Eagle Bancorp Montana, Inc.
Form 10-Q
November 13, 2012

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 September 30, 2012

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 [ ]

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	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 3,898,685 shares outstanding
As of November 13, 2012

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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 SUBSIDIARY

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

	September 30, 2012 (Unaudited)	June 30, 2012 (Audited)
ASSETS		
Cash and due from banks	$ 3,357	$ 3,534
Interest-bearing deposits with banks	1,751	16,280
Federal funds sold	6,632	-
Total cash and cash equivalents	11,740	19,814
Securities available-for-sale, at market value	98,253	89,277
Federal Home Loan Bank stock, at cost	1,985	2,003
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	9,160	10,613
Loans receivable, net of deferred loan expenses and allowance for loan losses of $1,800 at September 30, 2012 and $1,625 at June 30, 2012	167,186	173,839
Accrued interest and dividends receivable	1,352	1,371
Mortgage servicing rights, net	2,350	2,218
Premises and equipment, net	15,530	15,561
Cash surrender value of life insurance	9,247	9,172
Real estate & other repossessed assets acquired in settlement of loans, net of allowance for losses	1,937	2,361
Other assets	1,142	915
Total assets	$ 320,037	$ 327,299

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

	September 30, 2012 (Unaudited)	June 30, 2012 (Audited)
LIABILITIES		
Deposit accounts:		
Noninterest bearing	$26,031	$23,425
Interest bearing	194,870	196,564
Total deposits	220,901	219,989
Accrued expenses and other liabilities	6,356	5,809
Federal funds purchased	-	-
FHLB advances and other borrowings	33,646	42,696
Subordinated debentures	5,155	5,155
Total liabilities	266,058	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; 3,878,971 shares oustanding at September 30, 2012 and June 30, 2012)	41	41
Additional paid-in capital	22,113	22,112
Unallocated common stock held by employee stock ownership plan ("ESOP")	(1,514)	(1,556)
Treasury stock, at cost	(2,210)	(2,210)
Retained earnings	33,135	32,990
Accumulated other comprehensive income	2,414	2,273
Total equity	53,979	53,650
Total liabilities and equity	$320,037	$327,299

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

	Three Months Ended September 30, 2012	2011
	(Unaudited)	
Interest and Dividend Income:		
Interest and fees on loans	$2,551	$2,775
Securities available-for-sale	669	872
Interest on deposits with banks	5	6
Total interest and dividend income	3,225	3,653
Interest Expense:		
Deposits	248	289
FHLB advances & other borrowings	294	583
Subordinated debentures	24	22
Total interest expense	566	894
Net Interest Income	2,659	2,759
Loan loss provision	235	258
Net interest income after loan loss provision	2,424	2,501
Noninterest income:		
Service charges on deposit accounts	166	190
Net gain on sale of loans	812	236
Mortgage loan servicing fees	234	228
Net gain on sale of available for sale securities	67	57
Net loss on sale of OREO	(17)	-
Net gain (loss) on fair value hedge FASB ASC 815	37	(330)
Other	276	188
Total noninterest income	1,575	569

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

	Three Months Ended September 30,	
	2012	2011
	(Unaudited)	
Noninterest expense:		
Salaries and employee benefits	1,441	1,167
Occupancy and equipment expense	342	343
Data processing	147	151
Advertising	201	131
Amortization of mortgage servicing rights	187	93
Federal insurance premiums	49	30
Postage	26	25
Legal, accounting, and examination fees	91	72
Consulting fees	26	87
Acquisition costs	477	-
Provision for valuation loss on OREO	68	-
Other	380	356
Total noninterest expense	3,435	2,455
Income before provision for income taxes	564	615
Provision for income taxes	142	187
Net income	$422	$428
Basic earnings per common share	$0.11	$0.11
Diluted earnings per common share	$0.11	$0.11
Weighted average shares outstanding (basic eps)	3,724,789	3,739,610
Weighted average shares outstanding (diluted eps)	3,928,945	3,912,326

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(Dollars in Thousands)

	Three Months Ended September 30, 2012 (Unaudited)	Three Months Ended September 30, 2011
NET EARNINGS	$422	$428
OTHER ITEMS OF COMPREHENSIVE EARNINGS:		
Change in unrealized gain(loss) on investment securities available for sale, before income taxes	304	1,306
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(52)	(58)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	178	62
Reclassification adjustment for realized gains on derivatives designated as cash flow hedges, before income taxes	(192)	(18)
Total other items of comprehensive earnings	238	1,292
Income tax (expense) benefit related to other items of comprehensive earnings	(97)	(387)
COMPREHENSIVE EARNINGS	$563	$1,333

See accompanying notes to consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
For the Three Months Ended September 30, 2012 and 2011
(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						428		428
Other comprehensive income							905	905
Total comprehensive income								1,333
Dividends paid ($0.07125 per share)						(278)		(278)
Treasury stock purchased					(185)			(185)
ESOP shares allocated or committed to be released for allocation (4,154 shares)			2	41				43
Balance, September 30, 2011	$ -	$ 41	$ 22,112	$ (1,681)	$ (1,981)	$ 32,068	$ 2,839	$ 53,398
Balance, June 30, 2012	$ -	$ 41	$22,112	$(1,556)	$(2,210)	$32,990	$2,273	$53,650
Net income						422		422
Other comprehensive income							141	141
Total comprehensive income								563
Dividends paid ($0.07125 per share)						(277)		(277)

