

Eagle Bancorp Montana, Inc.
Form 10-Q
August 07, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from _____ to _____.

Commission file number 1-34682

Eagle Bancorp Montana, Inc.

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

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

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.opportunitybank.com

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

Yes No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if smaller reporting company)		Emerging growth company	<input type="checkbox"/>

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common stock, par value \$0.01 per share 5,460,452 shares outstanding
As of August 7, 2018

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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Exhibit 31.1

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101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Note Regarding Forward-Looking Statements

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

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

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

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

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, 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 perform due diligence and 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;

the possibility of goodwill impairment charges in the future;

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS:		
Cash and due from banks	\$7,583	\$5,517
Interest bearing deposits in banks	1,397	1,920
Total cash and cash equivalents	8,980	7,437
Securities available-for-sale	154,265	132,044
Federal Home Loan Bank stock	4,559	4,086
Federal Reserve Bank stock	2,019	1,465
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	11,700	8,949
Loans receivable, net of deferred loan fees of \$1,029 at June 30, 2018 and \$1,093 at December 31, 2017 and allowance for loan losses of \$6,150 at June 30, 2018 and \$5,750 at December 31, 2017	575,578	507,404
Accrued interest and dividends receivable	3,668	2,555
Mortgage servicing rights, net	6,716	6,578
Premises and equipment, net	27,969	21,958
Cash surrender value of life insurance	14,670	14,481
Real estate and other repossessed assets acquired in settlement of loans, net	457	525
Goodwill	12,124	7,034
Core deposit intangible, net	1,702	273
Deferred tax asset, net	2,012	1,360
Other assets	253	478
Total assets	\$826,827	\$716,782

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	June 30, 2018	December 31, 2017
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	\$ 133,736	\$ 99,799
Interest bearing	479,439	420,765
Total deposits	613,175	520,564
Accrued expenses and other liabilities	5,535	4,822
Federal Home Loan Bank advances and other borrowings	91,469	82,969
Other long-term debt:		
Principal amount	25,155	25,155
Unamortized debt issuance costs	(312)	(344)
Total other long-term debt less unamortized debt issuance costs	24,843	24,811
Total liabilities	735,022	633,166
SHAREHOLDERS' EQUITY:		
Preferred stock (par value \$0.01 per share; 1,000,000 shares authorized; no shares issued or outstanding)	-	-
Common stock (par value \$0.01 per share; 8,000,000 shares authorized; 5,718,942 and 5,272,168 shares issued; 5,460,452 and 5,013,678 shares outstanding at June 30, 2018 and December 31, 2017)	57	53
Additional paid-in capital	51,890	42,780
Unallocated common stock held by Employee Stock Ownership Plan	(559)	(643)
Treasury stock, at cost	(2,826)	(2,826)
Retained earnings	44,862	43,939
Net accumulated other comprehensive (loss) income	(1,619)	313
Total shareholders' equity	91,805	83,616
Total liabilities and shareholders' equity	\$ 826,827	\$ 716,782

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
INTEREST AND DIVIDEND INCOME:				
Interest and fees on loans	\$7,862	\$6,174	\$14,734	\$11,744
Securities available-for-sale	1,021	714	2,010	1,443
Federal Home Loan Bank and Federal Reserve Bank dividends	74	36	153	76
Interest on deposits in banks	18	1	35	1
Other interest income	1	-	1	1
Total interest and dividend income	8,976	6,925	16,933	13,265
INTEREST EXPENSE:				
Deposits	494	376	920	756
Federal Home Loan Bank advances and other borrowings	315	322	652	527
Other long-term debt	357	347	704	619
Total interest expense	1,166	1,045	2,276	1,902
NET INTEREST INCOME	7,810	5,880	14,657	11,363
Loan loss provision	24	302	526	603
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	7,786	5,578	14,131	10,760
NONINTEREST INCOME:				
Service charges on deposit accounts	214	239	440	471
Net gain on sale of loans (includes \$262 and \$341 for the three months ended June 30, 2018 and 2017, respectively, and \$587 and \$899 for the six months ended June 30, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassification)	1,720	2,263	3,159	4,088
Mortgage loan servicing fees	563	509	1,123	1,056
Wealth management income	147	180	279	321
Interchange and ATM fees	271	228	496	434
Appreciation in cash surrender value of life insurance	146	126	270	250
	15	(14)	(90)	(14)

