Eagle Bancorp Montana, Inc.
Form 10-Q
February 12, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2013

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

For the transition period from _____ to _____.

Commission file number 1-34682

Eagle Bancorp Montana, Inc.

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

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

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.americanfederalsavingsbank.com

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common stock, par value $0.01 per share 3,918,399 shares outstanding
As of February 12, 2014

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Note Regarding Forward-Looking Statements

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

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

These forward-looking statements are based on current beliefs and expectations of 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 entities or businesses;
- the possibility of goodwill impairment charges in the future;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;
- the impact of the current economic conditions on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of recently enacted legislation to restructure the U.S. financial and regulatory system, including proposals to reform the housing markets and government-sponsored enterprises serving such markets;
- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and

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

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	December 31, 2013	June 30, 2013
ASSETS		
Cash and due from banks	$6,439	$3,776
Interest-bearing deposits with banks	616	2,385
Total cash and cash equivalents	7,055	6,161
Securities available-for-sale, at market value	195,007	218,963
Federal Home Loan Bank stock, at cost	1,896	1,931
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	14,655	20,807
Loans receivable, net of deferred loan expenses of $319 at December 31, 2013 and $117 at June 30, 2013 and allowance for loan losses of $2,120 at December 31, 2013 and $2,000 at June 30, 2013	247,379	214,677
Accrued interest and dividends receivable	2,388	2,387
Mortgage servicing rights, net	3,526	3,192
Premises and equipment, net	19,155	18,943
Cash surrender value of life insurance	11,035	10,869
Real estate and other repossessed assets acquired in settlement of loans, net	419	550
Goodwill	7,034	6,890
Core deposit intangible, net	830	922
Other assets	5,853	4,087
Total assets	$516,387	$510,534

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	December 31, 2013	June 30, 2013
LIABILITIES		
Deposit accounts:		
Noninterest bearing	$56,775	$52,972
Interest bearing	375,466	364,779
Total deposits	432,241	417,751
Accrued expenses and other liabilities	3,167	3,535
FHLB advances and other borrowings	28,067	34,861
Subordinated debentures	5,155	5,155
Total liabilities	468,630	461,302
EQUITY		
Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)	-	-
Common stock (par value $0.01 per share; 8,000,000 shares authorized; 4,083,127 shares issued; 3,918,399 and 3,898,685 shares outstanding at December 31, 2013 and June 30, 2013, respectively)	41	41
Additional paid-in capital	22,118	22,109
Unallocated common stock held by employee stock ownership plan ("ESOP")	(1,307)	(1,390)
Treasury stock, at cost	(1,800)	(1,993)
Retained earnings	34,422	33,849
Accumulated other comprehensive loss	(5,717)	(3,384)
Total equity	47,757	49,232
Total liabilities and equity	$516,387	$510,534

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Interest and Dividend Income:				
Interest and fees on loans	$3,231	$2,753	$6,352	$5,304
Securities available-for-sale	1,083	735	2,102	1,404
Interest on deposits with banks	3	11	4	16
Total interest and dividend income	4,317	3,499	8,458	6,724
Interest Expense:				
Deposits	312	333	633	581
FHLB advances & other borrowings	183	230	365	524
Subordinated debentures	21	23	42	47
Total interest expense	516	586	1,040	1,152
Net interest income	3,801	2,913	7,418	5,572
Loan loss provision	153	187	312	422
Net interest income after loan loss provision	3,648	2,726	7,106	5,150
Noninterest Income:				
Service charges on deposit accounts	264	184	543	350
Net gain on sale of loans (includes $590 and $179 for the three months ended December 31, 2013 and 2012, respectively, and $582 and $192 for the six months ended December 31, 2013 and 2012, respectively, related to accumulated other comprehensive earnings reclassification)	963	962	2,554	1,774
Mortgage loan servicing fees	339	247	653	481
Net gain on sale of available for sale securities (includes $405 and $220 for the three months ended December 31, 2013 and 2012, respectively, and $836 amd $272 for the six months ended December 31, 2013 and 2012, respectively related to accumulated other comprehensive earnings reclassification)	405	245	836	312
Net loss on sale of OREO	(22)	(6)	(50)	(23)
Net gain on fair value hedge	48	28	71	65
Other	472	257	960	533
Total noninterest income	2,469	1,917	5,567	3,492

