendable funds and to meet deposit withdrawal requirements. We have Federal funds line of credits with FHLB of Des Moines, Pacific Coast Bankers Bank ("PCBB"), PNC Financial Services Group, Inc. ("PNC"), Zions Bank and Stockman Bank.

In September 2005, our predecessor entity formed a special purpose subsidiary, Eagle Bancorp Statutory Trust I (the "Trust"), for the purpose of issuing trust preferred securities in the amount of $5.16 million. Our predecessor entity has issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the trust preferred securities. Upon the closing of the second-step conversion and reorganization, we assumed the obligations of our predecessor in connection with the subordinated debentures and trust preferred securities. For regulatory purposes, the securities qualify as Tier 1 Capital, while for accounting purposes they are recorded as long term debt. The securities have a 30 year maturity and carried a fixed coupon of 6.02% for the first five years, at which time the coupon became variable, at a spread of 142 basis points over 3 month LIBOR. At December 31, 2017 the rate was 3.114%.

In June 2015, the Company completed the issuance of $10.00 million in aggregate principal amount of subordinated notes due in 2025 in a private placement transaction to an institutional accredited investor. The notes will bear interest at an annual fixed rate of 6.75% and interest will be paid quarterly through maturity date or earlier redemption. The notes qualify as Tier 2 capital for regulatory purposes, subject to applicable limitations. The notes are recorded as long term debt for accounting purposes.

In February 2017, the Company completed the issuance, through a private placement, of $10.00 million 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.

Other Activities

The Company offers wealth management services at its locations through financial advisors employed by the Bank. Income from wealth management services was $624,000 and $601,000 for the years ended December 31, 2017 and 2016, respectively.

Subsidiary Activity

We are permitted to invest in the capital stock of, or originate secured or unsecured loans to, subsidiary corporations. The following are subsidiaries of the Company: Opportunity Bank of Montana, Eagle Bancorp Statutory Trust I, and AFSB NMTC Investment Fund, LLC, which is a subsidiary of the Bank.

Personnel

As of December 31, 2017, we had 196 full-time employees and 11 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

Regulation

Set forth below is a brief description of certain laws and regulations applicable to Eagle and the Bank. These descriptions of laws and regulations as well as those contained elsewhere do not purport to be complete and are qualified in their entirety by reference to applicable laws and regulations. Legislative or regulatory changes in the future could adversely affect our operations or financial condition.

General

As a state-chartered commercial bank, the Bank is subject to extensive regulation, examination and supervision by the Montana Division of Banking and Financial Institutions and the Federal Deposit Insurance Corporation (“FDIC”), as the insurer of its deposits. The Bank is a member of the FRB System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the FDIC. There are periodic examinations to evaluate the Bank’s safety and soundness and compliance with various regulatory requirements. Under certain circumstances, the FDIC may also examine the Bank. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate allowance for loan losses for regulatory purposes. Eagle, as a bank holding company, is required to file certain reports with, and is subject to examination by, and must otherwise comply with the rules and regulations of the FRB. Eagle is also subject to the rules and regulations of the Securities and Exchange Commission (“SEC”) under the federal securities laws. See “—Holding Company Regulation.”

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Dodd-Frank Act

In July 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act has significantly changed the bank regulatory structure and affected the lending, investment, trading and operating activities of financial institutions and their holding companies. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations, some of which have not yet been issued in final form. The Dodd-Frank Act and implementing regulations have increased the regulatory burden, compliance cost and interest expense for Eagle and the Bank.

The Dodd-Frank Act will require the FRB to set minimum capital levels for depository institution holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks such as the Bank, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks with more than $10 billion in assets. Banks with $10 billion or less in assets will continue to be examined by their applicable bank regulators.

The legislation also broadened the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts had unlimited deposit insurance through December 31, 2012. Lastly, the Dodd-Frank Act directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

Federal Regulation of Commercial Banks

General

Deposits in the Bank, a Montana state-chartered commercial bank are insured by the FDIC. The bank has no branches in any other state. The Bank is subject to regulation and supervision by the Montana Department of Administration's Banking and Financial Institutions Division and the FRB. The federal laws that apply to the Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, and the nature, amount of, and collateral for loans. Federal laws also regulate community reinvestment and insider credit transactions and impose safety and soundness standards.

The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15.0% of unimpaired capital and surplus. An additional amount may be lent, equal to 10.0% of total capital, if the loan is fully secured by certain readily marketable collateral, which is defined to include certain financial instruments and bullion, but generally does not include real estate.

The federal banking agencies, have adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to submit or implement an acceptable plan, the appropriate federal banking agency may issue an enforceable order requiring correction of the deficiencies.

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Federal Home Loan Bank System

The Bank is a member of the FHLB of Des Moines. FHLB Des Moines is one of 11 regional FHLBs that administer the home financing credit function of banks, credit unions and savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. As a member, the Bank is required to purchase and maintain a specified amount of shares of capital stock in the FHLB of Des Moines.

The FHLBs continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank’s FHLB stock may result in a corresponding reduction in the Bank’s capital.

Federal Reserve System

The Federal Reserve System requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their checking and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve System may be used to satisfy liquidity requirements.

The Bank has authority to borrow from the Federal Reserve System “discount window”. The Bank maintains a “primary credit” facility at the Federal Reserve’s discount window.

As a new member of the Federal Reserve System, the Company is required to maintain a minimum level of investment in FRB stock based on a specific percentage of its capital and surplus. A reduction in value of the Bank’s FRB stock may result in a corresponding reduction in the Bank’s capital.

Insurance of Deposit Accounts

Deposit accounts at the Bank are insured by the FDIC, generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. The Bank's deposits, therefore, are subject to FDIC deposit insurance assessments. Assessments paid to the FDIC by the Bank and other banking institutions are used to fund the FDIC's Federal Deposit Insurance Fund.

Insurance of Accounts and Regulation by the FDIC

As insurer of deposits in banks, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving FRB an opportunity to take such action. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement with the FDIC. We are not aware of any practice, condition or violation that might lead to the termination of the Bank's deposit insurance.

New Assessments Under Dodd-Frank

The FDIC assesses deposit insurance premiums on each insured institution quarterly based on annualized rates for one of four risk categories. The assessment base for calculating deposit insurance assessments is an institution's average total assets minus its average tangible equity (defined as Tier I capital). Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Rates are based on each institution's risk category and certain specified risk adjustments. Stronger institutions pay lower rates while riskier institutions pay higher rates. The assessment rate schedule establishes assessments ranging from 2.5 to 45 basis points. The FDIC may increase or decrease its rates for each quarter by 2 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

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Minimum Reserve Ratios

The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio for the Deposit Insurance Fund. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act, The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset. In addition to the statutory minimum ratio, the FDIC must designate a reserve ratio, known as the designated reserve ratio, or DRR, which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. In addition to the assessment for deposit insurance, through 2019, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund.

Capital Requirements

State chartered commercial banks, such as the Bank, are required by the FRB to maintain minimum levels of regulatory capital. These minimum capital standards include: a ratio of total capital to risk-weighted assets of 9.25%, a ratio of Tier 1 capital to risk-weighted assets of 7.25%, a ratio of common equity Tier 1 capital to risk-weighted assets of 5.75%, or a ratio of Tier 1 capital to total assets of 4.00%. All of these ratios except for the ratio of Tier 1 capital to total assets include the capital conservation buffer of 1.25% phased-in beginning January 1, 2017. The regulations require that, in meeting the capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires state chartered commercial banks to maintain Tier 1 and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 7.25% and 9.25%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0.0% to 100.0%, assigned by the FRB capital regulation based on the risks believed inherent in the type of asset. Tier 1 capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100.0% of core capital. The FRB also has authority to establish individual minimum capital requirements for financial institutions.

Basel III – New Capital and Prompt Corrective Action Regulations. In July 2013, the federal bank regulatory agencies issued interim final rules that revise and replace the current risk-based capital requirements in order to implement the "Basel III" regulatory capital reforms released by the Basel Committee on Banking Supervision and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Basel III reforms reflected in the final rules include an increase in the risk-based capital requirements and certain changes to capital components and the calculation of risk-weighted assets.

Effective January 1, 2015, bank holding companies with consolidated assets of $1 billion or more and banks like Opportunity Bank must comply with new minimum capital ratio requirements to be phased-in between January 1, 2015 and January 1, 2019, which would consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5% which increased to 5.75% during 2017 with the capital conservation buffer of 1.25%; (ii) a Tier 1 capital to total risk weighted assets ratio of 6.0% which increased to 7.25% during 2017 with the capital conservation buffer of 1.25%; (iii) a total capital to total risk weighted assets ratio of 8.0% which increased to 9.25% during 2017 with the capital conservation buffer of 1.25%; and (iv) a Tier 1 capital to adjusted average total assets ("leverage") ratio of 4.0%.

The capital conservation buffer, when fully phased-in will require maintenance of a minimum of 2.5% of common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements described above. The 2.5% buffer will increase the minimum capital ratios to (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new buffer requirement will be phased-in between January 1, 2016 and January 1, 2019. If the capital ratio levels of a banking organization fall below the capital conservation buffer amount, the organization will be subject to limitations on (i) the payment of dividends; (ii) discretionary bonus payments; (iii) discretionary payments under Tier 1 instruments; and (iv) engaging in share repurchases.

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The federal bank regulatory agencies also implemented changes to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital ratios begin to show signs of weakness. These changes will take effect beginning January 1, 2015 and will require insured depository institutions to meet the following increased capital ratio requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8.0%; (iii) a total capital ratio of 10.0%; and (iv) a Tier 1 leverage ratio of 5.0%. See also the additional discussion below under "Prompt Corrective Action."

Management believes that, as of December 31, 2017, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

Prompt Corrective Action

Federal bank regulatory agencies are required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8.0%, a ratio of Tier 1 capital to risk-weighted assets of less than 6.0%, a ratio of common equity Tier 1 capital to risk-weighted assets of less than 4.5%, or a ratio of Tier 1 capital to total assets of less than 4.0% is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6.0%, a Tier 1 capital ratio of less than 4.0%, a common equity Tier 1 capital ratio of less than 3.0% or a Tier 1 leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized." An institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized." Subject to a narrow exception, the FRB is required to appoint a receiver or conservator for a bank that is "critically undercapitalized." Regulations also require that a capital restoration plan be filed with the FRB within 45 days of the date a bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The FRB also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. At December 31, 2017, the Bank's capital ratios met the "well capitalized" standards.

Limitations on Capital Distributions

A principal source of the parent holding company's cash is from dividends received from the Bank, which are subject to government regulation and limitation. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. The Bank is subject to Montana state law and cannot declare a dividend greater than the previous two years' net earnings without providing notice to the state. Additionally, current guidance from the FRB provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters. Basel III also introduces additional limitations on banks' ability to issue dividends by imposing a capital conservation buffer requirement.

Transactions with Affiliates

The Bank's authority to engage in transactions with "affiliates" is limited by regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the FRB's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. Eagle is an affiliate of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions, *i.e.* "covered transactions"¸ are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, banks are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no bank may purchase the securities of any affiliate other than a subsidiary.

Our authority to extend credit to executive officers, directors and 10.0% or greater shareholders (“insiders”), as well as entities controlled by these persons, is governed by Sections 22(g) and 22(h) of the Federal Reserve Act and its implementing regulation, FRB Regulation O. Among other things, loans to insiders must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for bank-wide lending programs that do not discriminate in favor of insiders. Regulation O also places individual and aggregate limits on the amount of loans that may be made to insiders based, in part, on the institution’s capital position, and requires that certain prior board approval procedures be followed. Extensions of credit to executive officers are subject to additional restrictions on the types and amounts of loans that may be made. At December 31, 2017, we were in compliance with these regulations.

Holding Company Regulation

General

Eagle is a bank holding company subject to regulatory oversight of the FRB. Eagle is required to register and file reports with the FRB and is subject to regulation and examination by the FRB. In addition, the FRB has enforcement authority over Eagle and its non-bank institution subsidiaries which also permits the FRB to restrict or prohibit activities that are determined to present a serious risk to the Bank.

Mergers and Acquisitions

Eagle must obtain approval from the FRB before acquiring more than 5.0% of the voting stock of another bank or bank holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for Eagle to acquire control of a bank, the FRB would consider the financial and managerial resources and future prospects of Eagle and the target institution, the effect of the acquisition on the risk to the Deposit Insurance Fund, the convenience and the needs of the community and competitive factors.

Eagle obtained the necessary approvals from the FRB and the Montana Division of Banking and Financial Institutions before acquiring TwinCo on January 31, 2018.

Acquisition of Eagle

Under the Bank Holding Company Act and the Change in Bank Control Act, a notice or application must be submitted to the FRB if any person (including a company), or a group acting in concert, seeks to acquire 10.0% or more of Eagle's outstanding voting stock, unless the FRB has found that the acquisition will not result in a change in control of Eagle. In acting on such a notice or application, the FRB must take into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effect of the acquisition. Any company that acquires control will be subject to regulation as a bank holding company.

Federal Securities Laws

Eagle's common stock is registered with the SEC under the Exchange Act. We are subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, filed with or furnished to the SEC, are available free of charge through our Internet website, www.opportunitybank.com, as soon as reasonably practical after we have electronically filed such material with, or furnished it to, the SEC. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents on or accessible through, these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

ITEM 1A. RISK FACTORS

We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings and the book values of these assets would decrease.

As a result of the branch acquisition from Sterling in December 2012, the final goodwill recorded related to the acquisition was $7.03 million. In addition, we anticipate recording goodwill related to the TwinCo acquisition during the quarter ended March 31, 2018. We are required to test our goodwill for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. It is possible that future impairment testing could result in a partial or full impairment of the value of our goodwill. If an impairment determination is made in a future reporting period, our earnings and the book value of goodwill will be reduced by the amount of the impairment.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

Changes in the structure of Fannie Mae and Freddie Mac ("GSEs") and the relationship among the GSEs, the federal government and the private markets, or the conversion of the current conservatorship of the GSEs into receivership, could result in significant changes to our securities portfolio.

The GSEs are currently in conservatorship, with their primary regulator, the Federal Housing Finance Agency, acting as conservator. We cannot predict if, when or how the conservatorships will end, or any associated changes to the GSEs' business structure that could result. There are several proposed approaches, including possible legislative changes in discussion in both the House Financial Services Committee and the Senate Banking Committee which, if enacted, could change the nature of government participation in the private mortgage market or alternatively the structure of the GSEs, the relationship among the GSEs, the government and the private markets, including the trading markets for agency conforming mortgage loans and markets for mortgage-related securities in which we participate. We cannot predict the prospects for the enactment, timing or content of legislative or rulemaking proposals regarding the future status of any of these approaches. Accordingly, there continues to be uncertainty regarding the future of the GSEs, including whether they will continue to exist in their current form. GSE reform, if enacted, could result in a significant change and adversely impact our business operations, particularly as to our residential mortgage lending activities.

Our business may be adversely affected by conditions in the financial markets and economic conditions generally and in our market areas in particular.