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Net gain (loss) on sale of available-for-sale securities (includes \$15 and (\$14) for the three months ended June 30, 2018 and 2017, respectively, and (\$90) and (\$14) for the six months ended June 30, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassification)

Net loss on sale of real estate owned and other repossessed property	(32)	(24)	(57)	(25)
Other noninterest income	40	63	143	197
Total noninterest income	3,084	3,570	5,763	6,778

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
NONINTEREST EXPENSE:				
Salaries and employee benefits	5,461	4,586	10,370	9,019
Occupancy and equipment expense	835	672	1,663	1,389
Data processing	673	566	1,310	1,133
Advertising	298	269	576	458
Amortization of mortgage servicing rights	369	262	610	524
Amortization of core deposit intangible and tax credits	235	107	337	214
Loan costs	179	134	315	299
Federal insurance premiums	69	36	138	120
Postage	84	51	134	99
Legal, accounting and examination fees	184	200	326	285
Consulting fees	25	59	42	108
Acquisition costs	131	-	365	-
Write-down on real estate owned and other repossessed property	-	9	-	45
Other noninterest expense	701	669	1,382	1,366
Total noninterest expense	9,244	7,620	17,568	15,059
INCOME BEFORE INCOME TAXES	1,626	1,528	2,326	2,479
Income tax expense (includes (\$23) and \$858 for the three months ended June 30, 2018 and 2017, respectively, and (\$700) and \$883 for the six months ended June 30, 2018 and 2017, respectively related to income tax (benefit) expense from reclassification items)	293	462	420	650
NET INCOME	\$1,333	\$1,066	\$1,906	\$1,829
BASIC EARNINGS PER SHARE	\$0.24	\$0.28	\$0.35	\$0.48
DILUTED EARNINGS PER SHARE	\$0.24	\$0.27	\$0.35	\$0.47
	5,460,452	3,811,409	5,386,401	3,811,409

**WEIGHTED AVERAGE SHARES OUTSTANDING
(BASIC EPS)**

**WEIGHTED AVERAGE SHARES OUTSTANDING
(DILUTED EPS)**

5,524,912 3,869,885 5,450,861 3,872,765

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018		
	2017	2018	2017	2018	
NET INCOME		\$1,333	\$1,066	\$1,906	\$1,829
OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME:					
Change in fair value of investment securities available-for-sale, before income taxes		(216)	1,775	(2,799)	2,054
Reclassification for realized gains and losses on investment securities included in income, before income tax		(15)	14	90	14
Change in fair value of derivatives designated as cash flow hedges, before income taxes		402	657	664	998
Reclassification for realized gains on derivatives designated as cash flow hedges, before income taxes		(262)	(341)	(587)	(899)
Total other items of comprehensive (loss) income		(91)	2,105	(2,632)	2,167
Income tax benefit (expense) related to:					
Investment securities		60	(730)	720	(843)
Derivatives designated as cash flow hedges		(37)	(128)	(20)	(40)
Total income tax benefit (expense)		23	(858)	700	(883)
COMPREHENSIVE INCOME (LOSS)		\$1,265	\$2,313	\$(26)	\$3,113

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2018 and 2017

(Dollars in Thousands, Except for Per Share Data)

(Unaudited)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL CAPITAL	ESOP SHARES	UNALLOCATED TREASURY STOCK	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance at January 1, 2018	\$ -	\$ 53	\$ 42,780	\$ (643)	\$ (2,826)	\$ 43,939	\$ 313	\$ 83,616
Net income						1,906		1,906
Other comprehensive loss							(1,932)	(1,932)
Dividends paid (\$0.09 per share)						(983)		(983)
Stock issued in connection with TwinCo acquisition		4	9,026					9,030
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (8,308 shares)			84	84				168
Balance at June 30, 2018	\$ -	\$ 57	\$ 51,890	\$ (559)	\$ (2,826)	\$ 44,862	\$ (1,619)	\$ 91,805
Balance at January 1, 2017	\$ -	\$ 41	\$ 22,366	\$ (809)	\$ (2,971)	\$ 41,240	\$ (411)	\$ 59,456
Net income						1,829		1,829