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Noninterest Expense:				
Salaries and employee benefits	3,088	2,131	6,430	3,572
Occupancy and equipment expense	688	508	1,375	850
Data processing	483	193	931	340
Advertising	206	218	457	419
Amortization of mortgage servicing rights	141	221	334	408
Amortization of core deposit intangible and tax credits	108	48	217	48
Federal insurance premiums	84	43	168	92
Postage	50	37	92	63
Legal, accounting, and examination fees	145	122	269	213
Consulting fees	69	35	155	61
Acquisition costs	-	731	-	1,208
Valuation losses on OREO	-	30	-	98
Other	551	469	1,038	849
Total noninterest expense	5,613	4,786	11,466	8,221
Income (loss) before provision for income taxes	504	(143)	1,207	421
Income Tax Expense (Benefit) (includes $594 and $323 for the three months ended December 31, 2013 and 2012, respectively, and $1,605 and $224 for the six months ended December 31, 2013 and 2012, respectively, related to income tax benefit from reclassification items)	30	(103)	66	39
Net Income (Loss)	$474	$(40)	$1,141	$382
Basic earnings per common share	$0.12	$(0.01)	$0.29	$0.10
Diluted earnings per common share	$0.12	$(0.01)	$0.29	$0.10
Weighted average shares outstanding (basic eps)	3,911,756	3,741,815	3,905,221	3,733,302
Weighted average shares outstanding (diluted eps)	3,978,978	3,933,114	3,978,260	3,931,030

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
NET INCOME (LOSS)	$ 474	$ (40)	$ 1,141	$ 382
OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME:				
Change in unrealized loss on investment securities available for sale, before income taxes	(828)	(787)	(2,886)	(481)
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(405)	(220)	(836)	(272)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	366	396	366	395
Reclassification adjustment for realized gains on derivatives designated as cash flow hedges, before income taxes	(590)	(179)	(582)	(192)
Total other items of comprehensive loss	(1,457)	(790)	(3,938)	(550)
Income tax benefit (expense) related to:				
Investment securities	503	412	1,517	307
Derivatives designated as cash flow hedges	91	(89)	88	(83)
	594	323	1,605	224
COMPREHENSIVE (LOSS) INCOME	$ (389)	$ (507)	$ (1,192)	$ 56

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended December 31, 2013 and 2012
(Dollars in Thousands, Except for Per Share Data)
(Unaudited)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, July 1, 2012	$ -	$ 41	$ 22,112	$ (1,556)	$ (2,210)	$ 32,990	$ 2,273	$ 53,650
Net income						382		382
Other comprehensive loss							(326)	(326)
Dividends paid ($0.07125 per share per quarter)						(554)		(554)
Treasury stock reissued			(11)		217			206
ESOP shares allocated or committed to be released for allocation (8,308 shares)			2	83				85
Balance, December 31, 2012	$ -	$ 41	$ 22,103	$ (1,473)	$ (1,993)	$ 32,818	$ 1,947	$ 53,443
Balance, July 1, 2013	$ -	$ 41	$ 22,109	$ (1,390)	$ (1,993)	$ 33,849	$ (3,384)	$ 49,232
Net income						1,141		1,141
Other comprehensive loss							(2,333)	(2,333)

Dividends paid ($.0725 per share per quarter)						(568)		(568)
Treasury stock reissued					193			193
ESOP shares allocated or committed to be released for allocation (8,308 shares)			9	83				92
Balance, December 31, 2013	$ -	$ 41	$ 22,118	$ (1,307)	$ (1,800)	$ 34,422	$ (5,717)	$ 47,757

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,141	$382
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	312	422
Valuation losses on OREO	-	98
Depreciation	574	401
Net amortization of marketable securities premium and discounts	1,606	438
Amortization of mortgage servicing rights	334	408
Amortization of core deposit intangible and tax credits	217	48
Gain on sale of loans	(2,554)	(1,774)
Net realized gain on sale of available-for-sale securities	(836)	(312)
Loss on sale of OREO	50	23
Gain on fair value hedge	(71)	(65)
Net gain on sale/disposal of fixed assets	(26)	-
Appreciation in cash surrender value of life insurance, net	(166)	(150)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(1)	(583)
Loans held-for-sale	8,435	(2,495)
Other assets	(233)	(2,252)
(Decrease) increase in liabilities:		
Accrued expenses and other liabilities	(10)	105
Net cash provided by (used in) operating activities	8,772	(5,306)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities		
Sales	34,378	8,338
Maturities, principal payments, calls	14,491	11,474
Purchases	(29,405)	(136,976)
FHLB stock redeemed	35	36
Cash received in acquisition of Sterling Bank branches, net of cash paid	-	130,094
Final valuation adjustments related to acquisition of Sterling Bank branches	(144)	-
Net increase in loan receivable, excludes transfers to real estate acquired in settlement of loans	(33,682)	(282)
Proceeds from the sale of real estate and other repossessed property acquired in the settlement of loans	81	1,247
Insurance proceeds related to property and equipment	28	-
Purchase of property and equipment	(788)	(762)
Net cash (used in) provided by investing activities	(15,006)	13,169