ESOP shares allocated or committed to be released for allocation (4,154 shares)			1	42				43
Balance, September 30, 2012	$ -	$ 41	$22,113	$(1,514)	$(2,210)	$33,135	$2,414	$53,979

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

	Three Months Ended September 30, 2012	2011
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$422	$428
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	235	258
Provision for OREO valuation losses	68	-
Depreciation	189	193
Net amortization of marketable securities premium and discounts	111	94
Amortization of capitalized mortgage servicing rights	187	93
Gain on sale of loans	(812)	(236)
Net realized gain on sale of available-for-sale securities	(67)	(57)
Increase in cash surrender value of life insurance	(75)	(55)
Loss on sale of OREO	17	-
(Gain)/loss fair value hedge, FASB ASC 815	(37)	330
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	19	10
Loans held-for-sale	2,251	(1,095)
Other assets	(227)	602
Increase (decrease) in liabilities:		
Accrued expenses and other liabilities	510	843
Net cash provided by (used in) operating activities	2,791	1,408
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities:		
Investment securities available-for-sale	(14,153)	(2,682)
Proceeds from maturities, calls and principal payments:		
Investment securities available-for-sale	4,811	1,829
Purchase of bank owned life insurance	-	(2,000)
Proceeds from sale of securities available-for-sale	574	1,876
FHLB stock redeemed	18	-
Proceeds from sale of property and equipment	-	-
Net decrease (increase) in loan receivable, excludes transfers to real estate acquired in settlement of loans	5,874	(1,229)
Proceeds from the sale of real estate acquired in the settlement of loans	582	-
Purchase of property and equipment	(156)	(60)
Net cash provided by (used in) investing activities	(2,450)	(2,266)

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

	Three Months Ended September 30, 2012	2011
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in checking and savings accounts	$912	$4,434
Payments on FHLB advances	(9,050)	(2,050)
Purchase of Treasury Stock	-	(185)
Dividends paid	(277)	(278)
Net cash (used in) provided by financing activities	(8,415)	1,921
Net (decrease) increase in cash	(8,074)	1,063
CASH AND CASH EQUIVALENTS, beginning of period	19,814	9,540
CASH AND CASH EQUIVALENTS, end of period	$11,740	$10,603
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$629	$898
Cash paid during the period for income taxes	$-	$-
NON-CASH INVESTING ACTIVITIES:		
Decrease (increase) in market value of securities available-for-sale	$(252)	$1,248
Mortgage servicing rights capitalized	$319	$84
ESOP shares released	$43	$43
Loans transferred to real estate and other assets acquired in foreclosure	$243	$122

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 three month period ended September 30, 2012 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 November 13, 2012 the date the consolidated financial statements were issued.

On April 5, 2010, the Company completed its second-step conversion from the partially-public mutual holding company structure to the fully publicly-owned stock holding company structure. As part of that transaction it also completed a related offering of its common stock. As a result of the conversion and offering, the Company became the stock holding company for American Federal Savings Bank, and Eagle Financial MHC and Eagle Bancorp ceased to exist. The Company sold a total of 2,464,274 shares of common stock at a purchase price of $10.00 per share in the offering for gross proceeds of $24.6 million. Concurrent with the completion of the offering, shares of Eagle Bancorp common stock owned by the public were exchanged. Stockholders of Eagle Bancorp received 3.800 shares of the Company's common stock for each share of Eagle Bancorp common stock that they owned immediately prior to completion of the transaction. Accordingly, as of April 5, 2010, the Company had 8,000,000 shares of common stock authorized and 4,083,127 issued and outstanding.

NOTE 2. INVESTMENT SECURITIES

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

	September 30, 2012 (Unaudited)				June 30, 2012 (Audited)			
		Gross Unrealized				Gross Unrealized		
	Amortized Cost	Gains	(Losses)	Fair Value	Amortized Cost	Gains	(Losses)	Fair Value
Available-for-sale:								
U.S. government and agency obligations	$20,140	$495	$(1)	$20,634	$20,557	$508	$(10)	$21,055
Municipal obligations	45,105	2,978	(85)	47,998	39,332	2,835	(107)	42,060
Corporate obligations	3,941	141	(14)	4,068	3,937	82	(74)	3,945
Mortgage-backed securities - government backed	10,156	119	-	10,275	6,791	56	-	6,847

CMOs - private label	200	-	(26)	174	210	-	(41)	169
CMOs - government backed	14,815	333	(44)	15,104	14,807	416	(22)	15,201
Total	$94,357	$4,066	$(170)	$98,253	$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 September 30, 2012 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:

	September 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	$-	$-	$188	$1
Corporate obligations	-	-	947	14
Municipal obligations	1,976	11	1,013	74
CMOs - private label	-	-	174	26
Mortgage-backed and CMOs	1,414	32	837	12
Total	$3,390	$43	$3,159	$127

	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 September 30, 2012 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 September 30, 2012 and June 30, 2012, there were, respectively, 16 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