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Other comprehensive income							1,284	1,284
Dividends paid (\$0.08 per share)						(609)		(609)
Employee Stock Ownership Plan shares allocated or committed to be released for allocation (8,308 shares)		78		84				162
Balance at June 30, 2017	\$ -	\$ 41	\$ 22,444	\$ (725)	\$ (2,971)	\$ 42,460	\$ 873	\$ 62,122

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$1,906	\$1,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	526	603
Write-down on real estate owned and other repossessed assets	-	45
Depreciation	578	472
Net amortization of investment securities premium and discounts	648	822
Amortization of mortgage servicing rights	610	524
Amortization of core deposit intangible and tax credits	337	214
Deferred income tax provision (benefit)	240	(50)
Net gain on sale of loans	(3,159)	(4,088)
Net loss on sale of available-for-sale securities	90	14
Net loss on sale of real estate owned and other repossessed assets	57	25
Net appreciation in cash surrender value of life insurance	(211)	(194)
Net change in:		
Accrued interest and dividends receivable	(408)	(51)
Loans held-for-sale	485	6,211
Other assets	167	324
Accrued expenses and other liabilities	862	738
Net cash provided by operating activities	2,728	7,438
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	45,080	2,749
Maturities, principal payments and calls	5,950	5,035
Purchases	(45,970)	(1,307)
Federal Home Loan Bank stock purchased	(362)	(829)
Federal Reserve Bank stock purchased	(554)	-
Cash paid for TwinCo Acquisition, net of cash received	(4,243)	-
Loan origination and principal collection, net	(14,395)	(42,917)
Proceeds from Bank owned life insurance	205	-
Proceeds from sale of real estate and other repossessed assets acquired in settlement of loans	150	262

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Additions to premises and equipment	(4,984)	(1,119)
Net cash used in investing activities	(19,123)	(38,126)

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$10,421	\$1,470
Net short-term advances on Federal Home Loan Bank and other borrowings	23,376	11,553
Long-term advances from Federal Home Loan Bank and other borrowings	-	17,000
Payments on long-term Federal Home Loan Bank and other borrowings	(14,876)	(6,784)
Proceeds from issuance of long-term debt	-	10,000
Payments for debt issuance costs	-	(219)
Dividends paid	(983)	(609)
Net cash provided by financing activities	17,938	32,411
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,543	1,723
CASH AND CASH EQUIVALENTS, beginning of period	7,437	7,318
CASH AND CASH EQUIVALENTS, end of period	\$8,980	\$9,041
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$2,120	\$1,763
Cash paid during the period for income taxes	\$230	\$680
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
(Decrease) increase in dmarket value of securities available-for-sale	\$(2,709)	\$2,068
Mortgage servicing rights recognized	\$748	\$798
Loans transferred to real estate and other assets acquired in foreclosure	\$4	\$-
Stock issued in connection with TwinCo acquisition	\$9,030	\$-
Employee Stock Ownership Plan shares released	\$168	\$162

See Note 12. Mergers and Acquisitions for additional information related to assets acquired and liabilities assumed in the TwinCo acquisition.

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

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

The results of operations for the *six*-month period ended *June 30, 2018* are *not* necessarily indicative of the results to be expected for the year ending *December 31, 2018* or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle Bancorp Montana, Inc.'s ("the Company" or "Eagle") Form *10-K* for the year ended *December 31, 2017*.

Certain prior period amounts were reclassified to conform to the presentation for *2018*. These reclassifications had *no* impact on net income or total shareholders' equity. Certain loan amounts were reclassified for prior periods to be consistent with loan category classification for *June 30, 2018*. During the quarter ended *March 31, 2018*, Eagle completed the acquisition of TwinCo, Inc. ("TwinCo"). See Note *12. Mergers and Acquisitions* for more information. The acquisition included the addition of over *\$55,000,000* in gross loans and added a considerable amount to Eagle's agricultural loans. There was *no* impact to Eagle's loan policies due to the acquisition. Loan costs were previously included in other noninterest expense on the Consolidated Statements of Income. These amounts were presented on their own lines for the *three* and *six* months ended *June 30, 2018* and prior year amounts were reclassified to be consistent with the current year presentation.

