Eagle Bancorp Montana, Inc.
Form 10-Q
May 14, 2013

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 March 31, 2013

[ ] 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 [ ]

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 [ ]

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	[ ]	Accelerated filer	[ ]

Non-accelerated filer (Do not check if smaller reporting company)	[ ]	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 [ ] 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	3,898,685 shares outstanding

As of May 14, 2013

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
101.INS XBRL	Instance Document
101.SCH XBRL	Taxonomy Extension Schema Document
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document
101.LAB XBRL	Taxonomy Extension Label Linkbase Document
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document

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 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, 2012, 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)

	March 31, 2013 (Unaudited)	June 30, 2012 (Audited)
ASSETS		
Cash and due from banks	$4,517	$3,534
Interest-bearing deposits with banks	360	16,280
Federal funds sold	12,161	-
Total cash and cash equivalents	17,038	19,814
Securities available-for-sale, at market value	225,999	89,277
Federal Home Loan Bank stock, at cost	1,949	2,003
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	12,627	10,613
Loans receivable, net of deferred loan expenses and allowance for loan losses of $1,900 at March 31, 2013 and $1,625 at June 30, 2012	210,822	173,839
Accrued interest and dividends receivable	2,237	1,371
Mortgage servicing rights, net	2,832	2,218
Premises and equipment, net	19,040	15,561
Cash surrender value of life insurance	9,393	9,172
Real estate & other repossessed assets acquired in settlement of loans, net of allowance for losses	1,087	2,361
Goodwill	6,890	-
Core deposit intangible, net	981	-
Other assets	1,777	915
Total assets	$512,827	$327,299

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	March 31, 2013 (Unaudited)	June 30, 2012 (Audited)
LIABILITIES		
Deposit accounts:		
Noninterest bearing	$55,998	$23,425
Interest bearing	365,589	196,564
Total deposits	421,587	219,989
Accrued expenses and other liabilities	3,714	5,809
Federal funds purchased	-	-
FHLB advances and other borrowings	29,411	42,696
Subordinated debentures	5,155	5,155
Total liabilities	459,867	273,649
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; 3,898,685, and 3,878,971 shares oustanding at March 31, 2013 and June 30, 2012, respectively)	41	41
Additional paid-in capital	22,106	22,112
Unallocated common stock held by employee stock ownership plan ("ESOP")	(1,431)	(1,556)
Treasury stock, at cost	(1,993)	(2,210)
Retained earnings	33,447	32,990
Accumulated other comprehensive income	790	2,273
Total equity	52,960	53,650
Total liabilities and equity	$512,827	$327,299

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Interest and Dividend Income:				
Interest and fees on loans	$3,012	$2,744	$8,316	$8,349
Securities available-for-sale	1,087	778	2,491	2,477
Interest on deposits with banks	10	4	26	13
Total interest and dividend income	4,109	3,526	10,833	10,839
Interest Expense:				
Deposits	305	260	886	822
FHLB advances & other borrowings	208	481	732	1,596
Subordinated debentures	22	25	69	70
Total interest expense	535	766	1,687	2,488
Net Interest Income	3,574	2,760	9,146	8,351
Loan loss provision	116	258	538	841
Net interest income after loan loss provision	3,458	2,502	8,608	7,510
Noninterest income:				
Service charges on deposit accounts	197	141	547	511
Net gain on sale of loans	1,718	522	3,492	1,161
Mortgage loan servicing fees	262	214	743	666
Net gain on sale of available for sale securities	465	115	777	281
Net loss on sale of OREO	(9)	(12)	(32)	(12)
Net gain (loss) on fair value hedge FASB ASC 815	43	94	108	(280)
Other	597	230	1,130	621
Total noninterest income	3,273	1,304	6,765	2,948

