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

TABLE OF CONTENTS

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	Three Months Ended September 30, 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)	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.

6

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.

7

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)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale:								
U.S. government and agency obligations	$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

12

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

15

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

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	-