

Eagle Bancorp Montana, Inc.  
Form 10-Q  
February 11, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2010

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  
(State or other jurisdiction of incorporation or  
organization)

27-1449820  
(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](http://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  No

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

|  |                              |
|--|------------------------------|
| Common stock, par value \$0.01 per share | 4,083,127 shares outstanding |
| As of February 11, 2011                  |                              |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY  
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## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

|  | December<br>31,<br>2010<br>(Unaudited) | June 30,<br>2010<br>(Audited) |
|--|--|-------------------------------|
| <b>ASSETS</b>  |  |                               |
| Cash and due from banks  | \$3,274                                | \$2,543                       |
| Interest-bearing deposits with banks   | 993                                    | 966                           |
| Federal funds sold   | -                                      | -                             |
| Total cash and cash equivalents  | 4,267                                  | 3,509                         |
| Securities available-for-sale, at market value   | 105,222                                | 114,528                       |
| Securities held-to-maturity, at cost   | -                                      | 125                           |
| Federal Home Loan Bank stock, at cost  | 2,003                                  | 2,003                         |
| Investment in Eagle Bancorp Statutory Trust I  | 155                                    | 155                           |
| Mortgage loans held-for-sale   | 3,148                                  | 7,695                         |
| Loans receivable, net of deferred loan expenses<br>and allowance for loan losses of \$1,400 at<br>December 31, 2010 and \$1,100 at June 30, 2010 | 188,586                                | 169,502                       |
| Accrued interest and dividends receivable  | 1,522                                  | 1,610                         |
| Mortgage servicing rights, net   | 2,326                                  | 2,337                         |
| Premises and equipment, net  | 15,730                                 | 15,848                        |
| Cash surrender value of life insurance   | 6,799                                  | 6,691                         |
| Real estate & other repossessed assets acquired in settlement of loans,<br>net of allowance for losses   | 1,487                                  | 619                           |
| Other assets   | 1,683                                  | 1,117                         |
| <b>Total assets</b>  | <b>\$332,928</b>                       | <b>\$325,739</b>              |

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)

|  | December<br>31,<br>2010<br>(Unaudited) | June 30,<br>2010<br>(Audited) |
|--|--|-------------------------------|
| <b>LIABILITIES</b>   |  |                               |
| Deposit accounts:  |  |                               |
| Noninterest bearing  | \$ 18,700                              | \$ 18,376                     |
| Interest bearing   | 185,593                                | 179,563                       |
| Total deposits   | 204,293                                | 197,939                       |
| Accrued expenses and other liabilities   | 2,370                                  | 2,989                         |
| Federal funds purchased  | 350                                    | -                             |
| FHLB advances and other borrowings   | 67,996                                 | 67,224                        |
| Subordinated debentures  | 5,155                                  | 5,155                         |
| Total liabilities  | 280,164                                | 273,307                       |
| <b>EQUITY</b>  |  |                               |
| 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 and outstanding at December 31, 2010 and June 30, 2010) | 41                                     | 41                            |
| Additional paid-in capital   | 22,101                                 | 22,104                        |
| Unallocated common stock held by employee stock ownership plan ("ESOP")  | (1,807 )                               | (1,889 )                      |
| Retained earnings  | 31,600                                 | 30,652                        |
| Accumulated other comprehensive gain (loss)  | 829                                    | 1,524                         |
| Total equity   | 52,764                                 | 52,432                        |
| Total liabilities and equity   | \$ 332,928                             | \$ 325,739                    |

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<br>December 31, |         | Six Months Ended<br>December 31, |         |
|---|------------------------------------|---------|----------------------------------|---------|
|   | 2010                               | 2009    | 2010                             | 2009    |
|   | (Unaudited)                        |         | (Unaudited)                      |         |
| <b>Interest and Dividend Income:</b>              |                                    |         |                                  |         |
| Interest and fees on loans                        | \$2,812                            | \$2,780 | \$5,617                          | \$5,488 |
| Securities available-for-sale                     | 901                                | 1,008   | 1,864                            | 2,012   |
| Securities held-to-maturity                       | -                                  | 3       | -                                | 7       |
| Interest on deposits with banks                   | 5                                  | 7       | 9                                | 15      |
| Total interest and dividend income                | 3,718                              | 3,798   | 7,490                            | 7,522   |
| <b>Interest Expense:</b>                          |                                    |         |                                  |         |
| Deposits  | 361                                | 589     | 764                              | 1,200   |
| FHLB advances & other borrowings                  | 647                                | 689     | 1,283                            | 1,344   |
| Subordinated debentures                           | 67                                 | 75      | 142                              | 150     |
| Total interest expense                            | 1,075                              | 1,353   | 2,189                            | 2,694   |
| Net Interest Income                               | 2,643                              | 2,445   | 5,301                            | 4,828   |
| Loan loss provision                               | 234                                | 107     | 517                              | 242     |
| Net interest income after loan loss provision     | 2,409                              | 2,338   | 4,784                            | 4,586   |
| <b>Noninterest income:</b>                        |                                    |         |                                  |         |
| Service charges on deposit accounts               | 196                                | 205     | 397                              | 400     |
| Net gain on sale of loans                         | 802                                | 349     | 1,629                            | 789     |
| Mortgage loan servicing fees                      | 179                                | 198     | 388                              | 383     |
| Net gain on sale of available for sale securities | -                                  | 28      | -                                | 28      |
| Net gain (loss) on securities FASB ASC 825        | -                                  | -       | -                                | 84      |
| Other   | 220                                | 157     | 418                              | 314     |
| Total noninterest income                          | 1,397                              | 937     | 2,832                            | 1,998   |

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<br>December 31, |           | Six Months Ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------------|-----------|
|  | 2010                               | 2009      | 2010                             | 2009      |
|  | (Unaudited)                        |           | (Unaudited)                      |           |
| Noninterest expense:                               |                                    |           |                                  |           |
| Salaries and employee benefits                     | 1,257                              | 1,251     | 2,418                            | 2,350     |
| Occupancy and equipment expense                    | 337                                | 299       | 663                              | 518       |
| Data processing                                    | 121                                | 101       | 211                              | 189       |
| Advertising  | 123                                | 124       | 247                              | 230       |
| Amortization of mortgage servicing rights          | 440                                | 137       | 699                              | 263       |
| Federal insurance premiums                         | 64                                 | 66        | 127                              | 131       |
| Postage  | 38                                 | 49        | 70                               | 87        |
| Legal, accounting, and examination fees            | 112                                | 93        | 209                              | 168       |
| Consulting fees                                    | 31                                 | 41        | 58                               | 98        |
| ATM processing                                     | 15                                 | 12        | 34                               | 29        |
| Other  | 342                                | 312       | 709                              | 525       |
| Total noninterest expense                          | 2,880                              | 2,485     | 5,445                            | 4,588     |
| Income before provision for income taxes           | 926                                | 790       | 2,171                            | 1,996     |
| Provision for income taxes                         | 282                                | 237       | 651                              | 599       |
| Net income   | \$644                              | \$553     | \$1,520                          | \$1,397   |
| Basic earnings per common share                    | \$0.17                             | \$0.14    | \$0.39                           | \$0.34    |
| Diluted earnings per common share                  | \$0.17                             | \$0.12    | \$0.39                           | \$0.30    |
| Weighted average shares outstanding (basic eps)*   | 3,899,809                          | 4,080,237 | 3,897,702                        | 4,078,625 |
| Weighted average shares outstanding (diluted eps)* | 3,899,809                          | 4,646,684 | 3,897,702                        | 4,644,490 |

\*For periods, June 30, 2010 and earlier, the per share data is calculated on a converted basis using a 3.8 to 1.0 exchange ratio in the second-step conversion.

See accompanying notes to consolidated financial statements.



## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)  
For the Six Months Ended December 31, 2010 and 2009  
(Dollars in Thousands, Except for Per Share Data)

|  | PREFERRED<br>STOCK | COMMON<br>STOCK | ADDITIONAL<br>PAID-IN<br>CAPITAL | UNALLOCATED<br>ESOP<br>SHARES | TREASURY<br>STOCK | RETAINED<br>EARNINGS | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME(LOSS) | TOTAL     |
|--|--------------------|-----------------|----------------------------------|-------------------------------|-------------------|----------------------|---|-----------|
| Balance, June 30,<br>2009  | \$ -               | \$ 12           | \$ 4,564                         | \$ (18 )                      | \$ (5,034 )       | \$ 28,850            | \$ (582 )   | \$ 27,792 |
| Net income   | -                  | -               | -                                | -                             | -                 | 1,397                | -   | 1,397     |
| Other<br>comprehensive<br>income   | -                  | -               | -                                | -                             | -                 | -                    | 1,266   | 1,266     |
| Total<br>comprehensive<br>income   | -                  | -               | -                                | -                             | -                 | -                    | -   | 2,663     |
| Dividends paid<br>(\$0.26 per<br>share)  | -                  | -               | -                                | -                             | -                 | (221 )               | -   | (221 )    |
| Treasury stock<br>purchased<br>(805 shares @<br>\$28.25)                                       | -                  | -               | -                                | -                             | (22 )             | -                    | -   | (22 )     |
| ESOP shares<br>allocated or<br>committed to be<br>released<br>for allocation<br>(1.150 shares) | -                  | -               | 50                               | 18                            | -                 | -                    | -   | 68        |
| Balance,<br>December 31,<br>2009   | \$ -               | \$ 12           | \$ 4,614                         | \$ -                          | \$ (5,056 )       | \$ 30,026            | \$ 684  | \$ 30,280 |
| Balance, June 30, 2010   | \$ -               | \$ 41           | \$ 22,104                        | \$ (1,889 )                   | \$ -              | \$ 30,652            | \$ 1,524  | \$ 52,432 |
| Net income   | -                  | -               | -                                | -                             | -                 | 1,520                | -   | 1,520     |
| Other comprehensive<br>income  | -                  | -               | -                                | -                             | -                 | -                    | (695 )  | (695 )    |

|   |     |      |          |            |        |          |       |          |
|---|-----|------|----------|------------|--------|----------|-------|----------|
| Total comprehensive income  |     |      |          |            |        |          |       | 825      |
| Dividends paid (\$0.07 per share)   |     |      |          |            | (572 ) |          |       | (572 )   |
| ESOP shares allocated or committed to be released for allocation (4,107 shares) |     |      | (3 )     | 82         |        |          |       | 79       |
| Balance, December 31, 2010  | \$- | \$41 | \$22,101 | \$(1,807 ) | \$-    | \$31,600 | \$829 | \$52,764 |

See accompanying notes to consolidated financial statements.

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

|   | Six Months Ended<br>December 31,<br>2010                  2009<br>(Unaudited) |           |
|---|---|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |           |
| Net income  | \$1,520   | \$1,397   |
| Adjustments to reconcile net income to net cash from operating activities:                            |   |           |
| Provision for loan losses   | 517   | 242       |
| Provision for OREO valuation losses   | 60  | -         |
| Depreciation  | 372   | 288       |
| Net amortization of marketable securities premium and discounts                                       | 324   | 127       |
| Amortization of capitalized mortgage servicing rights   | 699   | 263       |
| Gain on sale of loans   | (1,629 )  | (789 )    |
| Net realized (gain) loss on sale of available-for-sale securities                                     | -   | (28 )     |
| Increase in cash surrender value of life insurance  | (108 )  | (97 )     |
| (Gain)/Loss on sale of property & equipment   | 84  | 2         |
| Loss (gain) investment securities, Preferred Stock  | -   | (84 )     |
| Change in assets and liabilities:   |   |           |
| (Increase) decrease in assets:  |   |           |
| Accrued interest and dividends receivable   | 88  | (135 )    |
| Loans held-for-sale   | 5,885   | 3,869     |
| Other assets  | (567 )  | 272       |
| Increase (decrease) in liabilities:   |   |           |
| Accrued expenses and other liabilities  | (241 )  | (659 )    |
| Net cash provided by operating activities   | 7,004   | 4,668     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |           |
| Purchase of securities:   |   |           |
| Investment securities available-for-sale  | (5,951 )  | (22,682 ) |
| Proceeds from maturities, calls and principal payments:   |   |           |
| Investment securities held-to-maturity  | 125   | 110       |
| Investment securities available-for-sale  | 14,231  | 4,700     |
| FHLB Stock purchased  | -   | (3 )      |
| Proceeds from sale of securities available-for-sale   | -   | 7,148     |
| Proceeds from sale of property and equipment  | 1   | -         |
| Net increase in loan receivable, excludes transfers to real estate<br>acquired in settlement of loans | (21,216 )   | (4,879 )  |
| Proceeds from the sale of real estate acquired in the settlement of loans                             | -   | 15        |
| Purchase of property and equipment  | (340 )  | (2,527 )  |
| Net cash used in investing activities   | (13,150 )   | (18,118 ) |

See accompanying notes to consolidated financial statements.



## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

|  | Six Months Ended<br>December 31, |            |
|--|----------------------------------|------------|
|  | 2010                             | 2009       |
|  | (Unaudited)                      |            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                         |                                  |            |
| Net increase in checking and savings accounts                        | \$6,354                          | \$15,024   |
| Net increase in federal funds  | 350                              | -          |
| Payments on FHLB advances  | (6,228 )                         | (2,834 )   |
| FHLB advances  | 7,000                            | 2,000      |
| Purchase of Treasury Stock   |                                  | (22 )      |
| Dividends paid   | (572 )                           | (221 )     |
| Net cash provided by financing activities                            | 6,904                            | 13,947     |
| <br>   |                                  |            |
| Net increase in cash   | 758                              | 497        |
| <br>   |                                  |            |
| CASH AND CASH EQUIVALENTS, beginning of period                       | 3,509                            | 6,328      |
| <br>   |                                  |            |
| CASH AND CASH EQUIVALENTS, end of period                             | \$4,267                          | \$6,825    |
| <br>   |                                  |            |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                           |                                  |            |
| Cash paid during the period for interest                             | \$2,189                          | \$2,704    |
| <br>   |                                  |            |
| Cash paid during the period for income taxes                         | \$792                            | \$407      |
| <br>   |                                  |            |
| <b>NON-CASH INVESTING ACTIVITIES:</b>                                |                                  |            |
| (Increase) decrease in market value of securities available-for-sale | \$700                            | \$(1,843 ) |
| <br>   |                                  |            |
| Mortgage servicing rights capitalized                                | \$688                            | \$405      |

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 instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, such information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for the unaudited interim periods.

The results of operations for the six month period ended December 31, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2011 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 dated June 30, 2010.

The Company evaluated subsequent events for potential recognition and/or disclosure through February 11, 2011 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)

|   | December 31, 2010<br>(Unaudited) |                     |                        | June 30, 2010<br>(Audited) |                     |                        | FAIR<br>VALUE |          |
|---|----------------------------------|---------------------|------------------------|----------------------------|---------------------|------------------------|---------------|----------|
|   | AMORTIZED<br>COST                | UNREALIZED<br>GAINS | UNREALIZED<br>(LOSSES) | AMORTIZED<br>COST          | UNREALIZED<br>GAINS | UNREALIZED<br>(LOSSES) |               |          |
| Available-for-sale:                       |                                  |                     |                        |                            |                     |                        |               |          |
| U.S. government and<br>agency obligations | \$28,898                         | \$507               | \$ (8 )                | \$29,397                   | \$31,852            | \$418                  | \$ (29 )      | \$32,241 |
| Municipal<br>obligations                  | 38,552                           | 516                 | (983 )                 | 38,085                     | 35,181              | 752                    | (521 )        | 35,412   |
| Corporate<br>obligations                  | 7,012                            | 309                 | (2 )                   | 7,319                      | 7,110               | 341                    | -             | 7,451    |
| Mortgage-backed<br>securities -           |                                  |                     |                        |                            |                     |                        |               |          |

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|                          |           |         |             |           |           |         |           |           |
|--------------------------|-----------|---------|-------------|-----------|-----------|---------|-----------|-----------|
| government backed        | 1,369     | 55      | -           | 1,424     | 1,690     | 65      | -         | 1,755     |
| CMOs - private label     | 869       | 1       | (111 )      | 759       | 957       | -       | (115 )    | 842       |
| CMOs - government backed | 27,387    | 856     | (5 )        | 28,238    | 35,902    | 963     | (38 )     | 36,827    |
| Total                    | \$104,087 | \$2,244 | \$ (1,109 ) | \$105,222 | \$112,692 | \$2,539 | \$ (703 ) | \$114,528 |
| Held-to-maturity:        |           |         |             |           |           |         |           |           |
| Municipal obligations    | \$-       | \$-     | \$ -        | \$-       | \$125     | \$-     | \$ -      | \$125     |
| Total                    | \$-       | \$-     | \$ -        | \$-       | \$125     | \$-     | \$ -      | \$125     |

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## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 2. INVESTMENT SECURITIES - continued

The following table discloses, as of December 31, 2010 and June 30, 2010, the Company's investment securities that have been in a continuous unrealized-loss position for less than twelve months and those that have been in a continuous unrealized-loss position for twelve or more months:

|                            | December 31, 2010            |                               |                              |                               |
|----------------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|
|                            | Less Than 12 Months          |                               | 12 Months or Longer          |                               |
|                            | Estimated<br>Market<br>Value | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value | Gross<br>Unrealized<br>Losses |
| U.S. Government and agency | \$1,989                      | \$5                           | \$920                        | \$3                           |
| Municipal obligations      | 14,982                       | 540                           | 1,646                        | 443                           |
| CMOs - private label       | 232                          | 56                            | 419                          | 55                            |
| Mortgage-backed and CMOs   | 2,132                        | 5                             | -                            | -                             |
| Corporate obligations      | 938                          | 2                             | -                            | -                             |
| <b>Total</b>               | <b>\$20,273</b>              | <b>\$608</b>                  | <b>\$2,985</b>               | <b>\$501</b>                  |

  

|                            | June 30, 2010                |                               |                              |                               |
|----------------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|
|                            | Less Than 12 Months          |                               | 12 Months or Longer          |                               |
|                            | Estimated<br>Market<br>Value | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value | Gross<br>Unrealized<br>Losses |
| U.S. Government and agency | \$3,679                      | \$27                          | \$872                        | \$2                           |
| Municipal obligations      | 5,712                        | 129                           | 3,884                        | 392                           |
| CMOs - private label       | 467                          | 14                            | 374                          | 101                           |
| Mortgage-backed & CMOs     | 6,729                        | 38                            | -                            | -                             |
| <b>Total</b>               | <b>\$16,587</b>              | <b>\$208</b>                  | <b>\$5,130</b>               | <b>\$495</b>                  |

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 December 31, 2010 and June 30, 2010, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

As of December 31, 2010 and June 30, 2010, there were respectively, 64 and 48, securities in an unrealized loss position and were considered to be temporarily impaired and therefore an impairment charge has not been recorded. All of such temporarily impaired investments are debt securities.



At December 31, 2010 there was one corporate obligation security that had an unrealized loss. Its unrealized loss was 0.21% of its amortized cost basis. We believe this unrealized loss is principally due to interest rate movements. As such, the Company determined that none was other-than-temporary impaired.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

At December 31, 2010, 49 U.S. Government and agency securities and municipal obligations have unrealized losses with aggregate depreciation of less than 4.82% 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 municipal bond market. As such, the Company determined that none of such securities had other-than-temporary impairment.

At December 31, 2010, 7 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of less than 4.17% 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 and potentially rising interest rates. Two of the CMO securities are non-agency securities. At December 31, 2010 the fair value of these non-agency securities totaled \$651,000 with an unrealized loss of \$111,000, or 14.57% 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 no disruption of the scheduled cash flows on any of the securities. Management's analysis as of December 31, 2010 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:

|                                   | December<br>31,<br>2010<br>(Unaudited)<br>(In thousands) | June 30,<br>2010<br>(Audited) |
|-----------------------------------|--|-------------------------------|
| First mortgage loans:             |  |                               |
| Residential mortgage (1-4 family) | \$73,817   | \$73,010                      |
| Commercial real estate            | 61,070   | 41,677                        |
| Real estate construction          | 6,449  | 7,016                         |
| Other loans:                      |  |                               |
| Home equity                       | 29,010   | 29,795                        |
| Consumer                          | 9,236  | 9,613                         |
| Commercial                        | 10,576   | 9,452                         |
| Total                             | 190,158  | 170,563                       |
| Less: Allowance for loan losses   | (1,400 )   | (1,100 )                      |
| Add: Deferred loan expenses       | (172 )   | 39                            |
| Total                             | \$188,586  | \$169,502                     |

Within the commercial real estate loan category above, \$19,083,000 and \$1,280,000 was guaranteed by the United States Department of Agriculture Rural Development, at December 31, 2010 and June 30, 2010, respectively.