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Noninterest expense:				
Salaries and employee benefits	3,193	1,367	6,765	3,737
Occupancy and equipment expense	692	350	1,542	1,032
Data processing	512	170	852	456
Advertising	278	92	697	354
Amortization of mortgage servicing rights	158	201	566	468
Amortization of core deposit intangible and tax credits	145	-	193	-
Federal insurance premiums	82	51	174	137
Postage	36	23	99	86
Legal, accounting, and examination fees	123	71	336	263
Consulting fees	14	55	75	450
Acquisiton costs	712	-	1,920	-
Provision for valuation loss on OREO	93	165	191	165
Other	415	361	1,264	1,093
Total noninterest expense	6,453	2,906	14,674	8,241
Income before provision for income taxes	278	900	699	2,217
(Benefit) provision for income taxes	(629)	242	(590)	644
Net income	$907	$658	$1,289	$1,573
Basic earnings per common share	$0.24	$0.18	$0.34	$0.42
Diluted earnings per common share	$0.23	$0.17	$0.33	$0.40
Weighted average shares outstanding (basic eps)	3,752,813	3,716,480	3,739,806	3,726,453
Weighted average shares outstanding (diluted eps)	3,937,255	3,920,636	3,933,105	3,916,486

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(Dollars in Thousands)

	Three Months Ended March 31, 2013 (Unaudited)	Three Months Ended March 31, 2012 (Unaudited)	Nine Months Ended March 31, 2013 (Unaudited)	Nine Months Ended March 31, 2012 (Unaudited)
NET EARNINGS	$907	$658	$1,289	$1,573
OTHER ITEMS OF COMPREHENSIVE EARNINGS:				
Change in unrealized gain (loss) on investment securities available for sale, before income taxes	(2,500)	(112)	(3,406)	765
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	564	(108)	716	(147)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	379	146	379	146
Reclassification adjustment for realized gains on derivatives designated as cash flow hedges, before income taxes	(396)	(144)	(192)	(18)
Total other items of comprehensive earnings	(1,953)	(218)	(2,503)	746
Income tax (expense) benefit related to other items of comprehensive earnings	796	65	1,020	(224)
COMPREHENSIVE (LOSS) EARNINGS	$(250)	$505	$(194)	$2,095

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS)	TOTAL
Balance, June 30, 2011	$ -	$ 41	$ 22,110	$ (1,722)	$ (1,796)	$ 31,918	$ 1,934	$ 52,485
Net income						1,573		1,573
Other comprehensive income							522	522
Total comprehensive income								2,095
Dividends paid ($0.07125 per share)						(830)		(830)
Treasury stock purchased					(414)			(414)
ESOP shares allocated or committed to be released for allocation (12,462 shares)			1	124				125
Balance, March 31, 2012	$ -	$ 41	$ 22,111	$ (1,598)	$ (2,210)	$ 32,661	$ 2,456	$ 53,461
Balance, June 30, 2012	$ -	$ 41	$ 22,112	$ (1,556)	$ (2,210)	$ 32,990	$ 2,273	$ 53,650
Net income						1,289		1,289
Other comprehensive income							(1,483)	(1,483)
								(194)

Total comprehensive income								
Dividends paid ($0.07125 per share)						(832)		(832)
Treasury stock reissued			(11)		217			206
ESOP shares allocated or committed to be released for allocation (12,462 shares)			5	125				130
Balance, March 31, 2013	$ -	$ 41	$ 22,106	$ (1,431)	$ (1,993)	$ 33,447	$ 790	$ 52,960

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Nine Months Ended March 31, 2013	2012
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,289	$1,573
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	538	841
Provision for OREO valuation losses	191	165
Depreciation	652	572
Net amortization of marketable securities premium and discounts	1,235	292
Amortization of capitalized mortgage servicing rights	566	468
Amortization expense	193	-
Gain on sale of loans	(3,492)	(1,161)
Net realized gain on sale of available-for-sale securities	(777)	(281)
Increase in cash surrender value of life insurance	(221)	(201)
Loss on sale of OREO	32	12
Gain on sale of fixed assets	(285)	-
(Gain)/loss fair value hedge, FASB ASC 815	(108)	280
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(866)	107
Loans held-for-sale	1,664	(8,812)
Other assets	(1,672)	549
Increase (decrease) in liabilities:		
Accrued expenses and other liabilities	167	902
Net cash used in operating activities	(894)	(4,694)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities:		
Investment securities available-for-sale	(176,163)	(4,426)
Proceeds from maturities, calls and principal payments:		
Investment securities available-for-sale	21,235	9,023
Purchase of bank owned life insurance	-	(2,000)
Proceeds from sale of securities available-for-sale	15,060	4,689
FHLB stock redeemed	54	-
Cash received in acquisition of Sterling Bank branches, net of cash paid	130,094	-
Net decrease (increase) in loan receivable, excludes transfers to real estate acquired in settlement of loans	2,066	5,910
Proceeds from the sale of real estate and other repossessed property acquired in the settlement of loans	1,314	110
Proceeds from the sale of fixed assets	647	-
Purchase of property and equipment	(1,207)	(122)
Net cash (used in) provided by investing activities	(6,900)	13,184