Our financial performance generally, and in particular the ability of our borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer and whose success we rely on to drive our future growth, is highly dependent upon the business environment in the markets in which we operate, principally in Montana, and in the United States as a whole. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in Montana. The economic conditions in our local markets may be different from, and in some instances worse than, the economic conditions in the United States as a whole. Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation and price levels, monetary policy, unemployment and the strength of the domestic economy and the local economy in the markets in which we operate. Unfavorable market conditions can result in deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan and lease losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; state or local government insolvency; or a combination of these or other factors.

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In recent years, economic growth and business activity across a wide range of industries and regions in the U.S. has been slow and uneven. There are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt, further declining oil prices and ongoing federal budget negotiations that may have a destabilizing effect on financial markets. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. Such conditions could have a material adverse effect on the credit quality of our loans or our business, financial condition or results of operations.

If the allowance for credit losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. If the assumptions prove to be incorrect, the allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease net income.

Our emphasis on the origination of consumer, commercial real estate and commercial business loans is one of the more significant factors in evaluating the allowance for loan losses. As we continue to increase the amount of such loans, additional or increased provisions for loan losses may be necessary and would decrease earnings.

Bank regulators periodically review our allowance for loan losses and may require an increase to the provision for loan losses or further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition.

We could record future losses on our securities portfolio.

A number of factors or combinations of factors could require us to conclude in one or more future reporting periods that an unrealized loss exists with respect to our investment securities portfolio that constitutes an impairment that is other than temporary, which could result in material losses to us. These factors include, but are not limited to, continued failure by the issuer to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of securities could decline if the overall economy and the financial condition of some of the issuers deteriorates and there is limited liquidity for these securities.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations.

Our accounting policies are essential to understanding our financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

From time to time, the Financial Accounting Standards Board and the Securities and Exchange Commission change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be hard to predict and could materially impact how we report our results of operations and financial condition. We could also be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements in material amounts.

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Because we have increased our commercial real estate and commercial business loan originations, our credit risk has increased and continued downturns in the local real estate market or economy could adversely affect our earnings.

We intend to continue our recent emphasis on originating commercial real estate and commercial business loans. Commercial real estate and commercial business loans generally have more risk than the residential real estate (1-4 family) loans we originate. Because the repayment of commercial real estate and commercial business loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. A downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. As our commercial real estate and commercial business loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase.

Declines in home values could decrease our loan originations and increase delinquencies and defaults.

Declines in home values in our markets could adversely impact results from operations. Like all financial institutions, we are subject to the effects of any economic downturn, and in particular, a significant decline in home values would likely lead to a decrease in new home equity loan originations and increased delinquencies and defaults in both the consumer home equity loan and residential real estate loan portfolios and result in increased losses in these portfolios. Declines in the average sale prices of homes in our primary markets could lead to higher loan losses.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Failure to successfully keep pace with technological change affecting the financial services industry and avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition or results of operations.

We expect that new technologies and business processes applicable to the consumer credit industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

We depend on the services of our executive officers and other key employees.

Our success depends upon the continued employment of certain members of our senior management team. We also depend upon the continued employment of the individuals that manage several of our key functional areas. The departure of any member of our senior management team may adversely affect our operations.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits, borrowings and trust preferred securities.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates.

We earn a significant portion of our noninterest income through sales of residential mortgages in the secondary market. We rely on the mortgage secondary market for some of our liquidity.

Our noninterest income attributable to mortgage banking activities has grown significantly in recent years. We originate and sell mortgage loans, including $288.94 million of mortgage loans sold during 2017. We rely on Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and other purchasers to purchase loans in order to reduce our credit risk and provide funding for additional loans we desire to originate. We cannot provide assurance that these purchasers will not materially limit their purchases from us due to capital constraints or other factors, including, with respect to FNMA and FHLMC, a change in the criteria for conforming loans. In addition, various proposals have been made to reform the U.S. residential mortgage finance market, including the role of FNMA and FHLMC. The exact effects of any such reforms are not yet known, but may limit our ability to sell conforming loans to FNMA and FHLMC. In addition, mortgage lending is highly regulated, and our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of mortgage loans may also impact our ability to continue selling mortgage loans. If we are unable to continue to sell loans in the secondary market or we experience a period of low mortgage activity, our noninterest income as well as our ability to fund, and thus originate, additional mortgage loans may be adversely affected, which could have a material adverse effect on our business, financial condition or results of operations.

There can be no assurance we will be able to continue paying dividends on our common stock at recent levels.

We may not be able to continue paying quarterly dividends commensurate with recent levels given that the ability to pay dividends on our common stock depends on a variety of factors. The payment of dividends is subject to government regulation in that the regulatory authorities may prohibit banks and bank holding companies from paying dividends that would constitute an unsafe or unsound banking practice. Our ability to pay dividends is subject to certain regulatory requirements. The Federal Reserve generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of a subsidiary bank or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's financial position. The Federal Reserve Board policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions.

As a result, future dividends will generally depend on the level of earnings at the Bank. The Bank is subject to Montana law and cannot declare a dividend greater than the previous two year's earnings without providing notice to the state. Also, in the event there shall occur an event of default on any of our debt instruments, we would be unable to pay any dividends on our common stock.

Our business strategy includes significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to pursue an organic growth strategy for our business; however, we regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions of financial institutions, branch acquisitions and other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful. There are risks associated with our growth strategy. To the extent that we grow through acquisitions, we cannot ensure that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or other assets, as well as other expansion activities, involves various risks including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of integrating acquired banks or branches, the risk of loss of customers and/or employees of the acquired institution or branch, executing cost savings measures, not achieving revenue enhancements and otherwise not realizing the transaction's anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management's attention from ongoing business operations, may require investment in integration and in development and enhancement of additional operational and reporting processes and controls and may subject us to additional regulatory scrutiny.

Our growth initiatives may also require us to recruit and retain experienced personnel to assist in such initiatives. Accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, to the extent we expand our lending beyond our current market areas, we could incur additional risks related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets.

If we do not successfully execute our acquisition growth plan, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge, which would adversely affect our results of operations. While we believe we will have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth.

Strong competition may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Our profitability depends upon our ability to successfully compete in our market areas.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve Board and the Montana Division of Banking and Financial Institutions. The federal banking laws and regulations govern the activities in which we may engage, and are primarily for the protection of depositors and the Deposit Insurance Fund at the FDIC. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank’s operations, reclassify assets, determine the adequacy of a bank’s allowance for loan losses and determine the level of deposit insurance premiums assessed. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

Financial reform legislation enacted by Congress has, among other things, tightened capital standards, created a new Consumer Financial Protection Bureau and resulted in new laws and regulations that are expected to increase our costs of operations.

Since the recent financial crisis, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. In particular, the Dodd-Frank Act drastically revised the laws and regulations under which we operate. Financial institutions generally have also been subjected to increased scrutiny from regulatory authorities.

The Dodd-Frank Act created the Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks with $10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators, which in the case of the Bank is the FRB.

It is difficult to predict at this time what impact the Dodd-Frank Act and its implementing rules will have on community banks like the Bank. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

If our investment in the Federal Home Loan Bank of Des Moines becomes impaired, our earnings and shareholders' equity could decrease.

We are required to own common stock of the Federal Home Loan Bank of Des Moines ('FHLB") to qualify for membership in the FHLB System and to be eligible to borrow funds under the FHLB's advance program. The aggregate cost of our FHLB common stock as of December 31, 2017 was $4.09 million. FHLB common stock is not a marketable security and can only be redeemed by the FHLB.

FHLB's may be subject to accounting rules and asset quality risks that could materially lower their regulatory capital. In an extreme situation, it is possible that the capitalization of a FHLB, including the FHLB of Des Moines, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in FHLB of Des Moines common stock could be deemed impaired at some time in the future, and if this occurs, it would cause our earnings and shareholders' equity to decrease by the amount of the impairment charge.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

Eagle's and the Bank's executive office is located at 1400 Prospect Avenue in Helena, Montana. As of December 31, 2017, the Bank conducted its business through 17 offices. These offices are located in Helena, Butte, Bozeman, Townsend, Livingston, Big Timber, Billings, Missoula, Hamilton, and Great Falls, Montana. The loan production office in Great Falls was transitioned to a full service branch in 2017. The Bozeman – Mendenhall office that was acquired in 2012 as part of the Sterling Montana branch acquisition was sold in June 2015, reconstructed by the new owners and we lease a portion of the new building. In November 2017, a new location in Billings Heights opened its doors as well. The principal banking office in Helena also serves as the executive headquarters. This headquarters houses approximately 34.0% of the Bank's full-time employees. In addition, an operations center is located in Helena. The following table includes the location of each of the Bank's offices, the year the office was opened and the net book value including land, buildings and furniture and equipment. The square footage at each location is also presented.

Location	Address	Opened		Value At December 31, 2017 (In Thousands)	Square Footage
Helena - Prospect Office	1400 Prospect Ave. Helena, MT 59601	1997		$ 4,984	32,304
Helena - Neill Office	28 Neill Ave. Helena, MT 59601	1987		802	1,391
Helena - Skyway Office	2090 Cromwell Dixon Helena, MT 59602	2009		1,925	4,643
Butte Office	3401 Harrison Ave. Butte, MT 59701	1979		398	3,890
Bozeman - Oak Office	1455 Oak St. Bozeman, MT 59715	1980 (Relocated 2009)		6,796	19,818
Townsend Office	416 Broadway Townsend, MT 59644	1979		120	1,973
Bozeman - Mendenhall Office	5 W. Mendenhall, STE 101 Bozeman, MT 59715	2012	*	1,057	3,626
Livingston Office	123 S. Main St. Livingston, MT 59047	2012 (Leased until building was purchased in 2016)		2,411	11,072
Big Timber Office	101 McLeod St. Big Timber, MT 59011	2012		782	2,004
Billings - S. 24th Street W. Office	455 S. 24th St. West Billings, MT 59102	2012	*	150	3,778
Missoula - Higgins Office	200 N. Higgins	2012	*	156	3,079

	Missoula, MT 59802				
Missoula - Reserve Office	1510 S Reserve St. Missoula, MT 59801	2012	*	47	4,320
Hamilton Office	711 S. First Street Hamilton, MT 59840	2012		1,632	4,870
Missoula - Home Loan Office	2800 S. Reserve St. Missoula, MT 59801	2012	*	44	2,965
Helena - Operations Center	3210 Euclid Ave. Helena, MT 59601	2012		539	6,758
Great Falls Office	120 1st Ave. North, Suite 201 Great Falls, MT 59401	2015	*	50	1,883
Billings - Main Office	895 Main St, STE 1 Billings, MT 59105	2017	*	65	1,300

* Leased location

As of December 31, 2017, the net book value of land, buildings and furniture and equipment owned by the Bank, less accumulated depreciation, totaled $21.96 million. This includes construction in progress of $2.14 million, primarily relating to the Helena Prospect office remodel. A purchase of property located in downtown Billings closed January 2, 2018 where the Company paid $2.90 million. The Company plans to build a future branch in Billings at the newly acquired site.

ITEM 3. LEGAL PROCEEDINGS.

The Bank, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Bank. There were no lawsuits pending or known to be contemplated against Eagle or the Bank as of December 31, 2017.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the Nasdaq Global Market under the symbol “EBMT.” At the close of business on December 31, 2017, there were 5,013,678 shares of common stock outstanding, held by approximately 833 shareholders of record. The closing price of the common stock on December 31, 2017, was $20.95 per share. The following table includes the high and low prices for our common stock for each quarter presented, as well as, dividends paid during each quarter:

Quarter Ended	High	Low	Dividends Paid
Calendar Year 2017:			
December 31, 2017	$21.95	$18.30	$ 0.0900
September 30, 2017	19.31	17.35	0.0900
June 30, 2017	20.45	17.40	0.0800
March 31, 2017	22.32	17.80	0.0800
Calendar Year 2016:			
December 31, 2016	$24.00	$14.25	$ 0.0800
September 30, 2016	15.25	12.59	0.0800
June 30, 2016	13.56	11.99	0.0775
March 31, 2016	12.42	11.15	0.0775

Payment of dividends on our shares of common stock is subject to determination and declaration by the Board of Directors (the “Board’’) and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, our results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will be declared or, if declared, what the amount of dividends will be, or whether such dividends, once declared, will continue.

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 three months ended December 31, 2017 or September 30, 2017. 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.

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

ITEM 6. SELECTED FINANCIAL DATA.

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of the financial condition and results of operations of Eagle is intended to help investors understand our company and our operations. The financial review is provided as a supplement to, and should be read in conjunction with the Consolidated Financial Statements and the related Notes included elsewhere in this report.

Overview

Historically, our principal business has consisted of attracting deposits from the general public and the business community and making loans secured by various types of collateral, including real estate and other consumer assets. We are significantly affected by prevailing economic conditions, particularly interest rates, as well as government policies concerning, among other things, monetary and fiscal affairs, housing and financial institutions and regulations regarding lending and other operations, privacy and consumer disclosure. Attracting and maintaining deposits is influenced by a number of factors, including interest rates paid on competing investments offered by other financial and non-financial institutions, account maturities, fee structures and levels of personal income and savings. Lending activities are affected by the demand for funds and thus are influenced by interest rates, the number and quality of lenders and regional economic conditions. Sources of funds for lending activities include deposits, borrowings, repayments on loans, cash flows from maturities of investment securities and income provided from operations.

Our earnings depend primarily on our level of net interest income, which is the difference between interest earned on our interest-earning assets, consisting primarily of loans and investment securities, and the interest paid on interest-bearing liabilities, consisting primarily of deposits, borrowed funds, and trust-preferred securities. Net interest income is a function of our interest rate spread, which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest- bearing liabilities, as well as a function of the average balance of interest-earning assets compared to interest-bearing liabilities. Also contributing to our earnings is noninterest income, which consists primarily of service charges and fees on loan and deposit products and services, net gains and losses on sale of assets, and mortgage loan service fees. Net interest income and noninterest income are offset by provisions for loan losses, general administrative and other expenses, including salaries and employee benefits and occupancy and equipment costs, as well as by state and federal income tax expense.

The Bank has a strong mortgage lending focus, with the majority of its loan originations in 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 we have also focused on adding commercial loans to our portfolio, both real estate and non-real estate. We have made significant progress in this initiative. As of December 31, 2017, commercial real estate and land loans and commercial business loans represented 47.6% and 12.8% of the total loan portfolio, respectively. The purpose of this diversification is to mitigate our dependence on the mortgage market, as well as to improve our ability to manage our interest rate spread.

The Bank's management recognizes that fee income will also enable it to be less dependent on specialized lending and it maintains a significant loan serviced portfolio, which provides a steady source of fee income. As of December 31, 2017, we had mortgage servicing rights, net of $6.58 million compared to $5.85 million as of December 31, 2016. Gain on sale of loans also provides significant fee income or noninterest income in periods of high mortgage loan origination volumes. Such income will be adversely affected in periods of lower mortgage activity.

Fee income is also supplemented with fees generated from our 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 deposit do not automatically reprice as interest rates rise.

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

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Other than in limited circumstances for certain high-credit-quality customers, we do not offer "interest only" mortgage loans on residential (1-4 family) properties (where the borrower pays interest but no principal for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer "subprime loans" (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation).