The Company evaluated subsequent events for potential recognition and/or disclosure through *August 7, 2018* the date the unaudited consolidated financial statements were issued.

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	June 30, 2018			December 31, 2017				
	Amortized Cost (In Thousands)	Gross Unrealized Gains	Unrealized (Losses) Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized (Losses) Fair Value		
Available-for-Sale:								
U.S. government and agency obligations	\$10,650	\$-	\$(142)	\$10,508	\$4,881	\$13	\$(37)	\$4,857
Municipal obligations	75,102	193	(1,406)	73,889	67,508	807	(429)	67,886
Corporate obligations	12,931	18	(257)	12,692	14,725	18	(99)	14,644
Mortgage-backed securities	22,676	195	(394)	22,477	24,770	364	(265)	24,869
Collateralized mortgage obligations	25,083	2	(715)	24,370	20,051	7	(270)	19,788
Asset-backed securities	10,423	-	(94)	10,329	-	-	-	-
Total	\$156,865	\$408	\$(3,008)	\$154,265	\$131,935	\$1,209	\$(1,100)	\$132,044

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

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

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2017	2018	2017	2018
	(In Thousands)			
Proceeds from sale of available-for-sale securities	\$2,749	\$19,086	\$2,749	\$45,080
Gross realized gain on sale of available-for-sale securities	\$14	\$191	\$14	\$191
Gross realized loss on sale of available-for-sale securities	(28)	(176)	(28)	(281)
Net realized gain (loss) on sale of available-for-sale securities	\$(14)	\$15	\$(14)	\$(90)

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

	June 30, 2018	
	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$1,756	\$1,756
Due from one to five years	18,416	18,096
Due from five to ten years	14,265	14,021
Due after ten years	74,669	73,545
	109,106	107,418
Mortgage-backed securities	22,676	22,477
Collateralized mortgage obligations	25,083	24,370
Total	\$156,865	\$154,265

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

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

	June 30, 2018		12 Months or Longer	
	Less Than 12 Months			
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency	\$9,243	\$ (98)	\$1,264	\$ (44)
Municipal obligations	41,534	(680)	14,236	(726)
Corporate obligations	7,687	(243)	987	(14)
Mortgage-backed securities and collateralized mortgage obligations	16,641	(427)	15,640	(682)
Asset-backed securities	10,329	(94)	-	-
Total	\$85,434	\$ (1,542)	\$32,127	\$ (1,466)

	December 31, 2017		12 Months or Longer	
	Less Than 12 Months			
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. government and agency	\$2,943	\$ (14)	\$1,363	\$ (23)
Municipal obligations	15,404	(87)	16,675	(342)
Corporate obligations	7,643	(71)	3,981	(28)
Mortgage-backed securities and collateralized mortgage obligations	9,107	(81)	21,653	(454)
Asset-backed securities	-	-	-	-
Total	\$35,097	\$ (253)	\$43,672	\$ (847)

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of *June 30, 2018* and *December 31, 2017*, there were, respectively, *121* and *87* securities in an unrealized loss position that were considered to be temporarily impaired and therefore an impairment charge has *not* been recorded.

As of *June 30, 2018*, *86* U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately *2.28%* from the Company's amortized cost basis of these securities. At *December 31, 2017*, *52* U.S. government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately *1.28%* from the Company's amortized cost basis of these securities. As of *June 30, 2018*, *10* corporate obligations had unrealized losses of approximately *2.88%* from the Company's amortized cost basis of these securities. At *December 31, 2017*, *15* corporate obligations had an unrealized loss with aggregate depreciation of approximately *0.84%* from the Company's amortized cost basis of these securities. As management has the ability to hold debt securities until maturity, or for the foreseeable future, *no* declines are deemed to be other than temporary.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

As of *June 30, 2018*, 20 mortgage-backed securities (“MBSs”) and collateralized mortgage obligations (“CMOs”) had unrealized losses with aggregate depreciation of approximately 3.32% from the Company’s amortized cost basis of these securities. At *December 31, 2017*, 20 MBSs and CMOs had unrealized losses with aggregate depreciation of approximately 1.71% from the Company’s amortized cost basis. Management’s analysis as of *June 30, 2018* revealed *no* expected credit losses on the securities and therefore, declines are *not* deemed to be other than temporary.