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Nine Months Ended March 31, 2013	2012
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in checking and savings accounts	$19,135	$10,968
Net increase in federal funds purchased	-	-
Payments on FHLB advances	(13,285)	(12,150)
FHLB advances	-	-
Purchase of Treasury Stock	-	(414)
Dividends paid	(832)	(830)
Net cash provided by (used in) financing activities	5,018	(2,426)
Net (decrease) increase in cash	(2,776)	6,064
CASH AND CASH EQUIVALENTS, beginning of period	19,814	9,540
CASH AND CASH EQUIVALENTS, end of period	$17,038	$15,604
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$1,750	$2,551
Cash paid during the period for income taxes	$372	$208
Assets acquired through foreclosure	$545	$1,213
NON-CASH INVESTING ACTIVITIES:		
Increase (decrease) in market value of securities available-for-sale	$(2,689)	$(616)
Mortgage servicing rights capitalized	$1,180	$461

See accompanying notes to 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 nine month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2013 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, 2012.

The Company evaluated subsequent events for potential recognition and/or disclosure through May 14, 2013 the date the consolidated financial statements were issued.

[unless auditors disagree, this paragraph could be deleted]

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:
(Dollars in thousands)

	March 31, 2013 (Unaudited)				June 30, 2012 (Audited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale:								
U.S. government and agency obligations	$49,336	$438	$(187)	$49,587	$20,557	$508	$(10)	$21,055
Municipal obligations	86,976	2,319	(1,215)	88,080	39,332	2,835	(107)	42,060
Corporate obligations	4,956	123	(2)	5,077	3,937	82	(74)	3,945
Mortgage-backed securities - government backed	28,806	65	(486)	28,385	6,791	56	-	6,847
CMOs - private label	-	-	-	-	210	-	(41)	169
CMOs - government backed	54,972	390	(492)	54,870	14,807	416	(22)	15,201
Total	$225,046	$3,335	$(2,382)	$225,999	$85,634	$3,897	$(254)	$89,277

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

The following table discloses, as of March 31, 2013 and June 30, 2012, 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:

	March 31, 2013			
	Less Than 12 Months		12 Months or Longer	
	(In thousands)			
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. government and agency	$12,476	$186	$166	$1
Corporate obligations	998	2	-	-
Municipal obligations	36,885	1,154	560	61
Mortgage-backed and CMOs	60,378	975	471	3
Total	$110,737	$2,317	$1,197	$65

	June 30, 2012			
	Less Than 12 Months		12 Months or Longer	
	(In thousands)			
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. government and agency	$1,751	$8	$341	$2
Corporate obligations	-	-	884	74
Municipal obligations	1,760	2	1,402	105
CMOs - private label	-	-	168	41
Mortgage-backed & CMOs	2,514	22	-	-
Total	$6,025	$32	$2,795	$222

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 so doing, management considers contractual constraints, liquidity, capital, asset/liability management and securities portfolio objectives. With respect to its impaired debt securities at March 31, 2013 and June 30, 2012, 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 March 31, 2013 and June 30, 2012, there were, respectively, 78 and 25 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.

-10-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

At March 31, 2013, 8 U.S. government and agency obligations had unrealized losses with aggregate depreciation of less than 1.46% 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 March 31, 2013, 48 municipal obligations had unrealized losses with aggregate depreciation of less than 3.15% 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 March 31, 2013, 1 corporate obligation had an unrealized loss of less than 0.20% from the Company's amortized cost basis of this security. We believe this unrealized losses is principally due to interest rate movements. As such, the Company determined that none of this security had other-than-temporary impairment.