The level and movement of interest rates impacts the Bank's earnings as well. The Federal Open Market Committee ("FOMC") increased the federal funds target rate during the year ended December 31, 2017 from 0.75% to 1.50%.

From time to time the Bank has considered growth through mergers or acquisition as an alternative to its strategy of organic growth. On September 5, 2017, the Company entered into an Agreement and Plan of Merger with TwinCo and TwinCo's wholly-owned subsidiary, Ruby Valley Bank. The merger agreement provided that Ruby Valley Bank would merge with and into Opportunity Bank of Montana. Ruby Valley Bank operated two branches in Madison County, Montana with approximately $96.00 million in assets, $81.00 million in deposits and $57.00 million in gross loans as of December 31, 2017. This acquisition closed January 31, 2018, after receipt of approvals from regulatory authorities, approval of TwinCo shareholders and satisfaction of other closing conditions.

The Bank completed a core systems conversion during the third quarter of 2015. Future cost savings are anticipated due to the core systems conversion.

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 will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective in the first quarter of 2018. 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. We do not expect to realize a change in the recognition of the revenue on that part of our noninterest income. We will evaluate the impact of this standard on our revenue from our wealth management division; however we do not expect it to 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 is not expected to have a significant impact to the Company's consolidated financial statements.

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.

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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.

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.

Critical Accounting Policies

Certain accounting policies are important to the understanding of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances, including, but without limitation, changes in interest rates, performance of the economy, financial condition of borrowers and laws and regulations. The following are the accounting policies we believe are critical.

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Allowance for Loan Losses

We recognize that losses will be experienced on loans and that the risk of loss will vary with, among other things, the type of loan, the creditworthiness of the borrower, general economic conditions and the quality of the collateral for the loan. We maintain an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance for loan losses represents management's estimate of probable losses based on all available information. The allowance for loan losses is based on management's evaluation of the collectability of the loan portfolio, including past loan loss experience, known and inherent losses, information about specific borrower situations and estimated collateral values, and current economic conditions. The loan portfolio and other credit exposures are regularly reviewed by management in its determination of the allowance for loan losses. The methodology for assessing the appropriateness of the allowance includes a review of historical losses, internal data including delinquencies among others, industry data, and economic conditions.

As an integral part of their examination process, the FRB and the Montana Division of Banking will periodically review our allowance for loan losses and may require us to make additional provisions for estimated losses based upon judgments different from those of management. In establishing the allowance for loan losses, loss factors are applied to various pools of outstanding loans. Loss factors are derived using our historical loss experience and may be adjusted for factors that affect the collectability of the portfolio as of the evaluation date. Commercial business loans that are criticized are evaluated individually to determine the required allowance for loan losses and to evaluate the potential impairment of such loans under FASB ASC Topic 310 *Receivables*. Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of loans deteriorate as a result of the factors discussed previously. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations. The allowance is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results.

Valuation of Investment Securities

All of our investment securities are classified as available-for-sale and recorded at current fair value. Unrealized gains or losses, net of deferred taxes, are reported in other comprehensive income as a separate component of shareholders' equity. In general, fair value is based upon quoted market prices of identical assets, when available. If quoted market prices are not available, fair value is based upon valuation models that use cash flow, security structure and other observable information. Where sufficient data is not available to produce a fair valuation, fair value is based on broker quotes for similar assets. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things. No adjustments were made to any broker quotes received by us.

We conduct a quarterly review and evaluation of our investment securities to determine if any declines in fair value are other than temporary. In making this determination, we consider the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, the financial condition of the issuer, if applicable, and the delinquency or default rates of underlying collateral. We consider our intent to sell the investment securities and the likelihood that we will not have to sell the investment securities before recovery of their cost basis. If impairment exists, credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income.

Deferred Income Taxes

We use the asset and liability method of accounting for income taxes as prescribed in FASB ASC Topic 740 *Income Taxes*. Using this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on an ongoing basis as regulatory and business factors change. A reduction in estimated future taxable income could require us to record a valuation allowance. Changes in levels of valuation allowances could result in increased income tax expense, and could negatively affect earnings.

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Financial Condition

December 31, 2017 compared to December 31, 2016

Total assets increased $42.85 million, or 6.4%, to $716.78 million at December 31, 2017 from $673.93 million at December 31, 2016. The largest driver of the increase is the increase in the loan portfolio by $46.01 million or 10.0%, to $507.40 million at December 31, 2017 from $461.39 million at December 31, 2016. Total liabilities increased by $18.70 million, or 3.0%, to $633.17 million from $614.47 million at December 31, 2016. The increase was primarily due to an increase in deposits, as well as, an increase in other long-term debt. Total deposits increased $7.76 million or 1.5%, to $520.56 million at December 31, 2017. Other long-term debt less unamortized debt issuance costs increased $9.84 million to $24.81 million at December 31, 2017 compared to $14.97 million at December 31, 2016. Total shareholders' equity increased $24.16 million to $83.62 million at December 31, 2017 compared to $59.46 million at December 31, 2016.

Balance Sheet Details

Investment Activities

We maintain a portfolio of investment securities, classified as either available-for-sale (including those accounted for under FASB ASC Topic 825) or held-to-maturity to enhance total return on investments. Our investment securities include U.S. government and agency obligations, Small Business Administration pools, municipal securities, mortgage-backed securities ("MBSs"), collateralized mortgage obligations ("CMOs") and corporate obligations, all with varying characteristics as to rate, maturity and call provisions. There were no held-to-maturity investment securities included in the investment portfolio at December 31, 2017. All investment securities included in the investment portfolio are currently available-for-sale. Eagle also has interest-bearing deposits in other banks and stock in the Federal Home Loan Bank ("FHLB") and FRB.

The following table summarizes investment activities:

	December 31,					
	2017		2016		2015	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total	Fair Value	Percentage of Total

	(Dollars in Thousands)								
Securities available-for-sale:									
U.S. government and agency	$4,857	3.48	%	$5,608	4.18	%	10,615	7.03	%
Municipal obligations	67,886	48.66	%	67,664	50.45	%	67,069	44.42	%
Corporate obligations	14,644	10.50	%	9,307	6.94	%	9,450	6.26	%
MBSs	24,869	17.82	%	29,512	22.01	%	32,735	21.68	%
CMOs	19,788	14.18	%	16,345	12.19	%	25,869	17.13	%
Total securities available-for-sale	132,044	94.64	%	128,436	95.77	%	145,738	96.52	%
Interest-bearing deposits	1,920	1.38	%	787	0.59	%	970	0.64	%
FHLB capital stock, at cost	4,089	2.93	%	4,012	2.99	%	3,397	2.25	%
FRB capital stock, at cost	1,465	1.05	%	871	0.65	%	887	0.59	%
Total	$139,518	100.00	%	$134,106	100.00	%	150,992	100.00	%

Securities available-for-sale increased $3.60 million or 2.8%, to $132.04 million at December 31, 2017 compared to $128.44 million at December 31, 2016. The largest increase in securities available-for-sale was Corporate obligations, which increased $5.34 million primarily due to purchase activity. CMO's also increased $3.44 million primarily due to purchase activity. Municipal obligations only increased slightly by $222,000 and it was due to investment purchases largely offset by investment sales. MBSs decreased $4.64 million primarily due principal payments. U.S. government and agency securities decreased by $751,000 largely due to principal payments. There was also one sale for U.S. government and agency securities that was offset by a purchase.

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The following table sets forth information regarding the values, weighted average yields and maturities of investments. The yields on municipal bonds have been computed on a tax equivalent basis.

	December 31, 2017										
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years		Total Investment Securities		
	Fair Value	Annualized Weighted Average Yield	Fair Value	Annualized Weighted Average Yield	Fair Value	Annualized Weighted Average Yield	Fair Value	Annualized Weighted Average Yield	Fair Value	Approximate Market Value	Annualized Weighted Average Yield
	(Dollars in Thousands)										
Securities available-for-sale:											
U.S. government and agency	$-	- %	$992	2.02%	$-	- %	$3,864	2.67%	$4,856	$4,856	2.54%
Municipal obligations	1,358	2.10	1,830	2.51	10,372	2.75	54,327	3.21	67,887	67,887	3.10
Corporate obligations	2,272	1.35	8,390	2.35	3,982	2.55	-	-	14,644	14,644	2.25
MBSs [1]	-	-	-	-	152	1.87	24,717	3.26	24,869	24,869	3.25
CMOs	-	-	10,073	1.92	1,040	2.63	8,675	2.37	19,788	19,788	2.15
Total securities available-for-sale	3,630	1.63	21,285	2.14	15,546	2.68	91,583	3.12	132,044	132,044	2.87
Interest-bearing deposits	1,920	0.23	-	-	-	-	-	-	1,920	1,920	0.23
Federal funds sold	-	-	-	-	-	-	-	-	-	-	-
FHLB capital stock (no maturity)	-	-	-	-	-	-	-	-	4,086	4,086	3.56
FRB capital stock (no maturity)	-	-	-	-	-	-	-	-	1,465	1,465	6.00
Total	$5,550	1.15%	$21,285	2.14%	$15,546	2.68%	$91,583	3.12%	$139,515	$139,515	2.89%

(1) Mortgage-backed securities are

shown at their final maturity date. They provide on-going liquidity for the Company through scheduled and prepaid principal payments on a monthly basis.

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Lending Activities

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

	December 31, 2017		2016		2015		2014	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)							
Real estate loans:								
Residential mortgage (1-4 family) [(1)]	$109,911	21.37 %	$113,262	24.24 %	118,133	28.95 %	103,420	32.40 %
Commercial real estate	244,783	47.60 %	214,927	46.00 %	167,930	41.15 %	116,105	36.37 %
Real estate construction	25,306	4.92 %	20,540	4.40 %	22,958	5.63 %	10,149	3.18 %
Total real estate loans	380,000	73.89 %	348,729	74.64 %	309,021	75.73 %	229,674	71.95 %
Other loans:								
Home equity	52,672	10.24 %	49,018	10.49 %	45,345	11.11 %	40,123	12.57 %
Consumer	15,712	3.06 %	14,800	3.16 %	14,641	3.59 %	13,827	4.33 %
Commercial	65,863	12.81 %	54,706	11.71 %	39,072	9.57 %	35,582	11.15 %
Total other loans	134,247	26.11 %	118,524	25.36 %	99,058	24.27 %	89,532	28.05 %
Total loans	514,247	100.00 %	467,253	100.00 %	408,079	100.00 %	319,206	100.00 %
Deferred loan fees	(1,093)		(1,092)		(795)		(486)	
Allowance for loan losses	(5,750)		(4,770)		(3,550)		(2,450)	
Total loans, net	$507,404		$461,391		403,734		316,270	

[(1)] Excludes loans held-for-sale.

Loans receivable increased $46.01 million. Commercial real estate and land loans increased $29.85 million, commercial loans increased $11.15 million, construction loans increased $4.77 million, home equity loans increased $3.65 million, and consumer loans increased $912,000. These increases were slightly offset by a decrease in residential mortgage loans of $3.35 million. Total loan originations were $472.77 million for the year ended December 31, 2017, with residential mortgages (1-4 family) accounting for $296.72 million of the total. Commercial real estate and land loan originations totaled $80.07 million. Construction and home equity loan originations totaled $29.26 million and $20.71 million, respectively, for the same period. Consumer loan originations totaled $9.14 million. Commercial loan originations totaled $36.87 million. There were no commercial loan originations from loan syndication programs with borrowers residing outside of Montana during the year ended December 31, 2017. Loans held-for-sale decreased by $9.28 million, to $8.95 million at December 31, 2017 from $18.23 million at December 31, 2016.

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Loan Maturities. The following table sets forth the estimated maturity of the loan portfolio of the Bank at December 31, 2017. Balances exclude deferred loan fees and allowance for loan losses. Scheduled principal repayments of loans do not necessarily reflect the actual life of such assets. The average life of a loan is typically substantially less than its contractual terms because of prepayments. In addition, due on sale clauses on loans generally give the Bank the right to declare loans immediately due and payable in the event, among other things, the borrower sells the real property, subject to the mortgage, and the loan is not paid off. All mortgage loans are shown to be maturing based on the date of the last payment required by the loan agreement, except as noted.

Loans having no stated maturity, those without a scheduled payment, demand loans and matured loans, are shown as due within six months.

	One Year or Less	One to Five Years	After 5 Years	Total
Residential mortgage (1-4 family) [1]	$1,076	$1,873	$115,911	$118,860
Commercial real estate	18,202	20,256	206,325	244,783
Real estate construction	18,091	3,384	3,831	25,306
Home equity	4,556	8,405	39,711	52,672
Consumer	3,046	9,159	3,507	15,712
Commercial	26,686	18,043	21,134	65,863
Total loans [1]	$71,657	$61,120	$390,419	$523,196

[1] Includes loans held-for-sale.

The following table includes loans by fixed or adjustable rates at December 31, 2017:

	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Due after December 31, 2018:			
Residential mortgage (1 to 4 family) [1]	$71,960	$45,824	$117,784
Commercial real estate	94,898	131,683	226,581
Real estate construction	3,142	4,073	7,215
Home equity	8,605	39,511	48,116
Consumer	11,012	1,654	12,666
Commercial	31,034	8,143	39,177
Total [1]	220,651	230,888	451,539
Due in less than one year	62,895	8,762	71,657

Total Loans [1]	$283,546	$239,650	$523,196
Percent of total	54.19 %	45.81 %	100.00 %

[1] Includes loans held-for-sale.

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The following table sets forth information with respect to our loan originations, purchases and sales activity:

	Years Ended December 31,	
	2017	2016
	(In Thousands)	
Net loans receivable at beginning of period [1]	$479,621	$422,436
Loans originated:		
Residential mortgage (1-4 family)	296,720	333,030
Commercial real estate	80,068	94,079
Real estate construction	29,259	32,149
Home equity	20,714	19,328
Consumer	9,139	8,284
Commercial	36,869	42,968
Total loans originated	472,769	529,838
Loans sold:		
Whole loans	288,939	308,675
Principal repayments and loan refinancings	148,079	165,495
Deferred loan fees increase	1	297
Allowance for losses increase	980	1,220
Net loan increase	36,732	57,185
Net loans receivable at end of period [1]	$516,353	$479,621

[1] Includes loans held-for-sale.

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 December 31, 2017, the Bank had $483,000 of real estate owned.

Loans are reviewed on a quarterly basis and are placed on non-accrual status when they are 90 days or more delinquent. Loans may be placed on non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan. At December 31, 2017, we had $977,000 ($928,000 net of specific reserves for loan losses) of loans that were nonperforming and held on non-accrual status.

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The following table provides information regarding the Bank's loans that are delinquent 30 to 89 days:

	December 31, 2017			
	Number	Amount	Percentage of Total	
	(Dollars in Thousands)			
Loan type:				
Residential mortgage (1-4 family)	10	$ 898	44.08	%
Commercial real estate	3	291	14.29	%
Real estate construction	2	409	20.08	%
Home equity	8	212	10.41	%
Consumer	28	111	5.45	%
Commercial	4	116	5.69	%
Total	55	$ 2,037	100.00	%

The following table sets forth information regarding nonperforming assets:

	December 31,			
	2017	2016	2015	2014
	(Dollars in Thousands)			
Non-accrual loans				
Real estate loans:				
Residential mortgage (1-4 family)	$475	$221	$730	$821
Commercial real estate	-	-	667	-
Other loans:				
Home equity	242	297	161	48
Consumer	153	96	145	16
Commercial	107	-	327	77
Accruing loans delinquent 90 days or more				
Real estate loans:				
Residential mortgage (1-4 family)	-	456	221	-
Commercial real estate	-	4	4	-
Real estate construction	-	-	247	-
Other loans:				
Home equity	-	35	-	-
Restructured loans:				
Other loans:				
Home equity	-	43	46	48
Total nonperforming loans	977	1,152	2,548	1,010
Real estate owned and other repossessed property, net	525	825	595	637
Total nonperforming assets	$1,502	$1,977	$3,143	$1,647

Total nonperforming loans to total loans	0.19 %	0.25 %	0.63 %	0.32 %
Total nonperforming loans to total assets	0.14 %	0.17 %	0.40 %	0.18 %
Total allowance for loan loss to nonperforming loans	588.54 %	414.06 %	139.32 %	242.57 %
Total nonperforming assets to total assets	0.21 %	0.29 %	0.50 %	0.29 %

During the year ended December 31, 2017, the Bank sold five real estate owned and other repossessed assets resulting in a net loss of $29,000. There were two write-downs on fair value less cost to sell for foreclosed real estate property and other repossessed for a loss of $45,000 during the year ended December 31, 2017. During the year ended December 31, 2017, a minimal amount of interest was recorded on loans previously accounted for on a non-accrual basis.

During the year ended December 31, 2016, the Bank sold five real estate owned and other repossessed assets resulting in a net gain of $6,000. There were no write-downs on fair value less cost to sell for foreclosed real estate property and other repossessed during the year ended December 31, 2017. During the year ended December 31, 2016, a minimal amount of interest was recorded on loans previously accounted for on a non-accrual basis.

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Management, in compliance with regulatory guidelines, conducts an internal loan review program, whereby loans are placed or classified in categories depending upon the level of risk of nonpayment or loss. These categories are special mention, substandard, doubtful or loss. When a loan is classified as substandard or doubtful, management is required to establish an allowance for loan loss in an amount that is deemed prudent. When management classifies a loan as a loss asset, an allowance equal up to 100.0% of the loan balance is required to be established or the loan is required to be charged-off. The allowance for loan losses is composed of an allowance for both inherent risk associated with lending activities and specific problem assets.

Management's evaluation of the classification of assets and the adequacy of the allowance for loan losses is reviewed by the Board on a regular basis and by regulatory agencies as part of their examination process. We also utilize a third party review as part of our loan classification process. In addition, each loan that exceeds $750,000 and each group of loans that exceeds $750,000 is monitored more closely.

The following table reflects our classified assets:

	December 31,	
	2017	2016
	(In Thousands)	
Residential mortgage (1-4 family):		
Special mention	$-	$-
Substandard	744	738
Doubtful	-	-
Loss	-	-
Commercial real estate:		
Special mention	-	-
Substandard	303	451
Doubtful	-	-
Loss	-	-
Real estate construction:		
Special mention	-	456
Substandard	456	-
Doubtful	-	-
Loss	-	-
Home equity loans:		
Special mention	-	-
Substandard	242	375
Doubtful	-	-
Loss	-	-
Consumer loans:		
Special mention	-	-
Substandard	136	95
Doubtful	-	-

Loss	27	8
Commercial loans:		
Special mention	-	-
Substandard	113	236
Doubtful	-	-
Loss	22	-
Securities available-for-sale:		
Special mention	-	-
Substandard	-	-
Doubtful	-	-
Loss	-	-
Real estate owned/repossessed property	525	825
	$2,568	$3,184

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Allowance for Loan Losses and Real Estate Owned. The Bank segregates its loan portfolio for loan losses into the following broad categories: real estate loans (residential mortgages (1-4 family), real estate construction, commercial real estate and land) home equity loans, consumer loans and commercial business loans. The Bank provides for a general allowance for losses inherent in the portfolio in the categories referenced above. General loss percentages which are calculated based on historical analyses and other factors such as volume and severity of delinquencies, local and national economy, underwriting standards and other factors. This portion of the allowance is calculated for inherent losses which probably exist as of the evaluation date even though they might not have been identified by the more objective processes used. This is due to the risk of error and/or inherent imprecision in the process. This portion of the allowance is subjective in nature and requires judgments based on qualitative factors which do not lend themselves to exact mathematical calculations such as: trends in delinquencies and non-accruals; trends in volume; terms and portfolio mix; new credit products; changes in lending policies and procedures; and changes in the outlook for the local, regional and national economy.

At least quarterly, the management of the Bank evaluates the need to establish an allowance against losses on loans based on estimated losses on specific loans when a finding is made that a loss is estimable and probable. Such evaluation includes a review of all loans for which full collectability may not be reasonably assured and considers, among other matters: the estimated market value of the underlying collateral of problem loans; prior loss experience; economic conditions; and overall portfolio quality. Real estate owned is evaluated annually and recorded at fair value.

Provisions for, or adjustments to, estimated losses are included in earnings in the period they are established. At December 31, 2017, we had $5.75 million in allowances for loan losses.

While we believe we have established our existing allowance for loan losses in accordance with generally accepted accounting principles, there can be no assurance that bank regulators, in reviewing our loan portfolio, will not request that we significantly increase our allowance for loan losses, or that general economic conditions, a deteriorating real estate market, or other factors will not cause us to significantly increase our allowance for loan losses, therefore negatively affecting our financial condition and earnings.

In making loans, we recognize that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the security for the loan.

It is our policy to review our loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis.

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The following table includes information for allowance for loan losses:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
Beginning balance	$4,770	$3,550	2,450
Provision for loan losses	1,228	1,833	1,303
Loans charged-off			
Residential mortgage (1-4 family)	-	(4)	(137)
Commercial real estate	-	(298)	-
Home equity	-	(7)	-
Consumer	(193)	(204)	(61)
Commercial	(118)	(119)	(25)
Recoveries			
Home equity	40	-	1
Consumer	20	19	18
Commercial	3	-	1
Net loans charged-off	(248)	(613)	(203)
Ending balance	$5,750	$4,770	3,550
Allowance for loan losses to total loans	1.12 %	1.02 %	0.87 %
Allowance for loan losses to total nonperforming loans	588.54%	414.06%	139.32%
Net charge-offs to average loans outstanding during the period	0.05 %	0.13 %	0.05 %

The following table presents allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans:

December 31,								
2017			2016			2015		
Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans
(Dollars in Thousands)								

Real estate loans:																		
Residential mortgage (1-4 family)	$999	17.37	%	21.37	%	$997	20.90	%	24.24	%	911	25.66	%	28.95	%
Commercial real estate	2,778	48.32	%	47.60	%	2,079	43.58	%	46.00	%	1,593	44.88	%	41.15	%
Real estate construction	302	5.25	%	4.92	%	244	5.12	%	4.40	%	184	5.18	%	5.63	%
Total real estate loans	4,079	70.94	%	73.89	%	3,320	69.60	%	74.64	%	2,688	75.72	%	75.73	%
Other loans:															
Home equity	506	8.80	%	10.24	%	460	9.64	%	10.49	%	342	9.63	%	11.11	%
Consumer	225	3.91	%	3.06	%	193	4.05	%	3.16	%	66	1.86	%	3.59	%
Commercial	940	16.35	%	12.81	%	797	16.71	%	11.71	%	454	12.79	%	9.57	%
Total other loans	1,671	29.06	%	26.11	%	1,450	30.40	%	25.36	%	862	24.28	%	24.27	%
Total	$5,750	100.00	%	100.00	%	$4,770	100.00	%	100.00	%	3,550	100.00	%	100.00	%

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Deposits and Other Sources of Funds

Deposits. Deposits are the Company's primary source of funds. Core deposits are deposits that are more stable and somewhat less sensitive to rate changes. They also represent a lower cost source of funds than rate sensitive, more volatile accounts such as certificates of deposit. We believe that our core deposits are our checking, savings accounts, money market accounts and IRA accounts. Based on our historical experience, we include IRA accounts funded by certificates of deposit as core deposits because they exhibit the principal features of core deposits in that they are stable and generally are not rate sensitive. Core deposits were $405.40 million or 77.9% of the Bank's total deposits at December 31, 2017 ($377.22 million or 72.5% excluding IRA certificates of deposit). The presence of a high percentage of core deposits and, in particular, transaction accounts reflects in part our strategy to restructure our liabilities to more closely resemble the lower cost liabilities of a commercial bank. However, a significant portion of our deposits remains in certificate of deposit form. These certificates of deposit, if they mature and are renewed at higher rates, would result in an increase in our cost of funds.

The following table includes deposit accounts and associated weighted average interest rates for each category of deposits:

	December 31, 2017			2016			2015		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in Thousands)								
Noninterest checking	$99,799	19.17 %	0.00 %	$82,877	16.16 %	0.00 %	$77,031	15.94 %	0.00 %
Interest bearing checking	99,255	19.07 %	0.03 %	93,163	18.17 %	0.03 %	87,350	18.08 %	0.03 %
Savings	88,603	17.02 %	0.05 %	82,266	16.04 %	0.04 %	71,474	14.79 %	0.04 %
Money market accounts	89,558	17.20 %	0.17 %	89,211	17.40 %	0.11 %	94,880	19.64 %	0.12 %
Total	377,215	72.46 %	0.06 %	347,517	67.77 %	0.05 %	330,735	68.45 %	0.05 %
Certificates of deposit accounts:									
IRA certificates	28,189	5.42 %	0.61 %	31,277	6.10 %	0.64 %	33,262	6.88 %	0.96 %
Brokered certificates	4,601	0.88 %	1.28 %	15,596	3.04 %	0.80 %	7,071	1.46 %	1.02 %
Other certificates	110,559	21.24 %	1.04 %	118,405	23.09 %	0.89 %	112,114	23.21 %	0.89 %
Total certificates of deposit	143,349	27.54 %	0.96 %	165,278	32.23 %	0.84 %	152,447	31.55 %	0.92 %
Total deposits	$520,564	100.00 %	0.31 %	$512,795	100.00 %	0.30 %	$483,182	100.00 %	0.32 %

All deposit products increased during the period with the exception of time certificates of deposit. Noninterest checking increased $16.92 million or 20.4%, to $99.80 million at December 31, 2017. Interest bearing checking increased $6.09 million or 6.5%, to $99.26 million at December 31, 2017. Savings increased $6.34 million or 7.7%, to $88.60 million at December 31, 2017. Money markets increased slightly by $347,000. Certificates of deposit decreased $21.93 million or 13.3%, to $143.35 million at December 31, 2017. The largest decrease in certificates of deposit was in brokered certificates. Brokered certificates decreased $11.00 million to $4.60 million at December 31, 2017 from $15.60 million at December 31, 2016. The decrease is due to the maturity of four brokered certificates during the year ended December 31, 2017.

The following table shows the amount of certificates of deposit with balances of $250,000 and greater by time remaining until maturity as of December 31, 2017:

	Balance $250 and Greater (In Thousands)
3 months or less	$ 1,782
Over 3 to 6 months	8,219
Over 6 to 12 months	5,885
Over 12 months	10,339
Total	$ 26,225

Our depositors are primarily residents of the state of Montana.

Borrowings. Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances from FHLB of Des Moines to supplement our supply of lendable funds and to meet deposit withdrawal requirements. We also have Federal funds line of credits with PCBB, PNC, Zions Bank and Stockman Bank.

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The following table includes information related to FHLB of Des Moines and other borrowings:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
FHLB advances:			
Average balance	$80,759	$75,620	$47,344
Maximum balance at any month-end	114,769	87,661	68,261
Balance at period end	82,104	81,548	68,261
Weighted average interest rate during the period	1.45 %	1.05 %	1.11 %
Weighted average interest rate at period end	1.59 %	1.10 %	1.08 %
Repurchase agreements:			
Average balance	$-	$-	$-
Maximum balance at any month-end	-	-	-
Balance at period end	-	-	-
Weighted average interest rate during the period	0.00 %	0.00 %	0.00 %
Weighted average interest rate at period end	0.00 %	0.00 %	0.00 %
Other:			
Average balance	$3,436	$3,274	$4,023
Maximum balance at any month-end	7,990	8,385	12,647
Balance at period end	865	865	4,455
Weighted average interest rate during the period	1.21 %	0.73 %	0.57 %
Weighted average interest rate at period end	1.00 %	1.00 %	0.68 %
Total borrowings:			
Average balance	$84,195	$78,894	$51,367
Maximum balance at any month-end	120,804	92,436	72,716
Balance at period end	82,969	82,413	72,716
Weighted average interest rate during the period	1.44 %	1.03 %	1.07 %
Weighted average interest rate at period end	1.58 %	1.10 %	1.05 %

Advances from FHLB and other borrowings increased slightly by $556,000 to $82.97 million at December 31, 2017 compared to $82.41 million at December 31, 2016. The increase was due to net long-term advances from FHLB and other borrowings largely offset by net short-term payments on FHLB and other borrowings.

Other Long-Term Debt. The following table summarizes other long-term debt activity:

	December 31,	December 31,

	2017 Net Amount	Percent of Total	2016 Net Amount	Percent of Total
	(Dollars in Thousands)			
Senior notes fixed at 5.75%, due 2022	$9,820	39.58 %	$-	0.00 %
Subordinated debentures fixed at 6.75%, due 2025	9,836	39.64 %	9,815	65.56 %
Subordinated debentures variable, due 2035	5,155	20.78 %	5,155	34.44 %
Total other long-term debt	$24,811	100.00%	$14,970	100.00%

Other long-term debt increased by $9.84 million to $24.81 million at December 31, 2017 from $14.97 million at December 31, 2016 primarily due to the issuance of $10.00 million aggregate principal amount of 5.75% fixed senior unsecured notes due in 2022.

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Shareholders' Equity

Total shareholders' equity increased by $24.16 million or 40.6%, to $83.62 million at December 31, 2017 from $59.46 million at December 31, 2016. The increase is primarily due to proceeds from issuance of common stock, net of expenses of $20.16 million. The increase was also impacted by net income of $4.10 million partially offset by dividends paid of $1.40 million.

Analysis of Net Interest Income

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

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.