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in checking and savings accounts	$14,490	$12,273
Net change in advances from the FHLB and other borrowings	(6,794)	(13,235)
Dividends paid	(568)	(554)
Net cash provided by (used in) financing activities	7,128	(1,516)
Net increase in cash	894	6,347
CASH AND CASH EQUIVALENTS, beginning of period	6,161	19,814
CASH AND CASH EQUIVALENTS, end of period	$7,055	$26,161
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$1,067	$1,240
Cash paid during the period for income taxes	$108	$372
Assets acquired through foreclosure	$-	$243
NON-CASH INVESTING ACTIVITIES:		
Decrease in market value of securities available-for-sale	$3,722	$753
Mortgage servicing rights recognized	$668	$540
ESOP shares released	$92	$85
Loans transferred to real estate and other assets acquied in foreclosure	$-	$468
Treasury shares reissued for compensation	$193	$206

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete 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 results for the unaudited interim periods.

The results of operations for the six month period ended December 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2014 or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle's Form 10-K for the fiscal year ended June 30, 2013.

The Company evaluated subsequent events for potential recognition and/or disclosure through February 12, 2014 the date the consolidated financial statements were issued.

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

(In Thousands)	December 31, 2013				June 30, 2013			
		Gross				Gross		
	Amortized	Unrealized		Fair	Amortized	Unrealized		Fair
	Cost	Gains	(Losses)	Value	Cost	Gains	(Losses)	Value
Available-for-sale:								
U.S. government and agency obligations	$45,458	$61	$(865)	$44,654	$50,904	$514	$(487)	$50,931
Municipal obligations	87,404	374	(7,337)	80,441	88,948	1,072	(5,584)	84,436
Corporate obligations	5,977	21	(144)	5,854	9,130	84	(153)	9,061
Mortgage-backed securities - government backed	28,682	14	(868)	27,828	27,680	35	(813)	26,902
CMOs - government backed	37,501	144	(1,415)	36,230	48,594	307	(1,268)	47,633
Total	$205,022	$614	$(10,629)	$195,007	$225,256	$2,012	$(8,305)	$218,963

For the three months ended December 31, 2013 and 2012, net proceeds from sales of securities available for sale amounted to $18,229,000 and $7,764,000, respectively. For the three months ended December 31, 2013 and 2012 gross realized gains amounted to $439,000 and $301,000, respectively and gross realized losses amounted to $34,000 and $56,000, respectively. For the six months ended December 31, 2013 and 2012, net proceeds from sales of securities available for sale amounted to $34,378,000 and $8,338,000, respectively. For the six months ended December 31, 2013 and 2012, gross realized gains amounted to $919,000 and $368,000, respectively and gross realized losses amounted to $83,000 and $56,000, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES – continued

The amortized cost and fair value of securities at December 31, 2013 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	$ 1,130	$ 1,149
Due from one to five years	5,141	5,171
Due from five to ten years	18,320	17,659
Due after ten years	114,249	106,970
	138,840	130,949
Mortgage-backed securites - government-backed	28,682	27,828
CMOs - government backed	37,500	36,230
Total	$ 205,022	$ 195,007

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

The following table discloses, as of December 31, 2013 and June 30, 2013, 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:

	December 31, 2013			
	Less Than 12 Months		12 Months or Longer	
	(In Thousands)			
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency	$15,783	$815	$2,768	$50
Corporate obligations	4,856	144	-	-
Municipal obligations	47,023	4,109	21,921	3,228
Mortgage-backed and CMOs	38,968	1,196	15,679	1,087
Total	$106,630	$6,264	$40,368	$4,365
	June 30, 2013			
	Less Than 12 Months		12 Months or Longer	
U.S. government and agency	$19,615	$487	$-	$-
Corporate obligations	5,017	153	-	-