At March 31, 2013, 21 mortgage backed and CMO securities had unrealized losses with aggregate depreciation of less than 1.59% 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 March 31, 2013 revealed no expected credit losses on these securities.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2013 (Unaudited)	June 30, 2012 (Audited)
	(In thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$65,554	$61,671
Commercial real estate	80,229	64,672
Real estate construction	2,228	1,455
Other loans:		
Home equity	36,073	23,709
Consumer	11,371	8,778
Commercial	17,373	15,343
Total	212,828	175,628
Less: Allowance for loan losses	(1,900)	(1,625)
Add: Deferred loan expenses	(106)	(164)
Total	$210,822	$173,839

Within the commercial real estate loan category above, $19,978,000 and $21,610,000 was guaranteed by the United States Department of Agriculture Rural Development, at March 31, 2013 and June 30, 2012, respectively.

The following is a summary of changes in the allowance for loan losses:

	Nine Months Ended March 31, 2013 (Unaudited)	Nine Months Ended March 31, 2012 (Unaudited)	Twelve Months Ended June 30, 2012 (Audited)
		(In thousands)	
Balance, beginning of period	$1,625	$1,800	$1,800
Provision charged to operations	538	841	1,101
Charge-offs	(323)	(950)	(1,296)
Recoveries	60	9	20
Balance, end of period	$1,900	$1,700	$1,625

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

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

	March 31, 2013 (Unaudited)		June 30, 2012 (Audited)	
	(Dollars in Thousands)			
Non-accrual loans	$669		$1,814	
Accruing loans delinquent 90 days or more	-		-	
Restructured loans, net	304		1,404	
Total nonperforming loans	973		3,218	
Real estate owned and other repossessed assets, net	1,087		2,361	
Total	$2,060		$5,579	
Total non-performing assets as a percentage of total assets	0.40	%	1.70	%
Allowance for loan losses	$1,900		$1,625	
Percent of allowance for loan losses to non-performing loans	195.3	%	50.5	%
Percent of allowance for loan losses to non-performing assets	92.2	%	29.1	%

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 as indicated (dollars in thousands):

	Nine Months Ended March 31, 2013						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Allowance for credit losses:							
Beginning balance, June 30, 2012	$ 403	$ 772	$ 10	$ 156	$ 78	$ 206	$ 1,625
Charge-offs	(73)	(35)		(148)	(66)	(1)	(323)
Recoveries					5	55	60
Provision	93	215	5	184	22	19	538
Ending balance, March 31, 2013	$ 423	$ 952	$ 15	$ 192	$ 39	$ 279	$ 1,900
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 1	$ -	$ 1
Ending balance allocated to loans collectively evaluated for impairment	$ 423	$ 952	$ 15	$ 192	$ 38	$ 279	$ 1,899
Loans receivable:							
Ending balance March 31, 2013	$ 65,554	$ 80,229	$ 2,228	$ 36,073	$ 11,371	$ 17,373	$ 212,828
Ending balance of loans individually evaluated for impairment March 31, 2013	$ 320	$ 678	$ -	$ 321	$ 72	$ 194	$ 1,585
Ending balance of loans collectively							

evaluated for impairment							
March 31, 2013	$ 65,234	$ 79,551	$ 2,228	$ 35,752	$ 11,299	$ 17,179	$ 211,243

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	Nine Months Ended March 31, 2012						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Allowance for credit losses:							
Beginning balance, June 30, 2011	$ 369	$ 652	$ 18	$ 481	$ 57	$ 223	$ 1,800
Charge-offs	(125)	(250)	-	(351)	(27)	(197)	(950)
Recoveries	-	-	-	-	9	-	9
Provision	97	301	231	1	30	181	841
Ending balance, March 31, 2012	$ 341	$ 703	$ 249	$ 131	$ 69	$ 207	$ 1,700
Ending balance allocated to loans individually evaluated for impairment	$ -	$ 59	$ 239	$ -	$ 5	$ -	$ 303
Ending balance allocated to loans collectively evaluated for impairment	$ 341	$ 644	$ 10	$ 131	$ 64	$ 207	$ 1,397
Loans receivable:							
Ending balance March 31, 2012	$ 63,225	$ 65,820	$ 1,935	$ 24,336	$ 8,798	$ 15,014	$ 179,128
Ending balance of loans individually evaluated for impairment March 31, 2012	$ 992	$ 907	$ 721	$ 315	$ 100	$ 1,564	$ 4,599
Ending balance of loans collectively evaluated for impairment March 31, 2012	$ 62,233	$ 64,913	$ 1,214	$ 24,021	$ 8,698	$ 13,450	$ 174,529

The Company utilizes a 5 point internal loan rating system, largely based on regulatory classifications, for 1-4 family real estate, commercial real estate, construction, home equity and commercial loans as follows:

Loans rated Pass: these are loans 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 have potential weaknesses that deserve management's close attention. 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 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 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 of such little 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 effected in the future.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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 $500,000 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.