As of *June 30, 2018*, 5 asset-backed securities (“ABSs”) had unrealized losses with aggregate depreciation of approximately 0.90% from the Company’s amortized cost basis of these securities. The ABSs were purchased during the quarter ended *March 31, 2018*. Management’s analysis as of *June 30, 2018* revealed *no* expected credit losses on the securities and therefore, declines are *not* deemed to be other than temporary.

NOTE 3. LOANS RECEIVABLE

Loans receivable consisted of the following:

	June 30, 2018	December 31, 2017
	(In Thousands)	
Real estate loans:		
Residential 1-4 family	\$ 143,323	\$ 135,217
Commercial real estate	281,525	244,783
Other loans:		
Home equity	53,178	52,672

Consumer	16,635	15,712
Commercial	88,096	65,863
Total	582,757	514,247
Deferred loan fees, net	(1,029)	(1,093)
Allowance for loan losses	(6,150)	(5,750)
Total loans, net	\$575,578	\$507,404

Within the commercial real estate loan category, \$12,797,000 and \$13,114,000 was guaranteed by the United States Department of Agriculture Rural Development, at *June 30, 2018* and *December 31, 2017*, respectively. The commercial real estate category and the commercial category also include \$3,016,000 and \$1,480,000 of loans guaranteed by the United States Department of Agriculture Farm Service Agency at *June 30, 2018*, respectively. The United States Department of Agriculture Farm Service Agency guaranteed loans were acquired through the TwinCo acquisition. In addition, within the commercial loan category, \$256,000 and \$486,000 were in loans originated through a syndication program where the business resides outside of Montana, at *June 30, 2018*, and *December 31, 2017*, respectively.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following table includes information regarding nonperforming assets.

	June 30, 2018 (Dollars in Thousands)	December 31, 2017		
Non-accrual loans	\$1,500	\$ 977		
Accruing loans delinquent 90 days or more	159	-		
Restructured loans, net	-	-		
Total nonperforming loans	1,659	977		
Real estate owned and other repossessed assets, net	457	525		
Total nonperforming assets	\$2,116	\$ 1,502		
Total nonperforming assets as a percentage of total assets	0.26	%	0.21	%
Allowance for loan losses	\$6,150	\$ 5,750		
Percent of allowance for loan losses to nonperforming loans	370.71	%	588.54	%
Percent of allowance for loan losses to nonperforming assets	290.64	%	382.82	%

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

Allowance for loan losses activity was as follows:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Consumer	Commercial	Total
	(In Thousands)					
<i>Allowance for loan losses:</i>						
Beginning balance, April 1, 2018	\$1,301	\$ 3,202	\$427	\$ 200	\$ 1,000	\$6,130
Charge-offs	-	-	-	(23)	(1)	(24)
Recoveries	-	4	-	8	8	20
Provision	-	24	-	-	-	24
Ending balance, June 30, 2018	\$1,301	\$ 3,230	\$427	\$ 185	\$ 1,007	\$6,150
<i>Allowance for loan losses:</i>						
Beginning balance, January 1, 2018	\$1,301	\$ 2,778	\$506	\$ 225	\$ 940	\$5,750
Charge-offs	-	-	(80)	(50)	(24)	(154)
Recoveries	-	7	1	10	10	28
Provision	-	445	-	-	81	526
Ending balance, June 30, 2018	\$1,301	\$ 3,230	\$427	\$ 185	\$ 1,007	\$6,150
Ending balance, June 30, 2018 allocated to loans individually evaluated for impairment	\$-	\$-	\$-	\$-	\$-	\$-
Ending balance, June 30, 2018 allocated to loans collectively evaluated for impairment	\$1,301	\$ 3,230	\$427	\$ 185	\$ 1,007	\$6,150
<i>Loans receivable:</i>						
Ending balance, June 30, 2018	\$143,323	\$ 281,525	\$53,178	\$ 16,635	\$ 88,096	\$582,757
Ending balance, June 30, 2018 of loans individually evaluated for impairment	\$573	\$ 527	\$207	\$ 101	\$ 92	\$1,500

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Ending balance, June 30, 2018 of loans collectively evaluated for impairment	\$142,750	\$280,998	\$52,971	\$16,534	\$88,004	\$581,257
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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Consumer	Commercial	Total
	(In Thousands)					
<i>Allowance for loan losses:</i>						
Beginning balance, April 1, 2017	\$ 1,251	\$ 2,278	\$ 471	\$ 210	\$ 865	\$ 5,075
Charge-offs	-	-	-	(90)	(99)	(189)
Recoveries	-	-	34	3	-	37
Provision	-	100	-	102	100	302
Ending balance, June 30, 2017	\$ 1,251	\$ 2,378	\$ 505	\$ 225	\$ 866	\$ 5,225
<i>Allowance for loan losses:</i>						
Beginning balance, January 1, 2017	\$ 1,241	\$ 2,079	\$ 460	\$ 193	\$ 797	\$ 4,770
Charge-offs	-	-	-	(99)	(99)	(198)
Recoveries	-	-	39	11	-	50
Provision	10	299	6	120	168	603
Ending balance, June 30, 2017	\$ 1,251	\$ 2,378	\$ 505	\$ 225	\$ 866	\$ 5,225
Ending balance, June 30, 2017 allocated to loans individually evaluated for impairment	\$-	\$-	\$-	\$ 38	\$-	\$38
Ending balance, June 30, 2017 allocated to loans collectively evaluated for impairment	\$ 1,251	\$ 2,378	\$ 505	\$ 187	\$ 866	\$ 5,187
<i>Loans receivable:</i>						
Ending balance, June 30, 2017	\$ 140,346	\$ 246,005	\$ 49,266	\$ 15,293	\$ 58,230	\$ 509,140
Ending balance, June 30, 2017 of loans individually evaluated for impairment	\$ 500	\$ 451	\$ 305	\$ 144	\$ 211	\$ 1,611
Ending balance, June 30, 2017 of loans collectively evaluated for impairment	\$ 139,846	\$ 245,554	\$ 48,961	\$ 15,149	\$ 58,019	\$ 507,529

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

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

Loans Rated Special Mention – these loans in category 6 have potential weaknesses and are watched closely by management. If left uncorrected, these potential weaknesses *may* result in deterioration of the repayment prospects for the asset at some future date.

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

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

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

Internal classification of the loan portfolio was as follows:

	June 30, 2018					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)					
Real estate loans:						
Residential 1-4 family	\$111,190	\$ -	\$ 1,124	\$ -	\$ -	\$112,314
Residential 1-4 family construction	30,672	-	337	-	-	31,009
Commercial real estate	213,816	-	2,448	-	-	216,264
Commercial construction and development	36,581	-	-	-	-	36,581
Farmland	28,680	-	-	-	-	28,680
Other loans:						
Home equity	52,971	-	207	-	-	53,178
Consumer	16,484	-	151	-	-	16,635
Commercial	69,837	-	114	-	-	69,951
Agricultural	17,747	-	398	-	-	18,145
Total	\$577,978	\$ -	\$ 4,779	\$ -	\$ -	\$582,757

	December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total

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(In Thousands)

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

	June 30, 2018			
	Restructured			
	Performing Loans	Nonperforming	Total	
	(In Thousands)			
Real estate loans:				
Residential 1-4 family	\$ 111,948	\$ -	\$ 366	\$ 112,314
Residential 1-4 family construction	30,672	-	337	31,009
Commercial real estate	215,737	-	527	216,264
Commercial construction and development	36,581	-	-	36,581
Farmland	28,680	-	-	28,680
Other loans:				
Home equity	52,971	-	207	53,178
Consumer	16,534	-	101	16,635
Commercial	69,830	-	121	69,951
Agricultural	18,145	-	-	18,145
Total	\$ 581,098	\$ -	\$ 1,659	\$ 582,757

	December 31, 2017			
	Restructured			
	Performing Loans	Nonperforming	Total	
	(In Thousands)			
Real estate loans:				
Residential 1-4 family	\$ 109,436	\$ -	\$ 475	\$ 109,911
Residential 1-4 family construction	25,306	-	-	25,306
Commercial real estate	194,805	-	-	194,805
Commercial construction and development	38,351	-	-	38,351
Farmland	11,627	-	-	11,627
Other loans:				
Home equity	52,430	-	-	52,430