At September 30, 2012, 5 U.S. government and agency obligations had unrealized losses with aggregate depreciation of less than 0.50% 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 September 30, 2012, 4 municipal obligations had unrealized losses with aggregate depreciation of less than 2.90% 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 September 30, 2012, 1 corporate obligation had an unrealized loss with aggregate depreciation of less than 1.50% from the Company's cost basis. This unrealized loss is principally due to changes in interest rates and some concern the issuer may have exposure to Europe. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and if available projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At September 30, 2012, 6 mortgage backed and CMO securities had unrealized losses with aggregate depreciation of less than 2.90% 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. One of the CMO securities is a non-agency security. At September 30, 2012 the fair value of this non-agency security was $174,000 with an unrealized loss of $26,000, or 13.0% of the Company’s amortized cost basis. 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 minimal disruption of the scheduled cash flows on any of the securities. Management’s analysis as of September 30, 2012 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:

	September 30, 2012 (Unaudited)	June 30, 2012 (Audited)
	(In thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$56,600	$61,671
Commercial real estate	65,110	64,672
Real estate construction	1,363	1,455
Other loans:		
Home equity	23,316	23,709
Consumer	8,328	8,778
Commercial	14,408	15,343
Total	169,125	175,628
Less: Allowance for loan losses	(1,800)	(1,625)
Add: Deferred loan expenses	(139)	(164)
Total	$167,186	$173,839

Within the commercial real estate loan category above, $21,477,000 and $21,610,000 was guaranteed by the United States Department of Agriculture Rural Development, at September 30, 2012 and June 30, 2012, respectively.

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

	Three Months Ended September 30, 2012 (Unaudited)	Three Months Ended September 30, 2011 (Unaudited)	Twelve Months Ended June 30, 2012 (Audited)
	(In thousands)		
Balance, beginning of period	$1,625	$1,800	$1,800
Provision charged to operations	235	258	1,101
Charge-offs	(64)	(510)	(1,296)

Recoveries	4	2	20
Balance, end of period	$ 1,800	$ 1,550	$ 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.

	September 30, 2012 (Unaudited)	June 30, 2012 (Audited)
	(Dollars in Thousands)	
Non-accrual loans	$1,491	$1,814
Accruing loans delinquent 90 days or more	-	-
Restructured loans, net	803	1,404
Total nonperforming loans	2,294	3,218
Real estate owned and other repossessed assets, net	1,937	2,361
Total	$4,231	$5,579
Total non-performing assets as a percentage of total assets	1.32 %	1.70 %
Allowance for loan losses	$1,800	$1,625
Percent of allowance for loan losses to non-performing loans	78.5 %	50.5 %
Percent of allowance for loan losses to non-performing assets	42.5 %	29.1 %

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued
The following table sets forth information regarding loans and non-performing assets by geographical location as of the dates indicated (dollars in thousands).

	September 30, 2012				
	Helena	Bozeman	Butte	Townsend	Total
Non-accrual loans	$1,392	$77	$22	$-	$1,491
Accruing loans delinquent 90 days or more	-	-	-	-	-
Restructured loans		803			803
Real estate owned and other repossessed assets, net	699	1,176		62	1,937
	$2,091	$2,056	$22	$62	$4,231
Total loans, net	$88,609	$33,772	$43,636	$1,169	$167,186
Percent of non-performing assets to loans	2.4 %	6.1 %	0.1 %	5.3 %	2.5 %
	June 30, 2012				
Non-accrual loans	$1,735	$56	$22	$1	$1,814
Accruing loans delinquent 90 days or more	-	-	-	-	-
Restructured loans, net	90	1,314	-	-	1,404
Real estate owned and other repossessed assets, net	689	1,610	-	62	2,361
	$2,514	$2,980	$22	$63	$5,579
Total loans, net	$90,744	$34,942	$42,417	$5,736	$173,839
Percent of non-performing assets to loans	2.8 %	8.5 %	0.1 %	1.1 %	3.2 %

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 as indicated (dollars in thousands):

	Three Months Ended September 30, 2012						
	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	(55)	-	-	-	(8)	(1)	(64)
Recoveries	-	-	-	-	4	-	4
Provision	40	90	1	61	10	33	235
Ending balance, September 30, 2012	$ 388	$ 862	$ 11	$ 217	$ 84	$ 238	$ 1,800
Ending balance allocated to loans individually evaluated for impairment	$ -	$ 9	$ -	$ 147	$ 1	$ 15	$ 172
Ending balance allocated to loans collectively evaluated for impairment	$ 388	$ 853	$ 11	$ 70	$ 83	$ 223	$ 1,628
Loans receivable:							
Ending balance September 30, 2012	$ 56,600	$ 65,110	$ 1,363	$ 23,316	$ 8,328	$ 14,408	$ 169,125
Ending balance of loans individually evaluated for impairment September 30, 2012	$ 728	$ 782	$ -	$ 446	$ 74	$ 997	$ 3,027
Ending balance of loans collectively evaluated for impairment							

September 30, 2012	$ 55,872	$ 64,328	$ 1,363	$ 22,870	$ 8,254	$ 13,411	$ 166,098

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

	Three Months Ended September 30, 2011						
	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)	(36)	-	(335)	(14)	-	(510)
Recoveries	-	-	-	-	2	-	2
Provision	72	110	5	29	13	29	258
Ending balance, September 30, 2011	$ 316	$ 726	$ 23	$ 175	$ 58	$ 252	$ 1,550
Ending balance allocated to loans individually evaluated for impairment	$ -	$ 224	$ -	$ 44	$ 1	$ 182	$ 451
Ending balance allocated to loans collectively evaluated for impairment	$ 316	$ 502	$ 23	$ 131	$ 57	$ 70	$ 1,099
Loans receivable:							
Ending balance September 30, 2011	$ 68,680	$ 65,893	$ 4,277	$ 27,694	$ 9,057	$ 12,343	$ 187,944
Ending balance of loans individually evaluated for impairment September 30, 2011	$ 1,261	$ 965	$ 721	$ 274	$ 128	$ 2,029	$ 5,378
Ending balance of loans collectively evaluated for impairment September 30, 2011	$ 67,419	$ 64,928	$ 3,556	$ 27,420	$ 8,929	$ 10,314	$ 182,566

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.