The following tables set forth information regarding the internal classification of the loan portfolio as of the dates indicated (dollars in thousands):

	March 31, 2013						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Grade:							
Pass	$ 65,234	$ 79,551	$ 2,228	$ 35,752	$ 11,299	$ 17,179	$ 211,243
Special mention	-	678	-	-	-	-	678
Substandard	320	-	-	280	55	194	849
Doubtful	-	-	-	41	16	-	57
Loss	-	-	-	-	1	-	1
Total	$ 65,554	$ 80,229	$ 2,228	$ 36,073	$ 11,371	$ 17,373	$ 212,828
Credit Risk Profile Based on Payment Activity							
Performing	$ 65,492	$ 79,682	$ 2,228	$ 35,795	$ 11,325	$ 17,333	$ 211,855
Restructured loans	-	304	-	-	-	-	304
Nonperforming	62	243	-	278	46	40	669
Total	$ 65,554	$ 80,229	$ 2,228	$ 36,073	$ 11,371	$ 17,373	$ 212,828

	June 30, 2012						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Grade:							
Pass	$ 60,748	$ 63,839	$ 1,455	$ 23,319	$ 8,685	$ 13,846	$ 171,892
Special mention	-	51	-	-	-	5	56
Substandard	923	782	-	242	76	1,492	3,515
Doubtful	-	-	-	148	15	-	163
Loss	-	-	-	-	2	-	2
Total	$ 61,671	$ 64,672	$ 1,455	$ 23,709	$ 8,778	$ 15,343	$ 175,628

Credit Risk Profile Based on Payment Activity

Performing	$ 61,011	$ 63,749	$ 1,455	$ 23,444	$ 8,742	$ 14,009	$ 172,410
Restructured loans	-	90	-	-	-	1,314	1,404
Nonperforming	660	833	-	265	36	20	1,814
Total	$ 61,671	$ 64,672	$ 1,455	$ 23,709	$ 8,778	$ 15,343	$ 175,628

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 delinquencies within the loan portfolio as indicated (dollars in thousands):

	March 31, 2013					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still Accruing
1-4 Family real estate	$359	$62	$421	$65,133	$65,554	$-
Commercial real estate	-	217	217	80,012	80,229	-
Construction	-	-	-	2,228	2,228	-
Home equity	162	135	297	35,776	36,073	-
Consumer	60	23	83	11,288	11,371	-
Commercial	88	26	114	17,259	17,373	-
Total	$669	$463	$1,132	$211,696	$212,828	$-

	June 30, 2012					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still Accruing
1-4 Family real estate	$613	$501	$1,114	$60,557	$61,671	$-
Commercial real estate	-	91	91	64,581	64,672	-
Construction	-	-	-	1,455	1,455	-
Home equity	362	227	589	23,120	23,709	-
Consumer	221	37	258	8,520	8,778	-
Commercial	171	747	918	14,425	15,343	-
Total	$1,367	$1,603	$2,970	$172,658	$175,628	$-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables set forth information regarding impaired loans as indicated (dollars in thousands):

	March 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
1-4 Family	$-	$-	$-	$-	$-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Commercial	-	-	-	-	-
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	1	1	1	-	1
Commercial	-	-	-	-	-
Total:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	1	1	1	-	1
Commercial	-	-	-	-	-
Total	$1	$1	$1	$-	$1

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	June 30, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
1-4 Family	$-	$-	$-	$-	$-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Commerical	-	-	-	-	-
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	2	2	2	-	2
Commerical	-	-	-	-	-
Total:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	2	2	2	-	2
Commerical	-	-	-	-	-
Total	$2	$2	$2	$-	$2

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the quarter ended December 31, 2011. As required, the Company reassessed all restructurings that occurred on or after the beginning of the current fiscal year (July 1, 2011) for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying the reassessed receivables as troubled debt restructurings, the Company also identified them as impaired under the guidance in ASC 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. As of March 31, 2013, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was $337,000 (310-40-65-1(b)), and the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was $33,000 (310-40-65-1(b)).

Modification Categories

The Company offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification – A modification in which the interest rate is changed.

Term Modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination Modification – Any other type of modification, including the use of multiple categories above.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued

The following tables present troubled debt restructurings as of March 31, 2013 and June 30, 2012:

	March 31, 2013		
	Accrual Status	Non-Accrual Status	Total Modification
Residential Mortgage (1-4 family)	-	-	-
Commercial Real Estate	87	217	304
Real estate construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	-	-
Total	$ 87	$ 217	$ 304

	June 30, 2012		
	Accrual Status	Non-Accrual Status	Total Modification
Residential Mortgage (1-4 family)	-	-	-
Commercial Real Estate	90	-	90
Real estate construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	1,314	1,314
Total	$ 90	$ 1,314	$ 1,404

The Bank's policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appears relatively certain. The Bank's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued

The following tables present newly restructured loans that occurred during the nine months ended March 31, 2013:

	Nine Months Ended March 31, 2013					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Pre-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-	243	243
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ 243	$ 243

	Nine Months ended March 31, 2013					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Post-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-	217	217
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ 217	$ 217

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLE DEBT RESTRUCTURINGS - continued

	Nine months ended March 31, 2012					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Pre-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	228	-	-	-	-	228
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$ 228	$ -	$ -	$ -	$ -	$ 228

	Nine months ended March 31, 2012					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Post-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	213	-	-	-	-	213
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$ 213	$ -	$ -	$ -	$ -	$ 213

There was one loan modified as a troubled debt restructured loan within the previous 9 months for which there was a payment default during the nine months ended March 31, 2013. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. As of March 31, 2013 and June 30, 2012, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. DEPOSITS

Deposits are summarized as follows (dollars in thousands):

	March 31, 2013 (Unaudited)	June 30, 2012 (Audited)
Noninterest checking	$55,998	$23,425
Interest-bearing checking	63,083	46,125
Savings	56,619	40,591
Money market	88,965	28,489
Time certificates of deposit	156,922	81,359
Total	$421,587	$219,989

NOTE 6. EARNINGS PER SHARE

Basic earnings per share for the nine months ended March 31, 2013 was computed using 3,739,806 weighted average shares outstanding. Basic earnings per share for the nine months ended March 31, 2012 was computed using 3,726,453 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,933,105 for the nine months ended March 31, 2013 and 3,916,486 for the nine months ended March 31, 2012.

NOTE 7. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the fiscal year July 1, 2012 through June 30, 2013, Eagle has paid dividends of $0.07125 per share each quarter thus far. A dividend of $0.0725 per share was declared on April 25, 2013, payable June 7, 2013 to stockholders of record on May 17, 2013.

On April 26, 2011, the Company announced that its Board of Directors authorized a common stock repurchase program for 204,156 shares of common stock, effective April 27, 2011. The program was intended to be implemented through purchases made from time to time in the open market or through private transactions. The program terminated on December 27, 2011 with its final purchase of shares within the program.

On April 21, 2011, the Company entered into a pre-arranged Rule 10b5-1 written trading plan (“the Trading Plan”) with a broker to facilitate the repurchase of its shares of common stock, in conformity with the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. A broker selected by the Company had the authority under the terms and limitations specified in the Trading Plan to repurchase shares on the Company’s behalf in accordance with the terms of the Trading Plan. The Trading Plan facilitated the Company’s share repurchase program, went into effect on April 27, 2011 and was completed on December 27, 2011. The Trading Plan enabled the Company to continue to repurchase shares without suspension for self-imposed trading blackout periods. The shares repurchased under the Trading Plan were in accordance with and subject to the limitations of the stock repurchase program.

After the expiration of the current Trading Plan, the Company may from time to time enter into subsequent trading plans under Rule 10b5-1 to facilitate the repurchase of its common stock pursuant to its share repurchase program. Information regarding share repurchases will be available in the Company's periodic reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission as required by the applicable rules of the Exchange Act.

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company entered into an interest rate swap agreement on August 27, 2010 with a third party to manage interest rate risk associated with a fixed-rate loan. The interest rate swap agreement effectively converted the loan's fixed rate into a variable rate. The derivatives and hedging accounting guidance (FASB ASC 815-10) requires that the Company recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with this guidance, the Company designates the interest rate swap on this fixed-rate loan as a fair value hedge.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES - continued

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to this agreement. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

If certain hedging criteria specified in derivatives and hedging accounting guidance are met, including testing for hedge effectiveness, hedge accounting may be applied. The hedge effectiveness assessment methodologies for similar hedges are performed in a similar manner and are used consistently throughout the hedging relationships.

The hedge documentation specifies the terms of the hedged item and the interest rate swap. The documentation also indicates that the derivative is hedging a fixed-rate item, that the hedge exposure is to the changes in the fair value of the hedged item, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to variable-rate interest payments.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Company includes the gain or loss on the hedged items in the same line item—noninterest income—as the offsetting loss or gain on the related interest rate swap.

The hedged fixed rate loan has an original maturity of 20 years and is not callable. This loan is hedged with a “pay fixed rate, receive variable rate” swap with a similar notional amount, maturity, and fixed rate coupons. The swap is not callable. At March 31, 2013, and June 30, 2012, the loan had an outstanding principal balance of $11,279,000, and $11,536,000 and the interest rate swap had a notional value of $11,279,000, and $11,536,000, respectively.

Effect of Derivative Instruments on Statement of Financial Condition
Fair Value of Derivative Instruments

	Asset Derivatives				Liabilities Derivatives			
(In Thousands)	March 31, 2013		June 30, 2012		March 31, 2013		June 30, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815 Interest rate contracts		$ -		$ -	Other Liabilities	$ 717	Other Liabilities	$ 1,054

Change in fair value of financial instrument being hedged under ASC 815						
Interest rate contracts	Loans	$ 607	Loans	$ 836	$ -	$ -

Effect of Derivative Instruments on Statement of Income
For the Nine Months Ended March 31, 2013 and 2012

(In Thousands)				
	Derivatives Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
			2013	2012
	Interest rate contracts	Noninterest income	$ 108	$ (280)

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and, (iv) willing to transact.

FASB ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, FASB ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date, or convert to cash in the short term.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

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

Loan Subject to Fair Value Hedge – The Company has one loan that is carried at fair value subject to a fair value hedge. Fair value is determined utilizing valuation models that consider the scheduled cash flows through anticipated maturity and is considered a Level 3 input.

Derivative financial instruments – Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts. These instruments are valued using Level 3 inputs utilizing valuation models that consider: (a) time value, (b) volatility factors and (c) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Although the Company utilizes counterparties' valuations to assess the reasonableness of its prices and valuation techniques, there is not sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2013 and June 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

	March 31, 2013			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
Available for sale securities				
U.S. Government and agency	$ -	$ 49,587	$ -	$ 49,587
Municipal obligations	-	88,080	-	88,080
Corporate obligations	-	5,077	-	5,077
Mortgage backed securities government backed	-	28,385	-	28,385
CMOs - government backed	-	54,870	-	54,870
Loan subject to fair value hedge	-	-	11,886	11,886
Loans held-for-sale	-	12,627	-	12,627
Financial Liability:				
Derivative financial instruments	-	-	717	717

	June 30, 2012			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
Available for sale securities				
U.S. Government and agency	$ -	21,055	$ -	$ 21,055
Municipal obligations	-	42,060	-	42,060
Corporate obligations	-	3,945	-	3,945
Mortgage-backed securities government backed	-	6,847	-	6,847
Private lable CMOs	-	169	-	169
CMOs - government backed	-	15,201	-	15,201
Loan subject to fair value hedge	-	-	12,372	12,372
Loans held-for-sale	-	10,613	-	10,613
Financial Liability:				
Derivative financial instruments	-	-	1,054	1,054

The following tables presents, for the nine months ended March 31, 2013 and 2012, the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis.

Balance	Total Realized/ Unrealized Gains (Losses) Included	Purchases, Sales,	Balance

	as of July 1, 2012	in Noninterest Income	Issuances, and Settlements, net	as of March 31, 2013
	(In thousands)			
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 12,372	$ (229)	$ (257)	$ 11,886
Derivative financial instruments	(1,054)	337	-	(717)

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

	Balance as of July 1, 2011	Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income	Purchases, Sales, Issuances, and Settlements, net	Balance as of March 31, 2012
	(In thousands)			
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 11,405	$ 844	$ (238)	$ 12,011
Derivative financial instruments	650	(1,124)	-	(474)

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summarizes financial assets and financial liabilities measured at fair value on a nonrecurring basis as of March 31, 2013 and June 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	March 31, 2013			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans	$ -	$ -	$ -	$ -
Repossessed assets	-	1,087	-	1,087

	June 30, 2012			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans	$ -	$ -	$ -	$ -
Repossessed assets	-	2,361	-	2,361

During the quarter ended March 31, 2013, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of $500 were reduced by specific valuation allowance allocations totaling $500 to a total reported fair value of $0 based on collateral valuations utilizing Level 3 valuation inputs.

Those financial instruments subject to FASB ASC Topic 825 are required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. Below is a table that summarizes the fair market values of all financial instruments of the Company at March 31, 2013 and June 30, 2012, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES – continued

(Dollars in Thousands)	March 31, 2013				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
Financial Assets:					
Cash and cash equivalents	$ 17,038	$ -	$ -	$ 17,038	$ 17,038
FHLB stock	-	-	1,949	1,949	1,949
Loans receivable, net	-	-	217,315	217,315	210,822
Accrued interest on dividends receivable	2,237	-	-	2,237	2,237
Mortage servicing rights	-	-	3,095	3,095	2,832
Financial Liabilities:					
Deposits	264,665	-	-	264,665	264,665
Time certificates of deposit	-	-	158,538	158,538	156,922
Accrued expenses and other liabilities	3,714	-	-	3,714	3,714
Advances from the FHLB & other borrowings	-	-	30,473	30,473	29,411
Subordinated debentures	-	-	3,862	3,862	5,155
Off-balance-sheet instruments					
Forward loan sales commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

	June 30, 2012				
Financial Assets:					
Cash and cash equivalents	$ 19,814	$ -	$ -	$ 19,814	$ 19,814
FHLB stock	-	-	2,003	2,003	2,003
Loans receivable, net	-	-	183,830	183,830	173,839
Accrued interest on dividends receivable	1,371	-	-	1,371	1,371
Mortage servicing rights	-	-	2,424	2,424	2,218
Financial Liabilities:					
Deposits	138,630	-	-	138,630	138,630
Time certificates of deposit	-	-	82,613	82,613	81,359
Accrued expenses and other liabilities	5,809	-	-	5,809	5,809
Advances from the FHLB & other borrowings	-	-	44,310	44,310	42,696
Subordinated debentures			4,196	4,196	5,155
Off-balance-sheet instruments					
Forward loan sales commitments	-	-	-	-	-

Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments. However, the 2012 Form 10-K provides additional description of valuation methodologies used in estimating fair value of these financial instruments.

Cash, interest-bearing accounts, accrued interest and dividend receivable, and accrued expenses and other liabilities – The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

Stock in the FHLB – The fair value of stock in the FHLB approximates redemption value.

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

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

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

Mortgage servicing rights – The fair value of servicing rights was determined using discount rates ranging from 9.0% to 20.0%, prepayment speeds ranging from 140% to 324% PSA, depending on stratification of the specific right. The fair value was also adjusted for the effect of potential past dues and foreclosures.

Deposits and time certificates of deposit – The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Advances from the FHLB & Subordinated Debentures – The fair value of the Company's advances and debentures are estimated using discounted cash flow analysis based on the interest rate that would be effective March 31, 2013 and June 30, 2012, respectively if the borrowings repriced according to their stated terms.

Off-balance-sheet instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values of these financial instruments are considered insignificant. Additionally, those financial instruments have no carrying value.

-31-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. BUSINESS COMBINATION

On June 29, 2012, the Company and Sterling Savings Bank, a Washington state-chartered bank ("Sterling") entered into a Purchase and Assumption Agreement (the "Agreement") pursuant to which Eagle agreed to purchase Sterling's banking operations in the state of Montana, including seven branch locations, certain deposit liabilities, loans and other assets and liabilities associated with such branch locations. The actual amount of deposits, loans and value of other assets and liabilities transferred to Eagle and the actual price paid was determined at the time of the closing of the transaction, in accordance with the terms and conditions of the Agreement. The closing of the transaction was subject to the terms and conditions set forth in the Agreement. The transaction was completed on November 30, 2012. The purchase price was $7.92 million and exceeded the estimated fair value of tangible net assets acquired by approximately $7.92 million, which was recorded as goodwill and intangible assets.

Cash flow information relative to the asset purchase agreement is as follows (in thousands):