Municipal obligations	60,910	5,495	539	89
Mortgage-backed & CMOs	52,548	2,080	309	1
Total	$138,090	$8,215	$848	$90

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell or if it is more likely than not that it will be required to sell impaired debt securities. In doing so, management considers contractual constraints, liquidity, capital, asset/liability management and securities portfolio objectives. With respect to its impaired debt securities at December 31, 2013 and June 30, 2013, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

As of December 31, 2013 and June 30, 2013, there were, respectively, 136 and 126 securities in an unrealized loss position and were considered to be temporarily impaired and therefore an impairment charge has not been recorded. All of such temporarily impaired investments are debt securities.

At December 31, 2013, 8 U.S. government and agency obligations had unrealized losses with aggregate depreciation of approximately 4.46% from the Company’s amortized cost basis of these securities. We believe these unrealized losses are principally due to interest rate movements. As such, the Company determined that none of such securities had other-than-temporary impairment.

At December 31, 2013, 5 corporate obligations had an unrealized loss of approximately 2.88% from the Company’s amortized cost basis of this security. We believe these unrealized losses are principally due to interest rate movements. As such, the Company determined that none of this security had other-than-temporary impairment.

At December 31, 2013, 102 municipal obligations had unrealized losses with aggregate depreciation of approximately 9.62% from the Company’s amortized cost basis of these securities. We believe these unrealized losses are principally due to interest rate movements and recent credit concerns in the overall municipal bond market. As such, the Company determined that none of such securities had other-than-temporary impairment.

At December 31, 2013, 21 mortgage backed and CMO securities had unrealized losses with aggregate depreciation of approximately 4.01% from the Company’s 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. Management considers available evidence to assess whether it is more likely than not that all amounts due would not be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligor, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. There has been no disruption of the scheduled cash flows on any of the securities. Management’s analysis as of December 31, 2013 revealed no expected credit losses on these securities.

At June 30, 2013, 98 U.S. Government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 6.96% from the Company's amortized cost basis. These unrealized losses were principally due to changes in interest rates and credit spreads. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At June 30, 2013, 5 corporate obligations had unrealized losses with aggregate depreciation of approximately 2.96% from the Company's cost basis. This unrealized loss is principally due to changes in interest rates. No credit issues have been identified that caused management to believe the declines in market value were other than temporary. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At June 30, 2013, 23 mortgage backed and CMO securities had unrealized losses with aggregate depreciation of approximately 3.79% from the Company’s cost basis. We believed these unrealized losses were principally due to the credit market’s concerns regarding the stability of the mortgage market. There has been no disruption of the scheduled cash flows on any of the securities. Management’s analysis as of June 30, 2013 revealed no expected credit losses on the securities.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31, 2013	June 30, 2013
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$83,445	$70,453
Commercial real estate	81,319	74,395
Real estate construction	4,213	2,738
Other loans:		
Home equity	36,697	35,660
Consumer	12,796	11,773
Commercial	31,348	21,775
Total	249,818	216,794
Allowance for loan losses	(2,120)	(2,000)
Deferred loan fees, net	(319)	(117)
Total loans, net	$247,379	$214,677

Within the commercial real estate loan category above, $13,067,000 and $13,134,000 was guaranteed by the United States Department of Agriculture Rural Development, at December 31, 2013 and June 30, 2013, respectively. Within the commercial loan category above, $3,269,000 and $0 were in loans originated through a syndication program where the business resides outside of Montana, at December 31, 2013, and June 30, 2013, respectively.

Non-Performing Assets – The following table sets forth information regarding non-performing assets as of the dates indicated.

	December 31, 2013	June 30, 2013
	(Dollars in Thousands)	
Non-accrual loans	$778	$470
Accruing loans delinquent 90 days or more	-	-
Restructured loans, net	214	303
Total nonperforming loans	992	773
Real estate owned and other repossessed assets, net	419	550
Total	$1,411	$1,323

Total non-performing assets as a percentage of total assets	0.27 %	0.30 %
Allowance for loan losses	$2,120	$2,000
Percent of allowance for loan losses to non-performing loans	213.7 %	258.7 %
Percent of allowance for loan losses to non-performing assets	150.2 %	151.2 %

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables set forth information regarding the activity in the allowance for loan losses for the dates indicated: