

Eagle Bancorp Montana, Inc.
Form 10-Q
November 14, 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 September 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

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(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.opportunitybank.com

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common stock, par value \$0.01 per share 5,477,652 shares outstanding
As of November 14, 2018

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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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 management of Eagle Bancorp Montana, Inc. (“Eagle” or the “Company”) and Opportunity Bank of Montana (the “Bank”), Eagle’s wholly-owned subsidiary, and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

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

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

our ability to successfully perform due diligence and integrate acquired businesses including our proposed acquisition of Big Muddy Bancorp, Inc.;

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 costs or effects of mergers, acquisitions or dispositions we may make, including the pending merger of The State Bank of Townsend with and into Opportunity Bank of Montana, whether we are able to obtain any required governmental approvals in connection with any such mergers, acquisitions or dispositions, and/or our ability to realize the contemplated financial or business benefits, including any anticipated cost savings or synergies, associated with any such mergers, acquisitions or dispositions;

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)

	September 30, 2018	December 31, 2017
ASSETS:		
Cash and due from banks	\$ 7,889	\$ 5,517
Interest bearing deposits in banks	1,079	1,920
Total cash and cash equivalents	8,968	7,437
Securities available-for-sale	148,935	132,044
Federal Home Loan Bank stock	4,617	4,086
Federal Reserve Bank stock	2,033	1,465
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	8,747	8,949
Loans receivable, net of deferred loan fees of \$1,081 at September 30, 2018 and \$1,093 at December 31, 2017 and allowance for loan losses of \$6,350 at September 30, 2018 and \$5,750 at December 31, 2017	590,290	507,404
Accrued interest and dividends receivable	3,890	2,555
Mortgage servicing rights, net	6,947	6,578
Premises and equipment, net	28,600	21,958
Cash surrender value of life insurance	20,405	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	1,599	273
Deferred tax asset, net	2,100	1,360
Other assets	100	478
Total assets	\$ 839,967	\$ 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)

	September 30, 2018	December 31, 2017
LIABILITIES:		
Deposit accounts:		
Noninterest bearing	\$ 142,351	\$ 99,799
Interest bearing	478,951	420,765
Total deposits	621,302	520,564
Accrued expenses and other liabilities	6,082	4,822
Federal Home Loan Bank advances and other borrowings	95,731	82,969
Other long-term debt:		
Principal amount	25,155	25,155
Unamortized debt issuance costs	(295)	(344)
Total other long-term debt less unamortized debt issuance costs	24,860	24,811
Total liabilities	747,975	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 September 30, 2018 and December 31, 2017, respectively)	57	53
Additional paid-in capital	51,927	42,780
Unallocated common stock held by Employee Stock Ownership Plan	(518)	(643)
Treasury stock, at cost	(2,826)	(2,826)
Retained earnings	45,989	43,939
Net accumulated other comprehensive (loss) income	(2,637)	313
Total shareholders' equity	91,992	83,616
Total liabilities and shareholders' equity	\$ 839,967	\$ 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 September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
INTEREST AND DIVIDEND INCOME:				
Interest and fees on loans	\$7,701	\$6,478	\$22,435	\$18,222
Securities available-for-sale	1,036	693	3,046	2,136
Federal Home Loan Bank and Federal Reserve Bank dividends	80	48	233	124
Interest on deposits in banks	5	2	40	3
Other interest income	3	3	4	4
Total interest and dividend income	8,825	7,224	25,758	20,489
INTEREST EXPENSE:				
Deposits	534	386	1,454	1,142
Federal Home Loan Bank advances and other borrowings	453	329	1,105	856
Other long-term debt	361	350	1,065	969
Total interest expense	1,348	1,065	3,624	2,967
NET INTEREST INCOME	7,477	6,159	22,134	17,522
Loan loss provision	194	331	720	934
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	7,283	5,828	21,414	16,588
NONINTEREST INCOME:				
Service charges on deposit accounts	241	250	681	721
Net gain on sale of loans (includes \$402 and \$657 for the three months ended September 30, 2018 and 2017, respectively, and \$989 and \$1,556 for the nine months ended September 30, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassification)	2,290	2,574	5,449	6,662
Mortgage loan servicing fees	575	525	1,698	1,581
Wealth management income	130	142	409	463
Interchange and ATM fees	270	214	766	648
Appreciation in cash surrender value of life insurance	166	125	436	375
	(23)	-	(113)	(14)

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Net loss on sale of available-for-sale securities (includes (\$23) and \$0 for the three months ended September 30, 2018 and 2017, respectively, and (\$113) and (\$14) for the nine months ended September 30, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassification)

Net loss on sale of real estate owned and other repossessed property	-	-	(57)	(25)
Other noninterest income	112	158	255	355
Total noninterest income	3,761	3,988	9,524	10,766

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NONINTEREST EXPENSE:				
Salaries and employee benefits	\$5,123	\$4,331	\$15,493	\$13,350
Occupancy and equipment expense	880	680	2,543	2,069
Data processing	866	563	2,176	1,696
Advertising	295	255	871	713
Amortization of mortgage servicing rights	296	288	906	812
Amortization of core deposit intangible and tax credits	182	107	519	321
Loan costs	154	166	469	465
Federal insurance premiums	65	78	203	198
Postage	58	48	192	147
Legal, accounting and examination fees	121	107	447	392
Consulting fees	23	14	65	122
Acquisition costs	222	276	587	276
Write-down on real estate owned and other repossessed property				