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

|                                 | Six Months<br>Ended<br>December<br>31,<br>2010<br>(Unaudited) | Six Months<br>Ended<br>December<br>31,<br>2009<br>(Unaudited) | Twelve<br>Months<br>Ended<br>June 30,<br>2010<br>(Audited) |
|---------------------------------|---|---|--|
|                                 | (In thousands)  |   |  |
| Balance, beginning of period    | \$1,100   | \$525   | \$525  |
| Provision charged to operations | 517   | 242   | 715  |
| Charge-offs                     | (217 )  | (69 )   | (143 )   |
| Recoveries                      | -   | 2   | 3  |

|                        |         |       |         |
|------------------------|---------|-------|---------|
| Balance, end of period | \$1,400 | \$700 | \$1,100 |
|------------------------|---------|-------|---------|

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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. As of December 31, 2010 and June 30, 2010 the Company has no loans considered to be troubled debt restructuring within the meaning of ASC 310.

|   | December<br>31,<br>2010<br>(Unaudited)<br>(in Thousands) | June 30,<br>2010<br>(Audited) |      |   |
|---|--|-------------------------------|------|---|
| Non-accrual loans   | \$2,383  | \$2,782                       |      |   |
| Accruing loans delinquent 90 days or more                     | -  | 29                            |      |   |
| Real estate owned and other repossessed assets, net           | 1,487  | 619                           |      |   |
| Total   | \$3,870  | \$3,430                       |      |   |
| Total non-performing assets as a percentage of total assets   | 1.16   | %                             | 1.05 | % |
| Allowance for loan losses                                     | \$1,400  | \$1,100                       |      |   |
| Percent of allowance for loan losses to non-performing assets | 36.2   | %                             | 32.1 | % |

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

|   | December 31, 2010<br>(Unaudited) |          |          |          |           | June 30, 2010<br>(Unaudited) |          |          |          |           |
|---|----------------------------------|----------|----------|----------|-----------|------------------------------|----------|----------|----------|-----------|
|   | Helena                           | Bozeman  | Butte    | Townsend | Total     | Helena                       | Bozeman  | Butte    | Townsend | Total     |
| Non-accrual loans                                   | \$1,228                          | \$1,122  | \$-      | \$33     | \$2,383   | \$1,094                      | \$1,683  | \$-      | \$5      | \$2,782   |
| Accruing loans delinquent 90 days or more           | -                                | -        | -        | -        | -         | 29                           | -        | -        | -        | 29        |
| Real estate owned and other repossessed assets, net | 306                              | 958      | -        | 223      | 1,487     | -                            | 396      | -        | 223      | 619       |
|   | \$1,534                          | \$2,080  | \$-      | \$256    | \$3,870   | \$1,123                      | \$2,079  | \$-      | \$228    | \$3,430   |
| Total loans, net                                    | \$106,363                        | \$44,318 | \$36,209 | \$1,696  | \$188,586 | \$92,379                     | \$43,901 | \$32,036 | \$1,186  | \$169,702 |

Percent of  
non-performing  
assets to loans

1.44 % 4.69 % 0.00 % 15.09% 2.05 % 1.22 % 4.74 % 0.00 % 19.22% 2.0

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## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 3. LOANS RECEIVABLE - continued

The following table sets forth information regarding the activity in the allowance for loan losses for the six months ended December 31, 2010 (dollars in thousands):

|   | 1-4 Family<br>Real<br>Estate | Commercial<br>Real<br>Estate | Construction | Home<br>Equity | Consumer | Commercial | Total      |
|---|------------------------------|------------------------------|--------------|----------------|----------|------------|------------|
| Allowance for credit losses:  |                              |                              |              |                |          |            |            |
| Beginning balance, June 30, 2010  | \$ 267                       | \$ 449                       | \$ 110       | \$ 128         | \$ 78    | \$ 68      | \$ 1,100   |
| Charge-offs   | (75 )                        | (130 )                       | -            | -              | (12 )    | -          | (217 )     |
| Recoveries  | -                            | -                            | -            | -              | -        | -          | -          |
| Provision   | 25                           | 152                          | 62           | 266            | 12       | -          | 517        |
| Ending balance, December 31, 2010                                       | \$ 217                       | \$ 471                       | \$ 172       | \$ 394         | \$ 78    | \$ 68      | \$ 1,400   |
| Ending balance allocated to loans individually evaluated for impairment |                              |                              |              |                |          |            |            |
|   | \$ 54                        | \$ 43                        | \$ 171       | \$ 390         | \$ 3     | \$ -       | \$ 661     |
| Ending balance allocated to loans collectively evaluated for impairment |                              |                              |              |                |          |            |            |
|   | \$ 163                       | \$ 428                       | \$ 1         | \$ 4           | \$ 75    | \$ 68      | \$ 739     |
| Loans receivable:   |                              |                              |              |                |          |            |            |
| Ending balance  |                              |                              |              |                |          |            |            |
| December 31, 2010   | \$ 73,817                    | \$ 61,070                    | \$ 6,449     | \$ 29,010      | \$ 9,236 | \$ 10,576  | \$ 190,158 |
| Ending balance of loans individually evaluated for impairment           |                              |                              |              |                |          |            |            |
| December 31, 2010   | \$ 400                       | \$ 106                       | \$ 650       | \$ 403         | \$ 3     | \$ -       | \$ 1,562   |
| Ending balance of loans collectively evaluated for impairment           |                              |                              |              |                |          |            |            |
| December 31, 2010   | \$ 73,417                    | \$ 60,964                    | \$ 5,799     | \$ 28,607      | \$ 9,233 | \$ 10,576  | \$ 188,596 |

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The following table sets forth information regarding the internal classification of the loan portfolio as of December 31, 2010 (dollars in thousands):

|   | 1-4 Family<br>Real<br>Estate | Commercial<br>Real<br>Estate | Construction | Home<br>Equity | Consumer | Commercial | Total      |
|---|------------------------------|------------------------------|--------------|----------------|----------|------------|------------|
| Grade:  |                              |                              |              |                |          |            |            |
| Pass  | \$ 72,257                    | \$ 60,831                    | \$ 5,799     | \$ 28,412      | \$ 9,153 | \$ 10,126  | \$ 186,578 |
| Special mention                                     | 500                          | -                            | -            | 82             | -        | -          | 582        |
| Substandard   | 1,007                        | 196                          | 479          | 126            | 80       | 450        | 2,338      |
| Doubtful  | -                            | -                            | -            | -              | -        | -          | -          |
| Loss  | 53                           | 43                           | 171          | 390            | 3        | -          | 660        |
| Total   | \$ 73,817                    | \$ 61,070                    | \$ 6,449     | \$ 29,010      | \$ 9,236 | \$ 10,576  | \$ 190,158 |
| Credit Risk Profile Based<br>on<br>Payment Activity |                              |                              |              |                |          |            |            |
| Performing  | \$ 72,892                    | \$ 60,884                    | \$ 5,799     | \$ 28,618      | \$ 9,188 | \$ 10,394  | \$ 187,775 |
| Nonperforming                                       | 925                          | 186                          | 650          | 392            | 48       | 182        | 2,383      |
| Total   | \$ 73,817                    | \$ 61,070                    | \$ 6,449     | \$ 29,010      | \$ 9,236 | \$ 10,576  | \$ 190,158 |



## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 3. LOANS RECEIVABLE - continued

The following table sets forth information regarding the delinquencies within the loan portfolio as of December 31, 2010 (dollars in thousands):

|                        | 30-89 Days<br>Past Due | 90 Days<br>and<br>Greater | Total<br>Past Due | Current    | Total<br>Loans | Recorded<br>Investment<br>>90 Days<br>and<br>Still<br>Accruing |
|------------------------|------------------------|---------------------------|-------------------|------------|----------------|--|
| 1-4 Family real estate | \$ 863                 | \$ 925                    | \$ 1,788          | \$ 72,029  | \$ 73,817      | \$-  |
| Commercial real estate | 6                      | 186                       | 192               | 60,878     | 61,070         | -  |
| Construction           | 994                    | 650                       | 1,644             | 4,805      | 6,449          | -  |
| Home equity            | 618                    | 392                       | 1,010             | 28,000     | 29,010         | -  |
| Consumer               | 192                    | 48                        | 240               | 8,996      | 9,236          | -  |
| Commerical             | 108                    | 182                       | 290               | 10,286     | 10,576         | -  |
| Total                  | \$ 2,781               | \$ 2,383                  | \$ 5,164          | \$ 184,994 | \$ 190,158     | \$-  |

The following table sets forth information regarding impaired loans as of December 31, 2010 (dollars in thousands):

|                            | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Interest<br>Income<br>Recognized |
|----------------------------|------------------------|--------------------------------|----------------------|----------------------------------|
| December 31, 2010          |                        |                                |                      |                                  |
| With no related allowance: |                        |                                |                      |                                  |
| 1-4 Family                 | \$-                    | \$-                            | \$-                  | \$-                              |
| Commercial real estate     | -                      | -                              | -                    | -                                |
| Construction               | -                      | -                              | -                    | -                                |
| Home equity                | -                      | -                              | -                    | -                                |
| Consumer                   | -                      | -                              | -                    | -                                |
| Commerical                 | -                      | -                              | -                    | -                                |
| With a related allowance:  |                        |                                |                      |                                  |
| 1-4 Family                 | 347                    | 400                            | 53                   | -                                |
| Commercial real estate     | 63                     | 106                            | 43                   | -                                |
| Construction               | 479                    | 650                            | 171                  | -                                |
| Home equity                | 13                     | 403                            | 390                  | -                                |
| Consumer                   | -                      | 3                              | 3                    | -                                |
| Commerical                 | -                      | -                              | -                    | -                                |
| Total                      |                        |                                |                      |                                  |
| 1-4 Family                 | 347                    | 400                            | 53                   | -                                |

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|                        |       |         |       |     |
|------------------------|-------|---------|-------|-----|
| Commercial real estate | 63    | 106     | 43    | -   |
| Construction           | 479   | 650     | 171   | -   |
| Home equity            | 13    | 403     | 390   | 1   |
| Consumer               | -     | 3       | 3     | -   |
| Commerical             | -     | -       | -     | -   |
| Total                  | \$902 | \$1,562 | \$660 | \$1 |

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## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 3. LOANS RECEIVABLE - continued

The following table sets forth information regarding non-performing loans as of December 31, 2010 (dollars in thousands):

|                        |          |
|------------------------|----------|
| 1-4 Family             | \$ 925   |
| Commercial real estate | 186      |
| Construction           | 650      |
| Home equity            | 392      |
| Consumer               | 48       |
| Commerical             | 182      |
| Total                  | \$ 2,383 |

The Company had no troubled debt restructured loans as of December 31, 2010.

## NOTE 4. DEPOSITS

Deposits are summarized as follows (dollars in thousands):

|                              | December<br>31,<br>2010<br>(Unaudited) | June 30,<br>2010<br>(Audited) |
|------------------------------|--|-------------------------------|
| Noninterest checking         | \$18,700                               | \$18,376                      |
| Interest-bearing checking    | 40,540                                 | 34,658                        |
| Statement savings            | 33,424                                 | 30,875                        |
| Money market                 | 27,622                                 | 29,021                        |
| Time certificates of deposit | 84,007                                 | 85,009                        |
| Total                        | \$204,293                              | \$197,939                     |

## NOTE 5. EARNINGS PER SHARE

Basic earnings per share for the six months ended December 31, 2010 was computed using 3,897,702 weighted average shares outstanding. Basic earnings per share for the six months ended December 31, 2009 was computed using 4,078,625 weighted average shares outstanding adjusted for the 3.800 to 1.000 exchange ratio in the second-step conversion. 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 3,897,702 for the six months ended December 31, 2010 and 4,644,490 for the six months ended December 31, 2009 adjusted for the 3.8000 to 1.000 exchange ratio in the second-step conversion.

## NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM

This fiscal year Eagle paid dividends of \$0.07 per share on August 27, 2010 and November 26, 2010. A dividend of \$0.07 per share was declared on January 20, 2011, payable February 25, 2011 to stockholders of record on February 4, 2011.

At its regular meeting of January 17, 2008, the Company's Board of Directors announced a stock repurchase program for up to 28,750 shares. The plan was suspended on December 2, 2009 when the Board of Directors announced the adoption of plan of conversion and reorganization. At that date, 5,315 shares have been purchased under this program. On April 5, 2010, the date of completion of the conversion and reorganization, the repurchase program was terminated and all then existing treasury stock was eliminated.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7. FAIR VALUE DISCLOSURES

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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. FASB ASC 825 allows the Company to elect to apply fair value accounting for designated instruments to improve financial reporting and mitigate volatility in reported earnings. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

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

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

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.

Investment Securities Available for Sale – 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.

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## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 7. 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.

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.

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.

Repossessed Assets – Real Estate and other assets acquired in the settlement of loans are reported at fair value less estimated costs to dispose of the property using Level 2 inputs. The fair values are determined by appraisals using valuation techniques consistent with the market approach using recent sales of comparable properties. In cases where such inputs are unobservable, the balance is reflected within the Level 3 hierarchy.

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 December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

|   | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Total Fair<br>Value |
|---|-------------------|-------------------|-------------------|---------------------|
|   | (In thousands)    |                   |                   |                     |
| <b>Financial Assets:</b>                    |                   |                   |                   |                     |
| Investment securities<br>available-for-sale | \$ -              | \$ 105,222        | \$ -              | \$ 105,222          |
| Loan subject to fair value hedge            | -                 | -                 | 11,454            | 11,454              |
| Loans held-for-sale                         | -                 | 3,148             | -                 | 3,148               |
| <b>Financial Liabilities:</b>               |                   |                   |                   |                     |
| Derivative                                  | -                 | -                 | (780 )            | (780 )              |

The following table presents, for the six months ended December 31, 2010, the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis.

Total Realized/

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|                                  | Balance as of<br>July 1, 2010 | Unrealized Gains<br>(Losses) Included<br>in Noninterest<br>Income | Purchases,<br>Sales,<br>Issuances, and<br>Settlements, net | Balance as of<br>December 31,<br>2010 |
|----------------------------------|-------------------------------|---|--|---------------------------------------|
|                                  | (In thousands)                |   |  |                                       |
| <b>Financial Assets:</b>         |                               |   |  |                                       |
| Loan subject to fair value hedge | \$ -                          | \$ (582 )   | \$ 12,036  | \$ 11,454                             |
| <b>Financial Liabilities:</b>    |                               |   |  |                                       |
| Derivative                       | -                             | 780   | -  | 780                                   |



## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 7. FAIR VALUE DISCLOSURES - continued

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 nonfinancial liabilities measured at fair value on a nonrecurring basis as of December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

|                    | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Total Fair<br>Value |
|--------------------|-------------------|-------------------|-------------------|---------------------|
|                    | (In thousands)    |                   |                   |                     |
| Impaired loans     | \$ -              | \$ -              | \$ 902            | \$ 902              |
| Repossessed assets | -                 | -                 | 1,487             | 1,487               |

As of December 31, 2010, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance with allocation of the allowance for loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of \$1,562,000 were reduced by specific valuation allowance allocations totaling \$660,000 to a total reported fair value of \$902,000 based on collateral valuations utilizing Level 3 valuation inputs.

Repossessed assets are recorded at market value less estimated cost to sell, and are measured for impairment by comparing the carrying value with the current fair value of the assets. Repossessed assets with a carrying amount of \$1,547,000 were reduced by valuation adjustments of \$60,000 to a total reported fair value of \$1,487,000 based on collateral valuations utilizing Level 3 valuation inputs as of December 31, 2010.

Those financial instruments not subject to the initial implementation of FASB ASC 820 are required under FASB ASC 825 to have their fair value disclosed, 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 December 31, 2010, and June 30, 2010, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments not covered by FASB ASC 820.

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

## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 7. FAIR VALUE DISCLOSURES - continued

| (Dollars in Thousands)                    | December 31,<br>2010<br>(Unaudited) |  | June 30,<br>2010<br>(Audited) |                            |
|---|-------------------------------------|--|-------------------------------|----------------------------|
|   | Carrying<br>Amount                  | Estimated<br>Fair<br>Value<br>(In thousands) | Carrying<br>Amount            | Estimated<br>Fair<br>Value |
| <b>Financial Assets:</b>                  |                                     |  |                               |                            |
| Cash and cash equivalents                 | \$4,267                             | \$4,267                                      | \$3,509                       | \$3,509                    |
| Securities held-to-maturity               | -                                   | -  | 125                           | 125                        |
| FHLB stock                                | 2,003                               | 2,003  | 2,003                         | 2,003                      |
| Loans receivable, net                     | 188,586                             | 198,515                                      | 169,502                       | 176,037                    |
| Mortgage servicing rights                 | 2,326                               | 2,782  | 2,337                         | 2,400                      |
| Cash value of life insurance              | 6,799                               | 6,799  | 6,691                         | 6,691                      |
| <b>Financial Liabilities:</b>             |                                     |  |                               |                            |
| Deposits                                  | 120,286                             | 120,286                                      | 112,930                       | 112,930                    |
| Time certificates of deposit              | 84,007                              | 85,268                                       | 85,009                        | 86,770                     |
| Federal funds purchased                   | 350                                 | 350  | -                             | -                          |
| Advances from the FHLB & other borrowings | 67,996                              | 71,378                                       | 67,224                        | 70,952                     |
| Subordinated debentures                   | 5,155                               | 3,866  | 5,155                         | 3,872                      |

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments.

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

Securities held-to-maturity – 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.

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 determined based on management's judgment using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for non-specific borrowers.

Mortgage Servicing Rights – Fair values are estimated by stratifying the mortgage servicing portfolio into groups of loans with similar financial characteristics, such as loan type, interest rate, and expected maturity. The Company obtains market survey data estimates and bid quotations from secondary market investors who regularly purchase mortgage servicing rights. Assumptions regarding loan payoffs are determined using historical information on segmented loan categories for nonspecific borrowers.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7. FAIR VALUE DISCLOSURES – continued

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.

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.

Federal Funds purchased – The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

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 December 31, 2010 and June 30, 2010, respectively if the borrowings repriced according to their stated terms.

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.

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 fixed rate loan hedged 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 December 31, 2010, the loan had an outstanding principal balance of \$12,010,000 loan, and the interest rate swap had a notional value of \$12,010,000.

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## EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES - continued

| Effect of Derivative Instruments on Statement of Financial Condition     |                              |               |       |                              |               |  |                              |               |       |                              |               |   |
|--|------------------------------|---------------|-------|------------------------------|---------------|--|------------------------------|---------------|-------|------------------------------|---------------|---|
| Fair Value of Derivative Instruments                                     |                              |               |       |                              |               |  |                              |               |       |                              |               |   |
| Asset Derivatives  |                              |               |       |                              |               |  |                              |               |       |                              |               |   |
| Liabilities Derivatives  |                              |               |       |                              |               |  |                              |               |       |                              |               |   |
| (In<br>Thousands)  | December 31, 2010            |               |       | June 30, 2010                |               |  | December 31, 2010            |               |       | June 30, 2010                |               |   |
|  | Balance<br>Sheet<br>Location | Fair<br>Value |       | Balance<br>Sheet<br>Location | Fair<br>Value |  | Balance<br>Sheet<br>Location | Fair<br>Value |       | Balance<br>Sheet<br>Location | Fair<br>Value |   |
| Derivatives<br>designed as<br>hedging<br>instruments<br>under ASC<br>815 |                              |               |       |                              |               |  |                              |               |       |                              |               |   |
| Interest rate<br>contracts   | Loans                        | \$            | (582) | n/a                          |               |  | - Other<br>Liabilities       | \$            | (780) | n/a                          |               | - |

| Effect of Derivative Instruments on Statement of Income |  |   |      |
|---|--|---|------|
| For the Six Months Ended December 31, 2010 and 2009     |  |   |      |
| (In Thousands)  |  |   |      |
| Derivatives<br>Designated as<br>Hedging Instruments     | Location of<br>Gain or (Loss)<br>Recognized in<br>Income on Derivative | Amount of Gain or (Loss)<br>Recognized in Income on<br>Derivative |      |
| Under ASC 815   |  | 2010  | 2009 |
| Interest rate contracts                                 | Noninterest income   | \$ 198  | \$ - |

## NOTE 9. RECENTLY ISSUED PRONOUNCEMENTS

GAAP Codification – On July 1, 2009, the FASB’s GAAP Codification became effective as the sole authoritative source of GAAP. This codification reorganizes current GAAP for non-governmental entities into a topical index to facilitate accounting research and to provide users additional assurance that they have referenced all related literature pertaining to a given topic. Existing GAAP prior to the Codification was not altered in the compilation of the GAAP Codification. The GAAP Codification encompasses all FASB Statements of Financial Accounting Standards, Emerging Issues Task Force statements, FASB Staff Positions, FASB Interpretations, FASB Derivative Implementation Guides, American Institute of Certified Public Accountants Statement of Positions, Accounting Principles Board Opinions and Accounting Research Bulletins along with the remaining body of GAAP effective as of June 30, 2009. Financial Statements issued for all interim and annual periods ending after September 15, 2009, will

need to reference accounting guidance embodied in the Codification as opposed to referencing the previously authoritative pronouncements.

On November 14, 2008, the Securities and Exchange Commission (“SEC”) issued its long-anticipated proposed International Financial Reporting Standards (“IFRS”) roadmap outlining milestones that, if achieved, could lead to mandatory transition to IFRS for U.S. domestic registrants starting in 2014. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). Under the proposed roadmap, the Company could be required through its parent company to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS for U.S. domestic registrants. Management is currently assessing the impact that this potential change would have on the Company’s consolidated financial statements, and will continue to monitor the development of the potential implementation of IFRS.

In April 2009, the FASB issued new guidance impacting ASC Topic 820, Fair Value Measurements and Disclosures. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of this new guidance did not have a material effect on Company’s results of operations or financial position.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. RECENTLY ISSUED PRONOUNCEMENTS – continued

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, Financial Instruments, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance is effective for interim and annual periods ending after June 15, 2009. The Company has presented the necessary disclosures in Note 7 to the financial statements.

In June 2009, the FASB issued new authoritative accounting guidance under ASC Topic 810, Consolidation, which amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC Topic 810 will be effective January 1, 2010. The adoption of the guidance did not have a material effect on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued ASC 860, Transfers and Servicing, to improve the information included in an entity's financial statements about a transfer of financial assets and the effects of a transfer on its financial position, financial performance and cash flows. The guidance eliminates the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. The guidance is effective for the first reporting period (including interim periods) that begins after November 15, 2009. The adoption of the guidance did not have a material effect on the Company's consolidated financial position or results of operations.

In August 2009, the FASB issued ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of the guidance did not have a material effect on the Company's consolidated financial position or results of operations.

In July 2010, the FASB issued Accounting Standards Update (ASU) 2010-20, "Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The purpose of this Update is to improve transparency by companies that hold financing receivables, including loans, leases and other long-term receivables. The Update requires such companies to disclose more information about the credit quality of their financing receivables and the credit reserves against them. For public entities, this guidance is effective for the first interim or



annual reporting period ending after December 15, 2010, with the exception of certain disclosures which include information for activity that occurs during a reporting period (activity in the allowance for credit losses and modifications of financing receivables) which will be effective for the first interim or annual period beginning after December 15, 2010. The Company has presented the necessary disclosures in Note 3 to the financial statements.

The FASB issued new authoritative accounting guidance under ASC Topic 855, Subsequent Events, which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. This guidance sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This new guidance was effective for the period ended December 31, 2010 and did not have a significant impact on the Company's 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," "continue," "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;
  - adverse 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;
  - changes in our organization's compensation and benefit plans;
- 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 recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;

the impact of the current governmental effort to restructure the U.S. financial and regulatory system;  
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, 2010, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC.

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 investing in loans and investment securities. The Company, as a unitary thrift holding company, and the Bank, as a federally chartered savings bank operate under a consolidated regulatory regime in which the Office of Thrift Supervision (the "OTS"), has served as the principal federal regulator for both entities. Recent federal legislation mandated that the consolidated regulatory functions of the OTS 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 on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Federal Reserve Board (the "FRB") will become the principal federal bank regulatory agency for the Company and the OCC the principal federal regulator for the Bank. The Bank's charter will not be affected and the Bank will continue to operate, as a federal stock savings bank. Its deposits will 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 in single-family residential mortgages. This has led to successfully marketing 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 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 serviced portfolio, which provides a steady source of fee 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 serviced portfolio. Management believes that the Bank will need to continue to focus on increasing net interest margin, other areas of fee income, and control 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 will 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 fierce competition and wholesale funding (which is usually more expensive than retail

deposits) will likely 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 six months ended December 31, 2010.

#### Financial Condition

Comparisons of financial condition in this section are between December 31, 2010 and June 30, 2010.

Total assets at December 31, 2010 were \$332.93 million, an increase of \$7.19 million, or 2.21%, from \$325.74 million at June 30, 2010. This increase in assets was primarily attributable to an increase in commercial real estate loans.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Financial Condition - continued

Loans receivable increased \$19.08 million, or 11.26%, to \$188.59 million at December 31, 2010, from \$169.5 million at June 30, 2010. Commercial real estate loans was the loan category with the largest increase, \$19.39 million. This increase was primarily from the origination of two relatively large loans, a \$12.1 million commercial real estate loan secured by a detention facility, and a \$10.0 commercial real estate loan secured by a hotel. The detention facility loan is supported by a 90% guarantee from the USDA Rural Development. The hotel loan has a 70% USDA Rural Development guarantee. The presence of the USDA Rural Development guarantees provides certain regulatory benefits for such loans including an exemption of the guaranteed portions from loan to one borrower limitations and reduced risk weighted capital requirements. The detention facility loan has a term of 20 years and is fully amortizing and has been converted from a fixed to variable rate tied to one month LIBOR using an interest rate swap with a third party. The hotel loan has a term of 25 years and is fully amortizing. It's rate is adjustable every five years. Both home equity and consumer loans showed modest decreases, while construction loans decreased \$567,000. The decrease in construction loans was primarily due to the conversion of the detention facility loan to permanent financing. Total loan originations were \$131.08 million for the six months ended December 31, 2010, with single family mortgages accounting for \$85.11 million of the total. Home equity and construction loan originations totaled \$6.24 million and \$5.20 million, respectively, for the same period. Commercial real estate and land loan originations totaled \$26.85 million. Loans held-for-sale decreased to \$4.55 million at December 31, 2010 from \$7.70 million at June 30, 2010.

Total cash and cash equivalents increased by \$758,000, and securities available-for-sale decreased \$9.31 million.