	Year Ended December 31, 2017				Year Ended December 31, 2016				Year Ended December 31, 2015			
	Average Daily Balance	Interest and Dividends	Yield/ Cost[4]		Average Daily Balance	Interest and Dividends	Yield/ Cost[4]		Average Daily Balance	Interest and Dividends	Yield/ Cost[4]	
	(Dollars in Thousands)											
Assets:												
Interest earning assets:												
Investment securities	$126,555	$2,898	2.29	%	$138,655	$2,917	2.10	%	$150,520	$3,058	2.03	%
FHLB and FRB stock	4,981	170	3.41	%	4,646	142	3.06	%	2,979	67	2.25	%
Loans receivable, net[1]	507,980	24,776	4.88	%	456,808	20,842	4.56	%	374,849	17,332	4.62	%
Other	1,625	16	0.98	%	1,715	10	0.58	%	4,913	9	0.18	%
	641,141	27,860	4.35	%	601,824	23,911	3.97	%	533,261	20,466	3.84	%

Total interest earning assets									
Noninterest earning assets	55,842			52,987			50,397		
Total assets	$696,983			$654,811			$583,658		
Liabilities and equity:									
Interest bearing liabilities:									
Deposit accounts:									
Checking	$96,239	$31	0.03 %	$88,900	$27	0.03 %	$94,525	$107	0.11 %
Savings	83,947	42	0.05 %	75,288	32	0.04 %	67,051	30	0.04 %
Money market	90,857	131	0.14 %	90,783	101	0.11 %	81,462	27	0.03 %
Certificates of deposit	153,498	1,349	0.88 %	158,465	1,358	0.86 %	151,472	1,293	0.85 %
Advances from FHLB and other borrowings including long-term debt	107,290	2,541	2.37 %	92,985	1,600	1.72 %	61,392	998	1.63 %
Total interest bearing liabilities	531,831	4,094	0.77 %	506,421	3,118	0.62 %	455,902	2,455	0.54 %
Non-interest checking	94,097			84,788			70,766		
Other noninterest bearing liabilities	4,855			4,848			2,940		
Total liabilities	630,783			596,057			529,608		
Total equity	66,200			58,754			54,050		
Total liabilities and equity	$696,983			$654,811			$583,658		
Net interest income/interest rate spread[(2)]		$23,766	3.58 %		$20,793	3.35 %		$18,011	3.30 %
Net interest margin[(3)]			3.71 %			3.46 %			3.38 %
Total interest earning assets to interest bearing liabilities			120.55 %			118.84 %			116.97 %

(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.

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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.

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Due to			Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In Thousands)					
Interest earning assets:						
Investment securities	$(254)	$235	$(19)	$(241)	$100	$(141)
FHLB and FRB stock	10	18	28	37	38	75
Loans receivable, net	2,334	1,600	3,934	3,790	(280)	3,510
Other earning assets	(1)	7	6	(4)	5	1
Total interest earning assets	2,089	1,860	3,949	3,582	(137)	3,445
Interest bearing liabilities:						
Checking, savings and money market accounts	6	38	44	2	(6)	(4)
Certificates of deposit	(42)	33	(9)	61	4	65
Advances from FHLB and other borrowings including long-term debt	246	695	941	511	91	602
Total interest-bearing liabilities	210	766	976	574	89	663
Change in net interest income	$1,879	$1,094	$2,973	$3,008	$(226)	$2,782

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 2017 and 2016

Net Income

Eagle's net income for the year ended December 31, 2017 was $4.10 million compared to $5.13 million for the year ended December 31, 2016. The decrease of $1.03 million was primarily due to an increase in noninterest expense of $2.62 million, a decrease in noninterest income of $1.66 million and an increase in income tax expense of $329,000. This was partially offset by an increase of $3.58 million in net interest income after loan loss provision. Basic and diluted earnings per share were $1.01 and $0.99, respectively, for the year ended December 31, 2017 compared to $1.36 and $1.32, respectively, for the prior period.

Net Interest Income

Net interest income increased to $23.77 million for the year ended December 31, 2017, from $20.79 million for the year ended December 31, 2016. This increase of $2.98 million, or 14.3%, was due to an increase in interest and dividend income of $3.95 million partially offset by an increase in interest expense of $976,000.

Interest and Dividend Income

Total interest and dividend income was $27.86 million for the year ended December 31, 2017, compared to $23.91 million for the year ended December 31, 2016, an increase of $3.95 million, or 16.5%. Interest and fees on loans increased to $24.78 million for the year ended December 31, 2017 from $20.84 million for the same period ended December 31, 2016. This increase of $3.94 million, or 18.9%, was due to an increase in the average balance of loans, as well as an increase in the average yield of loans for the year ended December 31, 2017. Average balances for loans receivable, net, including loans held for sale, for the year ended December 31, 2017 were $507.98 million, compared to $456.81 million for the prior year period. This represents an increase of $51.17 million, or 11.2%. The average interest rate earned on loans receivable increased by 32 basis points, from 4.56% to 4.88%. Interest and dividends on investment securities available-for-sale only decreased slightly by $19,000 or 0.7% for the year ended December 31, 2017 compared to the same period last year.

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Average balances on investments decreased to $126.56 million for the year ended December 31, 2017, from $138.66 million for the year ended December 31, 2016. However, the average interest rate earned on investments increased to 2.29% for the year ended December 31, 2017 from 2.10% for the year ended December 31, 2016. The impact of the increase in rate largely offset the impact of the decrease in the average balances of investments.

Interest Expense

Total interest expense increased for the year ended December 31, 2017 to $4.09 million from $3.12 million for the year ended December 31, 2016, an increase of $976,000, or 31.3%. The increase was largely attributable to an increase in interest expense on FHLB advances and other borrowings including other long-term debt. Interest expense for total borrowings was $2.54 million for the year ended December 31, 2017 compared to $1.60 million for the year ended December 31, 2016. The average balance for total borrowings was $107.29 million for the year ended December 31, 2017 compared to $92.99 million for the year ended December 31, 2016. The average rate paid on total borrowings also increased 65 basis points, from 1.72% to 2.37%. 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. Interest expense on deposits remained fairly consistent period over period only increasing $35,000. The average balance for total deposits was $518.64 million for the year ended December 31, 2017 compared to $498.22 million for the year ended December 31, 2016. The overall average rate on total deposits was consistent period over period and remains at 0.30%.

Provision for Loan Losses

Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by the Bank to provide for probable loan losses based on prior loss experience, volume and type of lending we conduct and past due loans in portfolio. The Bank's policies require the 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. Using this methodology, the Bank recorded $1.23 million in provision for loan losses for the year ended December 31, 2017 and $1.83 million for the year ended December 31, 2016. Management believes the level of total allowances is adequate. Total nonperforming loans, including restructured loans, net, decreased from $1.15 million at December 31, 2016 to $977,000 at December 31, 2017. The Bank has $525,000 in other real estate owned and other repossessed assets at December 31, 2017.

Noninterest Income

Total noninterest income decreased to $14.33 million for the year ended December 31, 2017, from $15.99 million for the year ended December 31, 2016, a decrease of $1.66 million or 10.4%. The decrease is largely due to decreases in net gain on sale of loans which decreased to $8.80 million for the year ended December 31, 2017 from $10.35 million for the year ended December 31, 2016. During the year ended December 31, 2017, $296.72 million residential mortgages were originated compared to $333.03 million for the year ended December 31, 2016. In addition, $288.94 million mortgage loans were sold during the year ended December 31, 2017 compared to $308.68 million in the same period in the prior year.

Noninterest Expense

Noninterest expense was $30.64 million for the year ended December 31, 2017 compared to $28.02 million for the year ended December 31, 2016. The increase of $2.62 million, or 9.4%, is largely due to increased salaries and employee benefits expenses of $1.59 million. Increased 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. In addition, the Company incurred acquisition costs totaling $676,000 related to the merger agreement with TwinCo, Inc.

Income Tax

Income tax expense was $2.13 million for the year ended December 31, 2017, compared to $1.80 million for the year ended December 31, 2016. Income tax expense has increased with our increased income levels over recent years. However, tax free municipal bond income and Bank owned life insurance income help to lower the overall effective tax rate. The effective tax rate is further reduced by a tax credit investment entered into by the Company in fiscal year 2013. The Bank made an investment in Certified Development Entities which have received allocations of New Markets Tax Credits (“NMTC”). Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over an estimated seven-year credit allowance period.

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The effective tax rate was 34.2% for the year ended December 31, 2017 compared to 26.0% for the year ended December 31, 2016. As a result of the Tax Cuts and Job Act enacted December 22, 2017, Eagle revalued its deferred tax assets and liabilities to account for the future impact of lower corporate tax rates and other provisions of the legislation. Based on its preliminary analysis, Eagle recorded a one-time net tax charge of $715,000 related to the revaluation of these deferred tax items. This increase in income tax expense was reflected in Eagle's operating results for the fourth quarter of 2017 and was in addition to the normal provision for income tax related to pre-tax net operating income.

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 FRB regulations. The liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with the FHLB of Des Moines. The Bank exceeded those minimum ratios as of December 31, 2017 and 2016.

The Bank's primary sources of funds are deposits, repayment of loans and mortgage-backed securities, maturities of investments, funds provided from operations, advances from the FHLB of Des Moines and other borrowings. Scheduled repayments of loans and mortgage-backed 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 Eagle's commitments to make loans and management's assessment of Eagle's ability to generate funds.

Comparison of Cash Flow for Years Ended December 31, 2017 and 2016

Net cash provided by the Company's operating activities, which is primarily comprised of cash transactions affecting net income, was $20.05 million for the year ended December 31, 2017 compared to $12.89 million for the prior year. Net cash provided by operating activities was higher for the year ended December 31, 2017 primarily due to changes in the net gain on sale of loans and in loans held-for-sale.

Net cash used in the Company's investing activities, which is primarily comprised of cash transactions from investment securities and the loan portfolio, was $56.79 million for the year ended December 31, 2017 compared to $51.13 million for the year ended December 31, 2016. Net cash used in investing activities for the year ended December 31, 2017 was due in part to loan originations being higher than loan pay-off and principal payments during the year. Loan origination and principal collection, net was $49.12 million for the year ended December 31, 2017. In addition, there was $24.37 million in available-for-sale securities purchases during the year ended December 31, 2017. These uses of cash were partially offset by available-for-sale securities sales and maturities, principal payments and calls of $20.60 million. Net cash used in investing activities for the year ended December 31, 2016 was also impacted by loan originations being higher than loan pay-off and principal payments during the year. Loan origination and principal collection, net was $62.20 million for the year ended December 31, 2016. In addition, there was $18.86 million in available-for-sale securities purchases during the year ended December 31, 2016. These uses of cash were partially offset by available-for-sale securities sales and maturities, principal payments and calls of $33.53 million.

Net cash provided by the Company's financing activities was $36.86 million for the year ended December 31, 2017 compared to $38.12 million for the year ended December 31, 2016. Net cash provided by financing activities for the year ended December 31, 2017 was largely impacted by proceeds from issuance of common stock of $20.16 million and proceeds from issuance of long-term debt of $10.00 million. A net increase in deposits of $7.77 million also contributed to net cash provided by financing activities for the year ended December 31, 2017. Net cash provided by financing activities for the year ended December 31, 2016 was due to net advances from FHLB and other borrowings of $9.70 million and a net increase in deposits of $29.61 million.

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Capital Resources

At December 31, 2017, 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 2.7% compared to an increase of 2.1% at November 30, 2016 (the most recent report available for December 31, 2016). The Bank is within the guidelines set forth by the Board of Directors for interest rate sensitivity.

The Bank's Tier I leverage ratio, as measured under State of Montana and FRB rules, increased from 9.23% as of December 31, 2016 to 12.17% as of December 31, 2017. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

As of December 31, 2017, 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. At December 31, 2017, the Bank's total capital, Tier 1 capital, common equity Tier 1 capital and Tier 1 leverage ratios amounted to 17.41%, 16.30%, 16.30% and 12.17%, respectively, compared to regulatory requirements of 9.25%, 7.25%, 5.75% and 4.00%, respectively.

Impact of Inflation and Changing Prices

Our consolidated financial statements and the accompanying notes, which are found in Item 8, 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.

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.

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

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

Changes in Market	**Rate Sensitivity**		
Interest Rates	**As of December 31, 2017**		**Policy**
(Basis Points)	**Year 1**	**Year 2**	**Limits**
+200	0.02%	-0.29%	-15.0%
-100	-1.75%	-6.27%	-15.0%

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The following table discloses how the Bank's economic value of equity ("EVE") would react to interest rate changes. Given the current relatively low level of market interest rates, an EVE calculation for an interest rate decrease of greater than 100 basis points has not been prepared.

Changes in Market Interest Rates (Basis Points)	EVE as a % Change from 0 Shock As of December 31, 2017 Projected EVE	Board Policy Limit
		Must be no greater than:
+300	2.4%	-35.0%
+200	2.7%	-30.0%
+100	2.8%	-20.0%
0	0.0%	0.0%
-100	-9.3%	-20.0%

Off-Balance Sheet Arrangements

As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, we use mandatory sell forward delivery commitments to sell whole loans to the secondary markets. These commitments are also used as a hedge against exposure to interest rate risks relating from rate locked loan origination commitments on certain mortgage loans held-for-sale.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Eagle’s audited consolidated financial statements, notes thereto, and auditor’s reports are found immediately following Part III of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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, as amended, as of December 31, 2017, 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 December 31, 2017, our disclosure controls and procedures were effective.

Management Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management conducted an assessment of the effectiveness of our internal control over financial reporting. This assessment was based upon the criteria for effective internal control over financial reporting established in the 2013 *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's internal control over financial reporting involves a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes the controls themselves, as well as monitoring of the controls and internal auditing practices and actions to correct deficiencies identified. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. Based on this assessment, management concluded that, as of December 31, 2017, the Company's internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended December 31, 2017 that have materially affected, or were reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

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PART III

Except as provided below, the information required by Items 10, 11, 12, 13 and 14 is hereby incorporated by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the close of our year ended December 31, 2017.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information about our directors may be found under the caption "Proposal I – Election of Directors" in our Proxy Statement for the 2018 Annual Meeting of Stockholders (the "Proxy Statement"). The information in the Proxy Statement set forth under the captions of "Section 16 (a) Beneficial Ownership Reporting Compliance", "Board Meetings and Committees", "Structure of the Board of Directors", "The Board's Role in Risk Oversight", and "Code of Ethics" is incorporated herein by reference.

Executive Officers of the Registrant

The following is a list of the names and ages of our executive officers, all positions and offices held by each person and each person's principal occupations or employment during the past five years. There are no family relationships between any executive officers and directors.

Peter J. Johnson, President/Chief Executive Officer Age 60
Mr. Johnson has served as President and CEO of Eagle since December 2009. He has also served as President of the Bank since July 2007 and CEO since November 2007. Prior to being named President, he had served as the Company's Executive Vice President and Chief Financial Officer. He joined the Bank in 1981. He currently serves on the Montana Independent Bankers Association board of directors and served as a member of the Federal Reserve Board's Community Depository Institution Advisory Council from 2010-2012. He is a past chairman of both the Helena Area Chamber of Commerce and the Diocese of Helena Finance Council. He is also a member of the Rotary Club of Helena. He serves on the Independent Community Bankers of America's Political Action Committee.

Laura F. Clark, Senior Vice President/Chief Financial Officer Age 61
Ms. Clark has served as the Senior Vice President and Chief Financial Officer of the Bank and Eagle since March 2014. Prior to being named the Chief Financial Officer, she had served as the Senior Vice President and Chief Financial Officer of the Bank of Bozeman since 2005. Her experience spans over 30 years and includes a variety of executive positions with First National Bancorp, Bankers Resource Center, Security Bank, Bank of Montana System and Montana Bancsystem. Ms. Clark holds a Bachelor of Arts degree in Business Administration from Montana State University-Billings. She currently serves as a board member of ExplorationWorks, a local Science Center that provides programs for early childhood education, STEM (science, technology, engineering and math) and healthy

living.