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.

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 internal classification of the loan portfolio as of the dates indicated (dollars in thousands):

	September 30, 2012						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Grade:							
Pass	$55,872	$64,328	$ 1,363	$22,870	$8,254	$ 13,411	$166,098
Special mention	-	-	-	-	-	146	146
Substandard	728	773	-	257	73	836	2,667
Doubtful	-	-	-	42	-	-	42
Loss	-	9	-	147	1	15	172
Total	$56,600	$65,110	$ 1,363	$23,316	$8,328	$ 14,408	$169,125
Credit Risk Profile Based on Payment Activity							
Performing	$56,183	$64,218	$ 1,363	$23,073	$8,316	$ 13,678	$166,831
Restructured loans	-	88	-	-	-	715	803
Nonperforming	417	804	-	243	12	15	1,491
Total	$56,600	$65,110	$ 1,363	$23,316	$8,328	$ 14,408	$169,125

	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

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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):

	September 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	$324	$418	$742	$55,858	$56,600	$-
Commercial real estate	96	803	899	64,211	65,110	-
Construction	-	-	-	1,363	1,363	-
Home equity	59	86	145	23,171	23,316	-
Consumer	111	12	123	8,205	8,328	-
Commercial	100	-	100	14,308	14,408	-
Total	$690	$1,319	$2,009	$167,116	$169,125	$-

	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	-
Commerical	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):

	September 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	-	-	-	-	-
Commercial	-	-	-	-	-
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	41	62	9	-	21
Construction	-	-	-	-	-
Home equity	147	147	147	-	74
Consumer	1	1	1	-	2
Commercial	15	15	15	-	8
Total:					
1-4 Family	-	-	-	-	-
Commercial real estate	41	62	9	-	21
Construction	-	-	-	-	-
Home equity	147	147	147	-	74
Consumer	1	1	1	-	2
Commercial	15	15	15	-	8
Total	$204	$225	$172	$-	$105

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. TROUBLE DEBT RESTRUCTURINGS

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the quarter ended September 30, 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 September 30, 2012, 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 $803,000 (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 $62,000 (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. TROUBLE DEBT RESTRUCTURINGS - continued

The following tables present troubled debt restructurings as of September 30, 2012 and June 30, 2011:

	September 30, 2012		
	Accrual Status	Non-Accrual Status	Total Modification
Residential Mortgage (1-4 family)	-	-	-
Commercial Real Estate	88	-	88
Real estate construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	715	715
Total	$ 88	$ 715	$ 803

	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. TROUBLE DEBT RESTRUCTURINGS - continued

The following tables present newly restructured loans that occurred during the three months ended September 30, 2012:

	Three Months Ended September 30, 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	-	-	97	-	-	97
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	1,385	1,385
Total	$-	$-	$97	$-	$1,385	$ 1,482

	Three Months ended September 30, 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	-	-	88	-	-	88
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	715	715
Total	$-	$-	$88	$-	$715	$ 803

There were no loans modified as a troubled debt restructured loan within the previous 3 months and for which there was a payment default during the three months ended September 30, 2012. 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 September 30, 2012 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.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 5. DEPOSITS

Deposits are summarized as follows (dollars in thousands):

	September 30, 2012 (Unaudited)	June 30, 2012 (Audited)
Noninterest checking	$ 26,031	$ 23,425
Interest-bearing checking	44,693	46,125
Savings	41,043	40,591
Money market	28,087	28,489
Time certificates of deposit	81,047	81,359
Total	$ 220,901	$ 219,989

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 6. EARNINGS PER SHARE

Basic earnings per share for the three months ended September 30, 2012 was computed using 3,724,789 weighted average shares outstanding. Basic earnings per share for the three months ended September 30, 2011 was computed using 3,739,610 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 3,928,945 for the three months ended September 30, 2012 and 3,912,626 for the three months ended September 30, 2011.

NOTE 7. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the fiscal year July 1, 2011 through June 30, 2012, Eagle has paid dividends of $0.07125 per share each quarter. A dividend of $0.07125 per share was declared on October 18, 2012, payable November 27, 2012 to stockholders of record on November 6, 2012.

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.

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES - continued

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 September 30, 2012, and June 30, 2012, the loan had an outstanding principal balance of $11,451,000, and $11,536,000 and the interest rate swap had a notional value of $11,451,000, and $11,536,000, respectively.

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

(In Thousands)	Asset Derivatives				Liabilities Derivatives			
	September 30, 2012		June 30, 2012		September 30, 2012		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	n/a	$ -	n/a	$ -	Other Liabilities	$ 1,061	Other Liabilities	$ 1,054
Change in fair value of financial instrument being hedged under ASC 815								
Interest rate contracts	Loans	$ 880	Loans	$ 836	n/a	$ -	n/a	$ -

Effect of Derivative Instruments on Statement of Income
For the Three Months Ended September 30, 2012 and 2011

(In Thousands)		
	Location of	Amount of Gain or (Loss)
Derivatives Designated	Gain or (Loss)	Recognized in

as Hedging Instruments Under ASC 815	Recognized in Income on Derivative	Income on Derivative 2012	2011
Interest rate contracts	Noninterest income	$ 37	$ (330)

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 9: FAIR VALUE DISCLOSURES - continued

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.

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 9: FAIR VALUE DISCLOSURES - continued

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 September 30, 2012 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):

	September 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	$ -	$ 20,634	$ -	$ 20,634
Municipal obligations	-	47,998	-	47,998
Corporate obligations	-	4,068	-	4,068
Mortgage backed securities				
government backed	-	10,275	-	10,275
Private lable CMOs	-	174	-	174
CMOs - government backed	-	15,104	-	15,104
Loan subject to fair value hedge	-	-	12,331	12,331
Loans held-for-sale	-	9,160	-	9,160
Financial Liability:				
Derivative financial instruments	-	-	1,061	1,061

	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
Derivative financial instruments	-	-	1,054	1,054

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 9: FAIR VALUE DISCLOSURES - continued

The following tables presents, for the three months ended September 30, 2012 and 2011, the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis.

	Balance as of July 1, 2012	Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income	Purchases, Sales, Issuances, and Settlements, net	Balance as of September 30, 2012
	(In thousands)			
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 12,372	$ 44	$ (85)	$ 12,331
Derivative financial instruments	(1,054)	(7)	-	(1,061)

	Balance as of July 1, 2011	Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income	Purchases, Sales, Issuances, and Settlements, net	Balance as of September 30, 2011
	(In thousands)			
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 11,405	$ 1,035	$ (77)	$ 12,363
Derivative financial instruments	650	(1,365)	-	(715)

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 September 30, 2012 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):

	September 30, 2012			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans	$ -	$ -	$ 32	$ 32
Repossessed assets	-	1,937	-	1,937

	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 September 30, 2012, 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 $204,000 were reduced by specific valuation allowance allocations totaling $172,000 to a total reported fair value of $32,000 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 September 30, 2012 and

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 9: FAIR VALUE DISCLOSURES - continued

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

NOTE 9: FAIR VALUE DISCLOSURES – continued

(Dollars in Thousands)	September 30, 2012				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
Financial Assets:					
Cash and cash equivalents	$11,740	$-	$-	$11,740	$11,740
FHLB stock	-	-	1,985	1,985	1,985
Loans receivable, net	-	-	174,325	174,325	167,186
Accrued interest on dividends receivable	1,352	-	-	1,352	1,352
Mortage servicing rights	-	-	2,527	2,527	2,350
Cash surrender value of					
life insurance	-	-	9,247	9,247	9,247
Financial Liabilities:					
Deposits	139,854	-	-	139,854	139,854
Time certificates of deposit	-	-	81,874	81,874	81,047
Accrued expenses and other liabilities	6,356	-	-	6,356	6,356
Advances from the FHLB & other borrowings	-	-	35,000	35,000	33,646
Subordinated debentures	-	-	3,879	3,879	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
Cash surrender value of					
life insurance	-	-	9,172	9,172	9,172
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.

Cash surrender value of life insurance – The carrying amount for cash surrender value of life insurance approximates fair value as policies are recorded at redemption value.

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 September 30, 2012 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.

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 will be 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 is subject to the terms and conditions set forth in the Agreement. It is currently expected to be completed by the end of the second quarter of fiscal 2013. As of September 30, 2012 the purchase price would have approximated $7.3 million and would have exceeded the estimated fair value of tangible net assets acquired by approximately $6.6 million, which will be recorded as goodwill.

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

Fair value of net assets acquired	$195,634
Cash paid for deposit premium	(7,269)
Liabilities assumed	$188,365

The primary purpose of the acquisition is to expand the Company's market share in southern Montana provide existing customers with added convenience and service and to provide our new customers with the opportunity to enjoy the outstanding personalized service and commitment of a Montana-based community bank. Factors that contributed to a purchase price resulting in goodwill include the strategically important locations of Sterling's branches, a historical record of earnings, capable employees and the Company's ability to expand in the southern Montana market, which will complement with the Company's existing growth strategy. Fair value adjustments and related goodwill will be recorded in the statement of financial condition of the Company.

Direct costs related to the Sterling acquisition will be expensed as incurred in the year ended June 30, 2013. These acquisition and integration expenses will include salaries and benefits, technology and communications, occupancy and equipment, professional services and other noninterest expenses. For the quarter ended September 30, 2012, $477,000 of acquisition costs were incurred and expensed. An unaudited pro forma balance sheet of the Company as if the acquisition of the Sterling branches had occurred on June 30, 2012 (in thousands) is included in the Company's 10-K. Please see that report for more information.

NOTE 11. RECENTLY ISSUED PRONOUNCEMENTS

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for us in fiscal 2013 and earlier adoption is permitted. The Company currently has no goodwill. However upon the successful completion of the pending acquisition of Sterling Bank's Montana branches, management expects goodwill to be recorded, and as such the Company's financials will likely be effected by this pronouncement.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current literature or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments in this update defer those changes in ASU 2011-05 that relate to the presentation of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this update. The amendments are effective during interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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, if any;
- 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 SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company's primary activity is its ownership of its wholly owned subsidiary, American Federal Savings Bank (the "Bank"). The Bank is a federally chartered savings bank, engaging in typical banking activities: acquiring deposits from local markets and originating loans and investing in securities. Recent federal legislation mandated that the consolidated regulatory functions of The Office of Thrift Supervision ("OTS") over the Bank and the Company be transferred to two federal agencies and that the OTS be merged into the Office of the Comptroller of the Currency (the "OCC"). Thus, as a result of the enactment in July of 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Federal Reserve Board (the "FRB") became, as of July 21, 2011, the principal federal bank regulatory agency for the Company and the OCC the principal federal regulator for the Bank. The Bank's charter was not affected and the Bank continues to operate as a federal stock savings bank. Its deposits remain insured by the Federal Deposit Insurance Corporation. Because the Dodd-Frank Act did not eliminate the thrift charter under which the Bank has historically operated, the Bank's traditional lending and investment activities should not be affected. Further, to ensure regulatory continuity, the Dodd-Frank Act requires that the OCC designate a new Deputy Comptroller who will be responsible for the supervision and examination of federal savings associations.

The Bank's primary component of earnings is its net interest margin (also called spread or margin), the difference between interest income and interest expense. The net interest margin is managed by management (through the pricing of its products and by the types of products offered and kept in portfolio), and is affected by moves in interest rates. Noninterest income in the form of fee income and gain on sale of loans adds to the Bank's income.

The Bank has a strong mortgage lending focus, with the majority of its loans represented by single-family residential mortgages. The Bank has also successfully marketed home equity loans to its customers, as well as a wide range of shorter term consumer loans for various personal needs (automobiles, recreational vehicles, etc.). In recent years the Bank has focused on adding commercial loans to its portfolio, both real estate and non-real estate. The purpose of this diversification is to mitigate the Bank's dependence on the residential mortgage market, as well as to improve its ability to manage its spread. The Bank's management recognizes the need for sources of fee income to complement its margin, and the Bank now maintains a significant loan servicing portfolio which generates income. The gain on sale of loans also provides significant fee income in periods of high mortgage loan origination volumes. Fee income is also supplemented with fees generated from the Bank's deposit accounts. The Bank has a high percentage of non-maturity deposits, such as checking accounts and savings accounts, which allows management flexibility in managing its spread. Non-maturity deposits do not automatically reprice as interest rates rise, as do certificates of deposit.

For the past several years, management's focus has been on improving the Bank's core earnings. Core earnings can be described as income before taxes, with the exclusion of gain on sale of loans and adjustments to the market value of the Bank's loan servicing portfolio. Management believes that the Bank will need to continue to focus on increasing net interest margin, other areas of fee income, and control of operating expenses to achieve earnings growth going forward. Management's strategy of growing the bank's loan portfolio and deposit base is expected to help achieve these goals as follows: loans typically earn higher rates of return than investments; a larger deposit base should yield higher fee income; increasing the asset base will reduce the relative impact of fixed operating costs. The biggest challenge to the strategy is funding the growth of the Bank's balance sheet in an efficient manner. Deposit growth will be difficult to maintain due to significant competition for deposits and it is likely that wholesale funding (which is usually more expensive than retail deposits) will be needed to supplement it.

The level and movement of interest rates impacts the Bank's earnings as well. The Federal Reserve's Federal Open Market Committee ("FOMC") did not change the federal funds target rate which remained at 0.25% during the three months ended September 30, 2012.

From time to time the Bank has considered growth through mergers or acquisition as an alternative to its strategy of organic growth. In this connection, on June 29, 2012, the Bank entered into a definitive agreement to acquire all of the Montana retail banking operations of Sterling Savings Bank of Spokane Washington. As a result of this acquisition, American Federal will acquire approximately $188.4 million in additional assets, principally in the form of cash and loans and assume $188.4 million in new deposits. The transaction which will increase the Bank's retail branch structure from 6 to 13 locations and is expected to close on November 30, 2012.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

Comparisons of financial condition in this section are between September 30, 2012 and June 30, 2012.

Total assets at September 30, 2012 were $320.04 million, a decrease of $7.26 million, or 2.22%, from $327.30 million at June 30, 2012. This decrease in assets was primarily attributable to decreases in loans and cash and cash equivalents offset by increases in securities available-for-sale.

Loans receivable decreased by $6.65 million, or 3.83%, to $167.19 million at September 30, 2012, from $173.84 million at June 30, 2012. The decline occurred across most loan types, though commercial real estate loans increased by $438,000. Home equity, consumer loans, and construction loans decreased moderately. Residential mortgages decreased by the largest amount, $5.07 million. Total loan originations were $49.20 million for the three months ended September 30, 2012, with single family mortgages accounting for $40.52 million of the total. Home equity and construction loan originations totaled $2.18 million and $1.76 million, respectively, for the same period. Commercial real estate and land loan originations totaled $1.61 million. Consumer and commercial loans originated totaled $2.20 million and $930,000, respectively. Loans held-for-sale decreased to $9.16 million at September 30, 2012 from $10.61 million at June 30, 2012.

Total cash and cash equivalents decreased by $8.07 million, and securities available-for-sale increased $8.98 million.

Deposits increased $912,000, or .41%, to $220.9 million at September 30, 2012 from $219.99 million at June 30, 2012. Growth occurred in noninterest checking and savings, while interest-bearing checking, money markets and certificates of deposits decreased. Management attributes the overall increase in deposits to increased marketing of checking accounts as well as customers' preference for placing funds in secure, federally insured accounts.

The ability of the Bank to continue to grow its retail deposit base during the period along with a reduction in cash and cash equivalents enabled wholesale funding to decrease during the quarter. Advances from the Federal Home Loan Bank and other borrowings decreased $9.05 million, or 21.20%, to $33.65 million from $42.70 million.

Total shareholders' equity increased $329,000 or 0.61%, to $53.98 million at September 30, 2012 from $53.65 million at June 30, 2012. This was a result of net income for the period of $422,000 in addition to an increase in accumulated other comprehensive income of $141,000 (mainly due to an increase in net unrealized gains on securities available-for-sale). The increase was also partially offset by dividends paid for the period.

Results of Operations for the Three Months Ended September 30, 2012 and 2011

Net Income. The quarter's results were characterized by a significant increase in gain on sale of loans driven by renewed and robust refinancing activity largely offset by acquisition costs associated with the pending purchase of the seven Sterling Savings Bank branches located in Montana. Eagle's net income for the quarter decreased to $422,000 versus $428,000 for the three months ended September 30, 2011. The net income decrease of $6,000, or 1.40%, was due principally to an increase in noninterest expense of $980,000 offset by an increase in noninterest income of $1.01 million caused by an increase in home mortgage refinancing activity, resulting in increased gain on sale of loans. The provision for loan losses decreased $23,000 from the prior period. Eagle's tax provision was $45,000 lower in the current quarter. Basic earnings per share were $0.11 for the current period, the same as the prior comparable period.

Net Interest Income. Net interest income decreased to $2.66 million for the quarter ended September 30, 2012, from $2.76 million for the previous year's quarter. This decrease of $100,000 was the result of a decrease in interest and dividend income of $428,000 partially offset by a decrease in interest expense of $328,000.

Interest and Dividend Income. Total interest and dividend income was $3.23 million for the quarter ended September 30, 2012, compared to $3.65 million for the quarter ended September 30, 2011, a decrease of $428,000, or 11.72%. Interest and fees on loans decreased to $2.55 million for the three months ended September 30, 2012 from $2.78 million for the same period ended September 30, 2011. This decrease of $224,000, or 8.07%, was due to both the decrease in the average yield on loans and average balances of loans for the quarter ended September 30, 2012. The average interest rate earned on loans receivable decreased by 28 basis points, from 5.92% to 5.64%. Average balances for loans receivable, net, including loans held for sale, for the quarter ended September 30, 2012 were $180.78 million, compared to $187.64 million for the prior year period. This represents a decrease of $6.86 million, or 3.66%. Interest and dividends on investment securities available-for-sale (AFS) decreased by $203,000 for the quarter ended September 30, 2012 from $872,000 for the same quarter last year. Average balances on investments decreased to $91.56 million for

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended September 30, 2012 and 2011 - continued

the quarter ended September 30, 2012, from $102.89 million for the quarter ended September 30, 2011. The average interest rate earned on investments decreased to 2.92% from 3.39%. Interest on deposits with banks decreased to $5,000 from $6,000, due to a decrease in the average rates. Average balances on deposits with banks increased to $11.93 million for the quarter ended September 30, 2012, compared to $8.96 million for the quarter ended September 30, 2011and the average rates on such deposits with banks decreased from 0.27% at September 30, 2011 to 0.17% at September 30, 2012.

Interest Expense. Total interest expense declined significantly in the quarter to $566,000 from $894,000 for the quarter ended September 30, 2011, a decrease of $328,000, or 36.69%. The decrease was attributable to decreases in interest on deposits and borrowings offset by growth in average deposit balances as the Bank's customers appeared to continue to opt for the safety of federally insured deposits, notwithstanding historically low rates on such deposits, over the risks and uncertainty of the capital markets. Decreases in rates on deposits caused a decline in deposit interest expense of $41,000, or 14.19% over the quarter ended September 30, 2011. The decrease was attributable to a decrease in average rates paid on most deposit products. Money market accounts, however, increased 2 basis points. Interest bearing checking account rates declined from 0.06% to 0.05%, savings account rates remained at 0.10%, and certificates of deposit rates decreased from 1.27% to 1.10%. The declines, however, were offset by increases in average balances during the period to $219.52 million for the quarter ended September 30, 2012, compared to $212.14 million for the same quarter in the previous year. Because of the increase in retail funding due to deposit growth average balances in borrowings decreased significantly to $40.92 million for the quarter ended September 30, 2012, compared to $65.53 million for the same quarter in the previous year. The average rate paid, along with the decrease in average borrowing balances resulted in a decrease in interest paid on borrowings to $294,000 for the quarter ended September 30, 2012 versus $583,000 paid in the previous year's quarter. The average rate paid on borrowings decreased from 3.69% last year to 3.11% for the quarter ended September 30, 2012. The average rate paid on all interest-bearing liabilities decreased 43 basis points from the quarter ended September 30, 2011 to the quarter ended September 30, 2012.

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management of the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, national and local economic conditions, and past due loans in portfolio. The Bank's policies require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. The Bank recorded $235,000 in provision for loan losses for the quarter ended September 30, 2012 and $258,000 in the quarter ended September 30, 2011. This decrease from 2011 was based on an analysis of a variety of factors including delinquencies within the loan portfolio. Total nonperforming loans, including restructured loans, net decreased from $5.21 million at September 30, 2011 to $2.29 million at September 30, 2012. The Bank currently has $2.30 million in foreclosed real estate property and other repossessed property with a net book value of $1.93 million.

Noninterest Income. Due to declines in long term interest rates, the Bank again experienced significant refinancing activity in residential real estate. As long-term rates continued to push to historically low levels, refinance activity in the current quarter grew and exceeded the level reached in the prior year's period. This increased activity had a significant effect on the amount of non-interest income with total noninterest income increasing to $1.58 million for the quarter ended September 30, 2012, from $569,000 for the quarter ended September 30, 2011, an increase of $1.01 million or 176.80%. Of this amount, net gain on sale of loans increased to $812,000 for the quarter ended September 30, 2012 from $236,000 for the quarter ended September 30, 2011. During this period, $40.52 million 1-4 family mortgage loans were originated compared to $17.05 million in the quarter ended September 30, 2011. In addition, $42.67 million of mortgage loans were sold during the period compared to $12.64 million sold in the quarter ended September 30, 2011, an increase of $30.03 million. The gain on fair value hedge-FASB ASC 815 also contributed to the increase in noninterest income. Gain on fair value hedge-FASB ASC 815 increased to $37,000 from the prior period's loss amount of $330,000.

Noninterest Expense. Noninterest expense was $3.44 million for the quarter ended September 30, 2012, and $2.46 million for the quarter ended September 30, 2011. Though most items were fairly similar, provision for valuation loss on OREO increased to $68,000 from zero for the comparable period last year. This increase was due to decline in values in some of the Company's foreclosed properties. Amortization of mortgage servicing rights increased from $93,000 to $187,000, an increase of $94,000. The largest change occurred due to the new item of acquisition costs. These costs of $477,000, as noted earlier, are related to the pending purchase of the seven branches from Sterling Savings Bank. Other expense categories showed relatively minor changes.

Income Tax Expense. Our income tax expense was $142,000 for the quarter ended September 30, 2012, compared to $187,000 for the quarter ended September 30, 2011. The effective tax rate for the quarter ended September 30, 2012 was 25.17% and was 30.41% for the quarter ended September 30, 2011.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended September 30, 2012 and 2011 - continued

Liquidity, Interest Rate Sensitivity and Capital Resources

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of the Comptroller of the Currency ("OCC") regulations. The OCC has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OCC states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with the FHLB of Seattle. The Bank exceeded those minimum ratios as of both September 30, 2012 and September 30, 2011.

The Bank's primary sources of funds are deposits, repayment of loans and mortgage-backed and collateralized mortgage obligation securities, maturities of investments, funds provided from operations, and advances from the Federal Home Loan Bank of Seattle and other borrowings. Scheduled repayments of loans and mortgage-backed and collateralized mortgage obligation securities and maturities of investment securities are generally predictable. However, other sources of funds, such as deposit flows and loan prepayments, can be greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses liquidity resources principally to fund existing and future loan commitments. It also uses them to fund maturing certificates of deposit, demand deposit withdrawals and to invest in other loans and investments, maintain liquidity, and meet operating expenses.

Liquidity may be adversely affected by unexpected deposit outflows, higher interest rates paid by competitors, and similar matters. Management monitors projected liquidity needs and determines the level desirable, based in part on commitments to make loans and management's assessment of the Bank's ability to generate funds.

At August 31, 2012 (the most recent report available), the Bank's measure, as internally determined, of sensitivity to interest rate movements, as measured by a 200 basis point rise in interest rates scenario, decreased the economic value of equity ("EVE") by 2.1%. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity. The Bank's tier I core capital ratio, as measured under OCC rules, increased from 13.08% as of September 30, 2011 to 13.86% as of September 30, 2012. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity, Interest Rate Sensitivity and Capital Resources - continued

As of September 30, 2012, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2012, the Bank's tangible, core, and risk-based capital ratios amounted to 13.86%, 13.86%, and 22.59%, respectively, compared to regulatory requirements of 1.50%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

	At September 30, 2012 (Unaudited)	
	Dollar Amount	% of Assets
Tangible capital:		
Capital level	$41,977	13.86
Requirement	4,543	1.50
Excess	37,434	12.36
Core capital:		
Capital level	41,977	13.86
Requirement	9,086	3.00
Excess	32,891	10.86
Risk-based capital:		
Capital level	43,777	22.59
Requirement	15,504	8.00
Excess	28,273	14.59

Impact of Inflation and Changing Prices

Our financial statements and the accompanying notes have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Interest rates have a greater impact on our performance than do the general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

CONTROLS AND PROCEDURES

Item 4. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO") of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of September 30, 2012, our disclosure controls and procedures were effective. During the last fiscal quarter, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that have materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

Neither the Company nor the Bank is involved in any pending legal proceeding other than non-material legal proceedings occurring in the ordinary course of business.

Item 1A. Risk Factors.

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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 was scheduled to terminate on April 19, 2012. All of the 204,156 were purchased by December 27, 2011.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION (CONTINUED)

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4.Mine Safety Disclosures

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Clint J. Morrison, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Peter J. Johnson, Chief Executive Officer, and Clint J. Morrison, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		EAGLE BANCORP MONTANA, INC.
Date: November 13, 2012	By:	/s/ Peter J. Johnson Peter J. Johnson President/CEO
Date: November 13, 2012	By:	/s/ Clint J. Morrison Clint J. Morrison Senior Vice President/CFO