Rachel R. Amdahl, Senior Vice President/Chief Operations Officer Age 49

Mrs. Amdahl has served as Senior Vice President/Chief Operations Officer of the Bank since February 2006. Prior to being named the Senior Vice President/Chief Operations Officer, she served as Vice President/Operations since 2000. She joined the Bank in 1987. She is a past board member of the Lewis and Clark County United Way and the Women's Leadership Network in Helena.

Tracy A. Zepeda, Senior Vice President/Chief Retail Officer Age 38

Ms. Zepeda joined the Bank in December 2012 at the time of the acquisition of seven branches from Sterling Financial Corporation. She had served as Vice President/Territory Manager of Sterling Financial Corporation since January 1, 2011. Prior to that position Ms. Zepeda served as Assistant Vice President/Community Manager of Sterling Financial Corporation since July 2007. She is a board member of the Missoula chapter of Big Brothers Big Sisters.

Dale F. Field, Senior Vice President/Chief Credit Officer Age 46

Mr. Field joined Eagle in 2001 as Vice President/Commercial Lender and was promoted to Vice President/Chief Credit Administration Officer in 2011. He was promoted to Senior Vice President/Chief Credit Officer in July 2014. He serves on the Helena Exchange Club board of directors and is a school board trustee in Clancy, Montana.

Chantelle R. Nash, Senior Vice President/Chief Risk Officer Age 47

Ms. Nash joined Eagle as a Compliance Manager in 2006 and served as Vice President/Compliance Officer since 2010. She was promoted to Senior Vice President/Chief Risk Officer in July 2014. Ms. Nash holds a Juris Doctor degree from University of Idaho College of Law in Moscow, Idaho. She is a past board member of the Helena YWCA.

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Patrick D. Rensmon, Senior Vice President/Chief Information Officer Age 56
Mr. Rensmon joined Eagle in September 2016 as Vice President/Chief Information Officer and was promoted to Senior Vice President in October 2017. He is responsible for all facets of information systems and technology for the Company. He was formerly the Chief Information Officer for Morrison-Maierle, Inc. and also was the President of Morrison-Maierle Systems Corp., which provided customized IT services and consulting to companies across Montana. He holds a Bachelor of Science degree in Information Systems Management from Montana State University-Billings.

Mark A. O'Neill, Senior Vice President/Chief Lending Officer Age 46
Mr. O'Neill joined Eagle as the Butte Market President in February 2016. He was formerly with First Citizens Bank and Wells Fargo and served in various lending and management roles. He was promoted to Senior Vice President/Chief Lending Officer in October 2017. Mr. O'Neill holds a Bachelor of Arts degree in Economics from University of Montana in Missoula, Montana. He is a past board member of the Silver Bow Kiwanis and the Butte Local Development Corporation.

Code of Ethics

We have a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and our Board. Our Code of Ethics and Conflict of Interest Policy is available on our website at www.opportunitybank.com. We will disclose on our website any amendments to or waivers from any provision of our Code of Ethics and Conflict of Interest Policy that applies to any of the directors or executive officers.

ITEM 11. EXECUTIVE COMPENSATION.

The information in the Proxy Statement set forth under the captions of "Directors' Compensation" and "Executive Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information in the Proxy Statement set forth under the captions of "Beneficial Ownership of Common Stock" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information in the Proxy Statement set forth under the captions of "Transactions with Certain Related Persons" and "Board Independence" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information in the Proxy Statement set forth under the captions of "Proposal IV – Ratification of Appointment of Independent Auditors" is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a)(1) The following documents are filed as part of this report: The audited Consolidated Statements of Financial Condition of Eagle Bancorp Montana, Inc. and subsidiaries as of December 31, 2017 and 2016 and the related Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Shareholder Equity and Consolidated Statements of Cash Flows for the years then ended, together with the related notes and independent auditor's reports.

(2) Schedules omitted as they are not applicable.

(3) Exhibits.

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Exhibits 10.1 through 10.11 are management contracts or compensatory plans or arrangements.

2.1	Agreement and Plan of Merger, dated as of September 5, 2017, by and among Eagle Bancorp Montana, Inc., Opportunity Bank of Montana, TwinCo, Inc. and Ruby Valley Bank (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on September 6, 2017).
3.1	Amended and Restated Certificate of Incorporation of Eagle Bancorp Montana, Inc. (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on February 23, 2010).
3.2	Bylaws of Eagle Bancorp Montana, Inc., amended as of August 20, 2015 (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on August 25, 2015).
4.1	Form of Common Stock Certificate of Eagle Bancorp Montana, Inc. (incorporated by reference to Exhibit 4 of our Registration Statement on Form S-1 filed on December 17, 2009).
4.2	Form of 6.75% Subordinated Note due 2025 (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on June 19, 2015).
4.3	Form of 5.75% Subordinated Note due 2022 (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on February 13, 2017).
10.1	Employment Contract, effective as of April 27, 2015, among Peter J. Johnson, Eagle Bancorp Montana, Inc. and Opportunity Bank of Montana (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on April 29, 2015).
10.2	Form of Change in Control Agreement entered into between Eagle Bancorp Montana, Inc. and its executive officers (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on August 24, 2015).
10.3	Salary Continuation Agreement, dated April 18, 2002, between Larry A. Dreyer and American Federal Savings Bank (incorporated by reference to Exhibit 10.9 of our Amendment No. 1 to Registration Statement on Form S-1 filed on February 1, 2010).
10.4	First Amendment to Salary Continuation Agreement, dated December 31, 2006, between Larry A. Dreyer and American Federal Savings Bank (incorporated by reference to Exhibit 10.10 of our Amendment No. 1 to Registration Statement on Form S-1 filed on February 1, 2010).
10.5	Amended Salary Continuation Agreement, dated April 27, 2015, between Peter J. Johnson and Opportunity Bank of Montana (incorporated by reference to Exhibit 10.7 of our Current Report on Form 8-K filed on August 24, 2015).
10.6	Salary Continuation Agreement, dated November 16, 2006, between Rachel R. Amdahl and American Federal Savings Bank (incorporated by reference to Exhibit 10.18 of our Amendment No. 1 to Registration Statement on Form S-1 filed on February 1, 2010).
10.7	

	American Federal Savings Bank Split-Dollar Plan, effective October 21, 2004 (incorporated by reference to Exhibit 10.19 of our Amendment No. 1 to Registration Statement on Form S-1 filed on February 1, 2010).
10.8	Summary of American Federal Savings Bank Bonus Plan (incorporated by reference to Exhibit 10.20 of our Amendment No. 2 to Registration Statement on Form S-1 filed on February 16, 2010).
10.9	2011 Stock Incentive Plan for Directors, Officers and Employees (incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-8 (File No. 333-182360) filed with the SEC on June 27, 2012).
10.10	Amendment No. 1 to the Eagle Bancorp Montana, Inc. 2011 Stock Incentive Plan for Directors, Officers, and Employees (incorporated by reference to Exhibit 10.13 of our Annual Report on Form 10-K filed on March 15, 2016).
10.11	Amendment No. 2 to the Eagle Bancorp Montana, Inc. 2011 Stock Incentive Plan for Directors, Officers and Employees (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on April 21, 2017).

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10.12	Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on June 19, 2015).
10.13	Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on February 13, 2017).
10.14	Form of Eagle Bancorp Montana, Inc. Indemnification Agreement (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K/A filed on February 24, 2017).
21.1	Subsidiaries of Registrant.
23.1	Consent of Davis Kinard & Co, PC.
23.2	Consent of Eide Bailly LLP.
31.1	Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Laura F. Clark, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Peter J. Johnson, Chief Executive Officer and Laura F. Clark, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) See item 15(a)(3) above.

(c) See Item 15(a)(1) and 15(a)(2) above.

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

ITEM 16. FORM 10-K SUMMARY.

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ Peter J. Johnson
Peter J. Johnson
President and Chief Executive Officer

March 13, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Peter J. Johnson	President and Chief Executive Officer	March 13, 2018
Peter J. Johnson	Director (Principal Executive Officer)	
/s/ Laura F. Clark	Senior Vice President and Chief	March 13, 2018
Laura F. Clark	Financial Officer (Principal Financial Officer and Principal Accounting Officer)	
/s/ Larry A. Dreyer	Chairman	March 13, 2018
Larry A. Dreyer		
/s/ James A. Maierle	Vice Chairman	March 13, 2018
James A. Maierle		
/s/ Rick F. Hays	Director	

Rick F. Hays		March 13, 2018
/s/ Lynn E. Dickey Lynn E. Dickey	Director	March 13, 2018
/s/ Maureen J. Rude Maureen J. Rude	Director	March 13, 2018
/s/ Thomas J. McCarvel Thomas J. McCarvel	Director	March 13, 2018
/s/ Shavon R. Cape Shavon R. Cape	Director	March 13, 2018
/s/ Tanya J. Chemodurow Tanya J. Chemodurow	Director	March 13, 2018
/s/ Kenneth M. Walsh Kenneth M. Walsh	Director	March 13, 2018

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AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

and

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

December 31, 2017 and 2016

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Eagle Bancorp Montana, Inc. and Subsidiaries

Helena, Montana

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of Eagle Bancorp Montana, Inc. and Subsidiaries (the Company) as of December 31, 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risk of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Company's auditor since 2017.

Abilene, Texas

February 23, 2018

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Eagle Bancorp Montana, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial condition of **Eagle Bancorp Montana, Inc. and Subsidiaries (Eagle)** as of December 31, 2016 and December 31, 2015 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2016. Eagle's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Eagle Bancorp Montana, Inc. and Subsidiaries** as of December 31, 2016 and December 31, 2015 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Abilene, Texas

February 24, 2017

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in Thousands, Except for Per Share Data)

	December 31,	
	2017	2016
ASSETS:		
Cash and due from banks	$*5,517*	$*6,531*
Interest bearing deposits in banks	*1,920*	*787*
Total cash and cash equivalents	*7,437*	*7,318*
Securities available-for-sale	*132,044*	*128,436*
Federal Home Loan Bank stock	*4,086*	*4,012*
Federal Reserve Bank stock	*1,465*	*871*
Investment in Eagle Bancorp Statutory Trust I	*155*	*155*
Mortgage loans held-for-sale	*8,949*	*18,230*
Loans receivable, net of deferred loan fees of $1,093 at December 31, 2017 and $1,092 at December 31, 2016 and allowance for loan losses of $5,750 at December 31, 2017 and $4,770 at December 31, 2016	*507,404*	*461,391*
Accrued interest and dividends receivable	*2,555*	*2,123*
Mortgage servicing rights, net	*6,578*	*5,853*
Premises and equipment, net	*21,958*	*19,393*
Cash surrender value of life insurance	*14,481*	*14,095*
Real estate and other repossessed assets acquired in settlement of loans, net	*525*	*825*
Goodwill	*7,034*	*7,034*
Core deposit intangible, net	*273*	*384*
Deferred tax asset, net	*1,360*	*1,965*
Other assets	*478*	*1,840*
Total assets	$*716,782*	$*673,925*
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	$*99,799*	$*82,877*
Interest bearing	*420,765*	*429,918*
Total deposits	*520,564*	*512,795*
Accrued expenses and other liabilities	*4,822*	*4,291*

Federal Home Loan Bank advances and other borrowings	82,969	82,413
Other long-term debt:		
Principal amount	25,155	15,155
Unamortized debt issuance costs	(344)	(185)
Total other long-term debt less unamortized debt issuance costs	24,811	14,970
Total liabilities	633,166	614,469
SHAREHOLDERS' EQUITY:		
Preferred stock (par value $0.01 per share; 1,000,000 shares authorized; no shares issued or outstanding)	-	-
Common stock ($0.01 par value; 8,000,000 shares authorized; 5,272,168 and 4,083,127 shares issued; 5,013,678 and 3,811,409 shares outstanding at December 31, 2017 and 2016, respectively)	53	41
Additional paid-in capital	42,780	22,366
Unallocated common stock held by Employee Stock Ownership Plan	(643)	(809)
Treasury stock, at cost	(2,826)	(2,971)
Retained earnings	43,939	41,240
Net accumulated other comprehensive income (loss)	313	(411)
Total shareholders' equity	83,616	59,456
Total liabilities and shareholders' equity	$716,782	$673,925

The accompanying notes are an integral part of these 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)

	Years Ended December 31,	
	2017	2016
INTEREST AND DIVIDEND INCOME:		
Interest and fees on loans	$*24,776*	$*20,842*
Securities available-for-sale	*2,898*	*2,917*
Federal Home Loan Bank and Federal Reserve Bank dividends	*170*	*142*
Trust preferred securities	*4*	*3*
Interest on deposits in banks	*7*	*1*
Other interest income	*5*	*6*
Total interest and dividend income	*27,860*	*23,911*
INTEREST EXPENSE:		
Deposits	*1,553*	*1,518*
Federal Home Loan Bank advances and other borrowings	*1,217*	*815*
Other long-term debt	*1,324*	*785*
Total interest expense	*4,094*	*3,118*
NET INTEREST INCOME	*23,766*	*20,793*
Loan loss provision	*1,228*	*1,833*
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	*22,538*	*18,960*
NONINTEREST INCOME:		
Service charges on deposit accounts	*954*	*865*
Net gain on sale of loans (includes $1,920 and $2,938 for 2017 and 2016, respectively, related to accumulated other comprehensive earnings reclassification)	*8,803*	*10,346*
Mortgage loan service fees	*2,127*	*1,835*
Wealth management income	*624*	*601*
Interchange and ATM fees	*856*	*873*
Appreciation in cash surrender value of life insurance	*500*	*484*
Net gain on sale of available-for-sale securities (includes $37 and $249 for 2017 and 2016, respectively, related to accumulated other comprehensive earnings reclassification)	*37*	*249*

Net (loss) gain on sale of real estate owned and other repossessed property	(29)	6
Other noninterest income	459	731
Total noninterest income	14,331	15,990
NONINTEREST EXPENSE:		
Salaries and employee benefits	17,880	16,286
Occupancy and equipment expense	2,734	2,815
Data processing	2,263	1,980
Advertising	966	696
Amortization of mortgage servicing rights	1,086	1,249
Amortization of core deposit intangible and tax credits	426	445
Federal insurance premiums	284	404
Postage	193	194
Legal, accounting and examination fees	575	394
Consulting fees	180	202
Acquisition costs	676	-
Write-down on real estate owned and other repossessed property	45	-
Other noninterest expense	3,330	3,354
Total noninterest expenses	30,638	28,019
INCOME BEFORE INCOME TAXES	6,231	6,931
Income tax expense (includes $403 and ($455) for 2017 and 2016, respectively, related to income tax expense (benefit) from reclassification items)	2,128	1,799
NET INCOME	$4,103	$5,132
BASIC EARNINGS PER SHARE	$1.01	$1.36
DILUTED EARNINGS PER SHARE	$0.99	$1.32

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)

	Years Ended December 31, 2017	2016
NET INCOME	$*4,103*	$*5,132*
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):		
Change in fair value of investment securities available-for-sale, before income taxes	*1,397*	*(792*)
Reclassification for realized gains and losses on investment securities included in income, before income taxes	*(37*)	*(249*)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	*1,687*	*2,861*
Reclassification for realized gains on derivatives designated as cash flow hedges, before income taxes	*(1,920*)	*(2,938*)
Total other items of comprehensive income (loss)	*1,127*	*(1,118*)
Income tax (expense) benefit related to:		
Investment securities	*(540*)	*424*
Derivatives designated as cash flow hedges	*137*	*31*
Total income tax (expense) benefit	*(403*)	*455*
COMPREHENSIVE INCOME	$*4,827*	$*4,469*

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands, Except for Per Share Data)

	Preferred Stock	Common Stock	Paid-In Capital	Unallocated ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2016	$ -	$ 41	$ 22,152	$ (975)	$ (3,321)	$ 37,301	$ 252	$ 55,450
Net income						5,132		5,132
Other comprehensive loss							(663)	(663)
Dividends paid						(1,193)		(1,193)
Stock compensation expense			500					500
Treasury stock reissued for compensation (31,945 shares at $10.97 average cost per share)			(350)		350			-
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (16,616 shares)			64	166				230
Balance at December 31, 2016	$ -	$ 41	$ 22,366	$ (809)	$ (2,971)	$ 41,240	$ (411)	$ 59,456
Net income						4,103		4,103
Other comprehensive income							724	724

Dividends paid						*(1,404)*		*(1,404)*
Proceeds from public offering, net of expenses		*12*	*20,145*					*20,157*
Stock compensation expense			*261*					*261*
Treasury stock reissued for compensation (13,228 shares at $10.97 average cost per share)			*(145)*		*145*			-
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (16,616 shares)			*153*	*166*				*319*
Balance at December 31, 2017	$ -	$ *53*	$*42,780*	$ *(643)*	$*(2,826)*	$*43,939*	$ *313*	$*83,616*

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(Dollars in Thousands)

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$4,103	$5,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	1,228	1,833
Write-down on real estate owned and other repossessed assets	45	-
Depreciation	969	1,058
Net amortization of investment securities premiums and discounts	1,555	1,838
Amortization of mortgage servicing rights	1,086	1,249
Amortization of core deposit intangible and tax credits	426	445
Deferred income tax benefit	202	(20)
Net gain on sale of loans	(8,803)	(10,346)
Net gain on sale of available-for-sale securities	(37)	(249)
Net loss (gain) on sale of real estate owned and other repossessed assets	29	(6)
Net (gain) loss on sale/disposal of premises and equipment	(1)	6
Net appreciation in cash surrender value of life insurance	(386)	(466)
Net change in:		
Accrued interest and dividends receivable	(432)	155
Loans held-for-sale	17,851	10,741
Other assets	1,107	552
Accrued expenses and other liabilities	1,111	971
Net cash provided by operating activities	20,053	12,893
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	10,585	23,649
Maturities, principal payments and calls	10,014	9,882
Purchases	(24,365)	(18,859)
Federal Home Loan Bank stock purchased	(74)	(615)
Federal Reserve Bank stock (purchased) redeemed	(594)	16
Loan origination and principal collection, net	(49,118)	(62,201)
Proceeds from Bank owned life insurance	-	885
Purchases of Bank owned life insurance	-	(2,000)

Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	292	353
Proceeds from sale of premises and equipment	2	7
Additions to premises and equipment	(3,535)	(2,247)
Net cash used in investing activities	(56,793)	(51,130)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	7,769	29,613
Net short-term (payments) advances from Federal Home Loan Bank and other borrowings	(34,027)	15,313
Long-term advances from Federal Home Loan Bank and other borrowings	46,300	5,000
Payments on long-term Federal Home Loan Bank and other borrowings	(11,717)	(10,616)
Proceeds from issuance of long-term debt	10,000	-
Payments for debt issuance costs	(219)	-
Proceeds from issuance of common stock	20,157	-
Dividends paid	(1,404)	(1,193)
Net cash provided by financing activities	36,859	38,117
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119	(120)
CASH AND CASH EQUIVALENTS, beginning of period	7,318	7,438
CASH AND CASH EQUIVALENTS, end of period	$7,437	$7,318

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *1:* Organization and Operations

On *April 5, 2010,* Eagle Bancorp completed its *second*-step conversion from a partially-public mutual holding company structure to a fully publicly-owned stock holding company structure. As part of that transaction it also completed a related stock offering. As a result of the conversion and offering, Eagle Bancorp Montana, Inc. ("the Company", or "Eagle") became the stock holding company for American Federal Savings Bank ("AFSB"), and Eagle Financial MHC and Eagle Bancorp ceased to exist. The Company sold a total of *2,464,274* shares of common stock at a purchase price of *$10.00* per share in the offering for gross proceeds of *$24,643,000.* Concurrent with the completion of the offering, shares of Eagle Bancorp common stock owned by the public were exchanged. Shareholders of Eagle Bancorp received *3.80* shares of the Company's common stock for each share of Eagle Bancorp common stock that they owned immediately prior to completion of the transaction.

The Company's Employee Stock Ownership Plan ("ESOP"), which purchased shares in the offering, was authorized to purchase up to *8.00%* of the shares sold in the offering, or *197,142* shares. The ESOP completed its purchase of all such authorized shares in the offering, at a total cost of *$1,971,000.*

On *October 13, 2017,* the Company successfully completed a public offering of its common stock, and issued *1,189,041* shares and received approximately *$20,157,000* in net cash proceeds.

In *2014,* the Board of Directors (the "Board") determined that it was in the Company's best interests to adopt a Montana community bank charter and the Company applied to the State of Montana to form an interim bank for the purpose of facilitating the conversion of AFSB from a federally chartered savings bank to a Montana-chartered commercial bank. Upon receiving required approvals of the Montana Division of Banking and Financial Institutions and the federal banking agencies for the conversion the conversion became effective on *October 14, 2014.* Concurrent with the conversion, the Bank applied, and was approved, for membership in the Federal Reserve System of the Board of Governors. In connection with the conversion, AFSB changed its name to Opportunity Bank of Montana ("the Bank"). As a result of the conversion, the Bank is regulated by the Montana Division of Banking and Financial Institutions. As a Federal Reserve Board ("FRB") member bank, its primary federal regulator is the FRB, and the Company is a registered bank holding company regulated by the FRB. The Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC").

The Bank is headquartered in Helena, Montana, and operates additional branches in Butte, Bozeman, Billings, Big Timber, Great Falls, Livingston, Missoula, Hamilton and Townsend, Montana. It also operates a separate mortgage loan origination location in Missoula, Montana. The Bank's principal business is accepting deposits and, together with funds generated from operations and borrowings, investing in various types of loans and securities. Collectively, Eagle Bancorp Montana Inc. and its subsidiaries are referred to herein as "the Company."

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2:* Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include Eagle Bancorp Montana Inc., the Bank, Eagle Bancorp Statutory Trust I and AFSB NMTC Investment Fund, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Consolidated Financial Statement Presentation and Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In preparing consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, the valuation of financial instruments, deferred tax assets and liabilities and the valuation of foreclosed assets. In connection with the determination of the estimated losses on loans, foreclosed assets and valuation of mortgage servicing rights, management obtains independent appraisals and valuations.

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

Significant Group Concentrations of Credit Risk

Most of the Company’s business activity is with customers located within Montana. Note *4:* Investment Securities discusses the types of securities that the Company invests in. Note *5:* Loans discusses the types of lending that the

Company engages in. The Company does *not* have any significant concentrations to any *one* industry or customer.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. At *December 31, 2017* and *2016, no* account balances were held with correspondent banks that were in excess of FDIC insured levels, except for federal funds sold or deposit balances held at, Pacific Coast Bankers Bank ("PCBB") and Zions Bank. Also, from time to time, the Company is due amounts in excess of FDIC insurance limits for checks and transit items.

Management monitors financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present *no* significant additional risk to the Company.

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions "cash and due from banks" and "interest bearing deposits in banks" all of which mature within *ninety* days.

The Bank properly maintains amounts in excess of reserve balances as required by the FRB. The Bank had vault cash reserves in excess of the required reserve amount of *$880,000* and *$676,000* as of *December 31, 2017* and *2016,* respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2:* Summary of Significant Accounting Policies – continued

Investment Securities

The Company can designate debt and equity securities as held-to-maturity, available-for-sale or trading. At *December 31, 2017* and *2016* all securities were designated as available-for-sale.

Held-to-Maturity – Debt investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the period remaining until maturity.

Available-for-Sale – Investment securities that will be held for indefinite periods of time, including securities that *may* be sold in response to changes in market interest or prepayment rates, need for liquidity and changes in the availability of and the yield of alternative investments, are classified as available-for-sale. These assets are carried at fair value. Unrealized gains and losses, net of tax, are reported as other comprehensive income. Gains and losses on the sale of available-for-sale securities are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary are recognized by write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses.

Trading – Investments that are purchased with the intent of selling them within a short period of time.

Federal Home Loan Bank Stock

The Company’s investment in Federal Home Loan Bank (“FHLB”) of Des Moines stock is a restricted investment carried at cost (*$100* per share par value), which approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on total assets and a specific percentage of its outstanding FHLB advances. The Company had *40,861* and *40,121* FHLB shares at *December 31, 2017* and *2016,* respectively. Dividends are paid quarterly and are subject to FHLB board approval.

Federal Reserve Bank Stock

The Company’s investment in FRB stock is a restricted investment carried at cost, which approximates its fair value. Although the par value of the stock is *$100* per share, banks pay only *$50* per share at the time of purchase, with the understanding that the other half of the subscription amount is subject to call at any time. As a member of the Federal Reserve System, the Company is required to maintain a minimum level of investment in FRB stock based on a specific percentage of its capital and surplus. The Company had *29,295* and *17,415* FRB shares at *December 31, 2017* and *2016,* respectively. Dividends are received semi-annually at a fixed rate of *6.00%* on the total number of shares.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2:* Summary of Significant Accounting Policies – continued

Mortgage Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at fair value, determined in aggregate, plus the fair value of associated derivative financial instruments. Net unrealized losses, if any, are recognized in a valuation allowance by a charge to income.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in Montana. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances net of any unearned income, allowance for loan losses, and unamortized deferred fees or costs on originated loans and unamortized premiums or unaccreted discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs are deferred and amortized over the contractual life of the loan, and recorded as an adjustment to the yield, using the interest method.

Loan Origination/Risk Management – The Bank selectively extends credit for the purpose of establishing long-term relationships with its customers. The Bank mitigates the risks inherent in lending by focusing on businesses and individuals with demonstrated payment history, historically favorable profitability trends and stable cash flows. In addition to these primary sources of repayment, the Bank considers tangible collateral and personal guarantees as secondary sources of repayment. Lending officers are provided with detailed underwriting policies covering all lending activities in which the Bank is engaged and require all lenders to obtain appropriate approvals for the extension of credit. The Bank also maintains documentation requirements and extensive credit quality assurance practices in order to identify credit portfolio weaknesses as early as possible so any exposures that are discovered *may* be reduced.

A reporting system supplements the loan review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The Bank regularly contracts for independent loan reviews that validate the credit risk program. Results of these reviews are presented to management. The loan review process compliments and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as, the Company’s policies and procedures.

Residential Mortgages (1-4 Family) – The Bank originates *1-4* family residential mortgage loans collateralized by owner-occupied and non-owner-occupied real estate. Repayment of these loans *may* be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. Loans collateralized by *1-4* family residential real estate generally have been originated in amounts up to *80.00%* of appraised values before requiring private mortgage insurance. The underwriting analysis includes credit verification, appraisals and a review of the financial condition of the borrower. The Company will either hold these loans in its portfolio or sell them on the secondary market, depending upon market conditions and the type and term of the loan originations. Generally, all *30*-year fixed rate loans are sold in the secondary market.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Loans – continued

Commercial Real Estate Mortgages and Land Loans – The Bank makes commercial real estate loans and land loans (both developed and undeveloped) and loans on multi-family dwellings. Commercial real estate loans are collateralized by owner-occupied and non-owner-occupied real estate. Payments on loans secured by such properties are often dependent on the successful operation or management of the properties. Accordingly, repayment of these loans *may* be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. When underwriting these loans, the Bank seeks to minimize these risks in a variety of ways, including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and physical condition. The underwriting analysis also includes credit verification, analysis of global cash flow, appraisals and a review of the financial condition of the borrower.

Real Estate Construction – The Bank makes loans to finance the construction of residential properties. The majority of the Bank's residential construction loans are made to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Construction loans involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If the Company is forced to foreclose on a project prior to completion, there is *no* assurance that the Company will be able to recover the entire unpaid portion of the loan. In addition, the Company *may* be required to fund additional amounts to complete a project and *may* have to hold the property for an indeterminable period of time. While the Bank has underwriting procedures designed to identify what it believes to be acceptable levels of risks in construction lending, *no* assurance can be given that these procedures will prevent losses from the risks described above.

Home Equity Loans – The Bank originates home equity loans that are secured by the borrowers' primary residence. These loans are typically subject to a prior lien, which *may* or *may not* be held by the Bank. Although these loans are secured by real estate, they carry a greater risk than *first* lien *1-4* family residential mortgages because of the existence of a prior lien on the property as well as the flexibility the borrower has with respect to the proceeds. The Bank attempts to minimize this risk by maintaining conservative underwriting policies on these types of loans. Generally, home equity loans are made for up to *85.00%* of the appraised value of the underlying real estate collateral, less the amount of any existing prior liens on the property securing the loan.

Consumer Loans – Consumer loans made by the Bank include automobile loans, recreational vehicle loans, boat loans, personal loans, credit lines, loans secured by deposit accounts and other personal loans. Risk is minimized due to relatively small loan amounts that are spread across many individual borrowers.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Loans – continued

Commercial and Industrial Loans – A broad array of commercial lending products are made available to businesses for working capital (including inventory and accounts receivable), purchases of equipment and machinery and business. Bank's commercial loans are underwritten on the basis of the borrower's ability to service such debt as reflected by cash flow projections. Commercial loans are generally collateralized by business assets, accounts receivable and inventory, certificates of deposit, securities, guarantees or other collateral. The Bank also generally obtains personal guarantees from the principals of the business. Working capital loans are primarily collateralized by short-term assets, whereas term loans are primarily collateralized by long-term assets. As a result, commercial loans involve additional complexities, variables and risks and require more thorough underwriting and servicing than other types of loans.

Non-Accrual and Past Due Loans – Loans are considered past due if the required principal and interest payments have *not* been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower *may* be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or *not* a borrower *may* be unable to meet payment obligations for each class of loans, the Bank considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Bank's collateral position. Regulatory provisions would typically require the placement of a loan on non-accrual status if (i) principal or interest has been in default for a period of *90* days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is *not* expected. Loans *may* be placed on non-accrual status regardless of whether or *not* such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that *may* affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses – continued

The allowance consists of specific, general and unallocated components. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses.

The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are *not* classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Troubled Debt Restructured Loans

A troubled debt restructured 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 troubled debt restructured loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on a market price valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Mortgage Servicing Rights – continued

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that the fair value is less than the capitalized amount for the tranches. If the Company later determines that all or a portion of the impairment *no* longer exists for a particular tranche, a reduction of the allowance *may* be recorded as an increase to income. Capitalized servicing rights are reported as assets and are amortized into noninterest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Cash Surrender Value of Life Insurance

Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for fair value. The adjustment to fair value increases or decreases the carrying value of the policies and is recorded as an income or expense on the consolidated statement of income. For the years ended *December 31, 2017* and *2016,* there were *no* adjustments to fair value that were outside the normal appreciation in cash surrender value.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held-for-sale is carried at fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Premises and Equipment

Land is carried at cost. Property and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from *3* to *40* years. The costs of maintenance and repairs are expensed as incurred, while major expenditures for renewals and betterments are capitalized.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Income Taxes

The Company adopted authoritative guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The Company's income tax expense consists of the following components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than *not,* based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than *not* means a likelihood of more than *50* percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-*not* recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than *50* percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or *not* a tax position has met the more-likely-than-*not* recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than *not* that some portion or all of a deferred tax asset will *not* be realized.

The Company recognizes interest accrued on penalties related to unrecognized tax benefits in tax expense. During the years ended *December 31, 2017* and *2016* the Company recognized *no* interest and penalties. Based on management's analysis, the Company did *not* have any uncertain tax positions as of *December 31, 2017* or *2016.* The Company files tax returns in the U.S. federal jurisdiction and the State of Montana. There are currently *no* income tax examinations underway for these jurisdictions. The Company's income tax returns are subject to examination by relevant taxing authorities as follows: U.S. Federal income tax returns for tax years *2014* and forward; Montana income tax returns for tax years *2014* and forward.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of *258,490* and *271,718* shares at *December 31, 2017* and *2016,* respectively.

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 *three* months ended *December 31, 2017* or *September 30, 2017.* The plan expires on *July 20, 2018.*

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Treasury Stock – continued

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.*

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

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs were *$966,000* and *$696,000* for the years ended *December 31, 2017* and *2016,* respectively.

Employee Stock Ownership Plan

Compensation expense recognized for the Company's ESOP equals the fair value of shares that have been allocated or committed to be released for allocation to participants. Any difference between the fair value of the shares at the time and the ESOP's original acquisition cost is charged or credited to shareholders' equity (capital surplus). The cost of ESOP shares that have *not* yet been allocated or committed to be released is deducted from shareholders' equity.

Earnings Per Share

Earnings per common share is computed using the *two*-class method prescribed under ASC Topic *260,* "Earnings Per Share." ASC Topic *260* provides that unvested share based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the *two*-class method. The Company has determined that its outstanding non-vested stock awards are participating securities. Under the *two*-class method, basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note *3:* Earnings Per Share.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated statement of financial condition and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value *may* require significant management judgment or estimation.

Mortgage Loan Commitments – Mortgage loan commitments that relate to the origination of a mortgage that will be held-for-sale upon funding are considered derivative instruments. 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 after inception of the rate lock.

Interest Rate Lock Commitments – The Company enters into agreements to extend credit to a borrower under certain specified terms and conditions in which the interest rate and the maximum amount of the loan are set prior to funding. Under the agreement, the lender commits to lend funds to a potential borrower (subject to the lender's approval of the loan) on a fixed or adjustable rate basis, regardless of whether interest rates change in the market, or on a floating rate basis.

Forward Delivery Commitments – The Company uses mandatory sell forward delivery commitments to sell whole loans. These commitments are used as a hedge against exposure to interest rate risks resulting from rate locked loan origination commitments on certain mortgage loans held-for-sale. Gains and losses on the items hedged are deferred and recognized in accumulated other comprehensive income until the commitments are completed. At the point of completion of the commitments the gains and losses are recognized in the Company's income statement.

Interest Rate Swap Agreements – For asset/liability management purposes, the Company *may* use interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is *not* exchanged. These swap agreements are derivative instruments and generally convert a portion of the Company’s fixed-rate loans to a variable rate.

The gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings. For fair value hedges, the net settlement (upon close-out or termination) that offsets changes in the value of the loans adjusts the basis of the loans and is deferred and amortized over the life of the loans.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2*: Summary of Significant Accounting Policies – continued

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (*1*) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership (*2*) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (*3*) the Company does *not* maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Business Combinations, Goodwill and Other Intangible Assets

Authoritative guidance requires that all business combinations initiated after *December 31, 2001* be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The guidance also addresses the initial recognition and measurement of intangible assets acquired in a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. The guidance provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives *not* be amortized, but rather be tested at least annually for impairment.

The goodwill recorded for the acquisition of the branches of Sterling Financial Corporation (“Sterling”) in *2012* was *$6,890,000* and is *not* subject to amortization in accordance with accounting guidance. Final valuation adjustments were recorded in *2013* for *$144,000* and impacted goodwill. The final goodwill recorded related to the acquisition was *$7,034,000.* The Company performs a goodwill impairment test annually as of *June 30.* There have been *no* reductions of recorded goodwill resulting from the impairment tests. Other identifiable intangible assets recorded by the Company represent the future benefit associated with the acquisition of the core deposits of the Sterling branches and are being amortized over *7* years utilizing a method that approximates the expected attrition of the deposits. This amortization expense is included in the noninterest expense section of the consolidated statements of income.

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 will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These *may* include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On *July 9, 2015,* the FASB agreed to delay the effective date of the standard by *one* year. Therefore, the new standard will be effective in the *first* quarter of *2018.* 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. We do *not* expect to realize a change in the recognition of the revenue on that part of our noninterest income. We will evaluate the impact of this standard on our revenue from our wealth management division; however we do *not* expect it to have a significant impact on our consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2:* Summary of Significant Accounting Policies – continued

Recent Accounting Pronouncements – continued

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 is *not* expected to have a significant impact to the Company's consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *2:* Summary of Significant Accounting Policies – continued

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *3*: Earnings Per Share

The computations of basic and diluted earnings per share are below. The weighted average shares for the year ended *December 31, 2017* include the impact of the public offering of common stock in *October 2017* which resulted in the issuance of *1,189,041* shares.

	Years Ended December 31,	
	2017	2016
	(Dollars in Thousands, Except for Per Share Data)	
Weighted average shares outstanding during the period in which basic earnings per share is calculated	*4,074,231*	*3,784,788*
Dilutive effect of stock compensation	*58,359*	*88,801*
Average outstanding shares on which diluted earnings per share is calculated	*4,132,590*	*3,873,589*
Net income applicable to common stockholders	$*4,103*	$*5,132*
Basic earnings per share	$*1.01*	$*1.36*
Diluted earnings per share	$*0.99*	$*1.32*

NOTE *4:* Investment Securities

The Company's investment policy requires that the Company purchase only high-grade investment securities. Most municipal obligations are categorized as "A" or better by a nationally recognized statistical rating organization. These ratings are achieved because the securities are backed by the full faith and credit of the municipality and also supported by *third*-party credit insurance policies.

Mortgage-backed securities (“MBSs”) and collateralized mortgage obligations (“CMOs”) are issued by government sponsored corporations, including Federal Home Loan Mortgage Corporation, Fannie Mae and the Guaranteed National Mortgage Association.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *4*: Investment Securities – continued

The amortized cost and fair values of securities, together with unrealized gains and losses, were as follows:

	December 31, 2017			
	Amortized Cost	Gross *Unrealized* Gains	Gross *Unrealized* Losses	*Fair* Value
	(In Thousands)			
Available-for-sale:				
U.S. government and agency	$*4,881*	$ *13*	$ *(37*)	$*4,857*
Municipal obligations	*67,508*	*807*	*(429*)	*67,886*
Corporate obligations	*14,725*	*18*	*(99*)	*14,644*
MBSs - government-backed	*24,770*	*364*	*(265*)	*24,869*
CMOs - government-backed	*20,051*	*7*	*(270*)	*19,788*
Total	$*131,935*	$ *1,209*	$ *(1,100*)	$*132,044*

	December 31, 2016			
	Amortized Cost	Gross *Unrealized* Gains	Gross *Unrealized* Losses	*Fair* Value
	(In Thousands)			
Available-for-sale:				
U.S. government and agency	$*5,673*	$ *7*	$ *(72*)	$*5,608*
Municipal obligations	*68,493*	*575*	*(1,404*)	*67,664*
Corporate obligations	*9,454*	*15*	*(162*)	*9,307*
MBSs - government-backed	*29,537*	*283*	*(308*)	*29,512*
CMOs - government-backed	*16,530*	*15*	*(200*)	*16,345*
Total	$*129,687*	$ *895*	$ *(2,146*)	$*128,436*

The Company has *not* entered into any interest rate swaps, options or futures contracts relating to investment securities.

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

	Years Ended December 31,	
	2017	2016
	(In Thousands)	
Proceeds from sale of available-for-sale securities	$10,585	$23,649
Gross realized gain on sale of available-for-sale securities	$77	$272
Gross realized loss on sale of available-for-sale securities	(40)	(23)
Net realized gain on sale of available-for-sale securities	$37	$249

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *4*: Investment Securities – continued

The amortized cost and fair value of securities at *December 31, 2017* by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers *may* have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$*3,638*	$*3,630*
Due from one to five years	*11,278*	*11,212*
Due from five to ten years	*14,344*	*14,354*
Due after ten years	*57,854*	*58,191*
	87,114	*87,387*
MBSs - government-backed	*24,770*	*24,869*
CMOs - government-backed	*20,051*	*19,788*
Total	$*131,935*	$*132,044*

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

At *December 31, 2017* and *2016,* securities with a fair value of *$8,415,000* and *$18,626,000,* respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The Company's investment securities that have been in a continuous unrealized loss position for less than *12* months and those that have been in a continuous unrealized loss position for *12* or more months were as follows:

December 31, 2017			
Less than 12 Months		12 Months or Longer	
	Gross		Gross
Fair	Unrealized	Fair	Unrealized

	Value	Losses	Value	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)
MBSs and CMOs - government-backed	9,107	(81)	21,653	(454)
Total	$34,647	$ (253)	$43,672	$ (847)

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *4:* Investment Securities – continued

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, 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 *December 31, 2017* and *December 31, 2016,* there were, respectively, *87* and *97* securities in unrealized loss positions that were considered to be temporarily impaired and therefore an impairment charge has *not* been recorded.

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

At *December 31, 2017, 15* corporate obligations had unrealized losses with aggregate depreciation of approximately *0.84%* from the Company's amortized cost basis of these securities. At *December 31, 2016, 13* corporate obligations had an unrealized loss with aggregate depreciation of approximately *1.92%* from the Company's amortized cost basis of these securities. These unrealized losses are principally due to changes in interest rates. *No* credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a *one*-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future, *no* declines are deemed to be other than temporary.

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 of these securities. At *December 31, 2016, 14* MBSs and CMOs had unrealized losses with aggregate depreciation of approximately *1.92%* from the Company’s amortized cost basis of these securities. We believe these unrealized losses are principally due to the credit market’s concerns regarding the stability of the mortgage market, changes in interest rates and credit spreads and uncertainty of future prepayment speeds. Management considers available evidence to assess whether it is more likely-than-*not* that all amounts due would *not* be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligor, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. There was *no* disruption of the scheduled cash flows on any of the securities. Management’s analysis as of *December 31, 2017* revealed *no* expected credit losses on the securities and therefore, declines are *not* deemed to be other than temporary.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *5*: Loans

Loans receivable consisted of the following:

	December 31, 2017	2016
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$*109,911*	$*113,262*
Commercial real estate	*244,783*	*214,927*
Real estate construction	*25,306*	*20,540*
Other loans:		
Home equity	*52,672*	*49,018*
Consumer	*15,712*	*14,800*
Commercial	*65,863*	*54,706*
Total	*514,247*	*467,253*
Deferred loan fees, net	*(1,093*)	*(1,092*)
Allowance for loan losses	*(5,750*)	*(4,770*)
Total loans, net	$*507,404*	$*461,391*

Within the commercial real estate loan category above, *$10,962,000* and *$11,586,000* was guaranteed by the United States Department of Agriculture Rural Development at *December 31, 2017* and *2016,* respectively. In addition, within the commercial loan category above, *$486,000* and *$1,588,000* were in loans originated through a syndication program where the business resides outside of Montana at *December 31, 2017* and *2016,* respectively.

The following table includes information regarding nonperforming assets.

	December 31, 2017	2016
	(Dollars in Thousands)	

Non-accrual loans	$977	$614
Accruing loans delinquent 90 days or more	-	495
Restructured loans, net	-	43
Total nonperforming loans	977	1,152
Real estate owned and other repossessed assets, net	525	825
Total nonperforming assets	$1,502	$1,977
Total nonperforming assets as a percentage of total assets	0.21 %	0.29 %
Allowance for loan losses	$5,750	$4,770
Percent of allowance for loan losses to nonperforming loans	588.54%	414.06%
Percent of allowance for loan losses to nonperforming assets	382.82%	241.27%

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: Loans – continued

Allowance for loan losses activity was as follows:

	Residential Mortgage (1-4 Family) (In Thousands)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
Allowance for loan losses:							
Beginning balance, January 1, 2017	$ *997*	$ *2,079*	$ *244*	$ *460*	$ *193*	$ *797*	$ *4,770*
Charge-offs	-	-	-	-	*(193*)	*(118*)	*(311*)
Recoveries	-	-	-	*40*	*20*	*3*	*63*
Provision	*2*	*699*	*58*	*6*	*205*	*258*	*1,228*
Ending balance, December 31, 2017	$ *999*	$ *2,778*	$ *302*	$ *506*	$ *225*	$ *940*	$ *5,750*
Ending balance, December 31, 2017 allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ *27*	$ *22*	$ *49*
Ending balance, December 31, 2017 allocated to loans collectively evaluated for impairment	$ *999*	$ *2,778*	$ *302*	$ *506*	$ *198*	$ *918*	$ *5,701*
Loans receivable:							
Ending balance, December 31, 2017	$ *109,911*	$ *244,783*	$ *25,306*	$ *52,672*	$ *15,712*	$ *65,863*	$ *514,247*
Ending balance, December 31, 2017 of loans individually evaluated for impairment	$ *475*	$ -	$ -	$ *242*	$ *153*	$ *107*	$ *977*
Ending balance, December 31, 2017 of loans collectively evaluated for impairment	$ *109,436*	$ *244,783*	$ *25,306*	$ *52,430*	$ *15,559*	$ *65,756*	$ *513,270*

	Residential Mortgage (1-4 Family) (In Thousands)	Commercial Real Estate	Real Estate Construction	Home Equity	Consumer	Commercial	Total
Allowance for loan losses:							
Beginning balance, January 1, 2016	$*911*	$ *1,593*	$ *184*	$ *342*	$ *66*	$ *454*	$*3,550*
Charge-offs	*(4*)	*(298*)	-	*(7*)	*(204*)	*(119*)	*(632*)
Recoveries	-	-	-	-	*19*	-	*19*
Provision	*90*	*784*	*60*	*125*	*312*	*462*	*1,833*
Ending balance, December 31, 2016	$*997*	$ *2,079*	$ *244*	$ *460*	$ *193*	$ *797*	$*4,770*