Deposits increased \$6.35 million, or 3.21%, to \$204.29 million at December 31, 2010 from \$197.94 million at June 30, 2010. Growth occurred primarily in checking accounts. Management attributes the increase in these deposits to increased marketing of checking accounts as well as customers' desire to place funds in safe, insured deposit accounts.

Advances from the Federal Home Loan Bank and other borrowings increased \$772,000, or 1.15%, to \$68.0 million from \$67.22 million as a result of continued growth in loans. This was partially offset by the growth in deposits and decrease in securities available-for-sale. Federal fund purchases increased from zero to \$350,000.

Total shareholders' equity increased \$332,000 or 0.63%, to \$52.76 million at December 31, 2010 from \$52.43 million at June 30, 2010. This was a result of net income for the period of \$1.52 million offset and by a decrease in accumulated other comprehensive income of \$695,000 (mainly due to a decrease in net unrealized gains on securities available-for-sale). This was partially offset by dividends paid.

Results of Operations for the Three Months Ended December 31, 2010 and 2009

Net Income. Eagle's net income was \$644,000 versus \$553,000 for the three months ended December 31, 2010 and 2009, respectively. The increase of \$91,000, or 16.46%, was due to an increase in net interest income of \$198,000, an increase in noninterest income of \$460,000, offset by increases in noninterest expense of \$395,000 and loan loss provision of \$127,000. Eagle's tax provision was \$45,000 higher in the current quarter. Basic earnings per share were \$0.17 for the current period, compared to \$0.14 for the previous year's period.

Net Interest Income. Net interest income increased to \$2.64 million for the quarter ended December 31, 2010, from \$2.45 million for the previous year's quarter. This increase of \$198,000 was the result of a decrease in interest expense of \$278,000 offset by a decrease in interest and dividend income of \$80,000.

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 December 31, 2010 and 2009 - continued

**Interest and Dividend Income.** Total interest and dividend income was \$3.72 million for the quarter ended December 31, 2010, compared to \$3.80 million for the quarter ended December 31, 2009, a decrease of \$80,000, or 2.11%. Interest and fees on loans increased to \$2.81 million for the three months ended December 31, 2010 from \$2.78 million for the same period ended December 31, 2009. This increase of \$32,000, or 1.15%, was due primarily to the increase in the average balances on loans for the quarter ended December 31, 2010. Average balances for loans receivable, net, for the quarter ended December 31, 2010 were \$184.22 million, compared to \$172.05 million for the previous year. This represents an increase of \$12.17 million, or 7.08%. The average interest rate earned on loans receivable decreased by 35 basis points, from 6.46% to 6.11%. Interest and dividends on investment securities available-for-sale (AFS) decreased to \$901,000 for the quarter ended December 31, 2010 from \$1.01 million for the same quarter last year. Average balances on investments increased to \$104.25 million for the quarter ended December 31, 2010, compared to \$92.64 million for the quarter ended December 31, 2009. The average interest rate earned on investments decreased to 3.46% from 4.37%. Interest on deposits with banks decreased to \$5,000 from \$7,000, due to a decrease in average balances. Average balances on deposits with banks decreased to \$6.16 million for the quarter ended December 31, 2010, compared to \$8.44 million for the quarter ended December 31, 2009. The average rates on deposit with banks decreased from 0.33% at December 31, 2009 to 0.32% at December 31, 2010.

**Interest Expense.** Total interest expense decreased to \$1.08 million for the quarter ended December 31, 2010, from \$1.35 million for the quarter ended December 31, 2009, a decrease of \$278,000, or 20.55%. The decrease was due to decreases in interest paid on deposits which decreased to \$361,000 for the quarter ended December 31, 2010, from \$589,000 for the quarter ended December 31, 2009. This decrease of \$228,000, or 38.71%, was attributable to a decrease in average rates paid on deposit accounts. For example, interest bearing checking account rates declined from 0.22% to 0.07%, and money market accounts decreased from 0.52% to 0.16%. Average balances in interest-bearing deposit accounts increased to \$184.96 million for the quarter ended December 31, 2010, compared to \$181.54 million for the same quarter in the previous year. A decrease in the average balance of borrowings, and a small decrease in the average rate paid, resulted in a decrease in interest paid on borrowings to \$647,000 for the quarter ended December 31, 2010 versus \$689,000 paid in the previous year's quarter. The average rate paid on borrowings decreased from 4.24% last year to 4.17% this year and the average rate paid on liabilities decreased 43 basis points from the quarter ended December 31, 2009 to the quarter ended December 31, 2010.

**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 Eagle's subsidiary, American Federal Savings Bank (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 \$234,000 in provision for loan losses for the quarter ended December 31, 2010 and \$107,000 in the quarter ended December 31, 2009. This increase was based on an analysis of a variety of factors including an increase in loan delinquencies and to the weakened national and local economy. Total nonperforming loans increased from \$2.15 million at December 31, 2009 to \$2.38 million at December 31, 2010. The Bank currently has \$1.55 million in foreclosed real estate property and other repossessed property with a net book value of \$1.49 million.



Noninterest Income. Due to significant declines in long term interest rates, the Bank experienced significant refinancing activity in residential real estate. This increased activity caused total noninterest income to increase to \$1.40 million for the quarter ended December 31, 2010, from \$937,000 for the quarter ended December 31, 2009, an increase of \$460,000 or 49.09%. Of this amount net gain on sale of loans increased to \$802,000 for the quarter ended December 31, 2010 from \$349,000 for the quarter ended December 31, 2009. During this period, \$41.11 million 1-4 family mortgage loans were originated compared to \$21.43 million in the quarter ended December 31, 2009. In addition, \$42.92 million mortgage loans were sold during the period compared to \$20.12 million sold in the quarter ended December 31, 2009. Also, other income increased \$63,000 from the prior year which was largely due to the increase in the fair value of the interest rate swap described earlier.

Noninterest Expense. Noninterest expense increased by \$395,000 or 15.90% to \$2.88 million for the quarter ended December 31, 2010, from \$2.49 million for the quarter ended December 31, 2009. This increase was primarily due to increases in the amortization of the mortgage servicing fees of \$303,000 which were due to the increase in the refinance activity that caused the increase in net gain on sale of loans noted above. Other expense categories showed minor changes.

Income Tax Expense. Eagle's income tax expense was \$282,000 for the quarter ended December 31, 2010, compared to \$237,000 for the quarter ended December 31, 2009. The effective tax rate for the quarter ended December 31, 2010 was 30.45% and was 30.00% for the quarter ended December 31, 2009.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Results of Operations for the Six Months Ended December 31, 2010 and 2009

**Net Income.** Eagle's net income was \$1.52 million and \$1.40 million for the six months ended December 31, 2010 and 2009, respectively. The increase of \$123,000, or 8.80%, was due to increases in net interest income of \$473,000 and noninterest income of \$834,000, offset by increases in noninterest expense of \$857,000 and loan loss provision of \$275,000. Eagle's tax provision was \$52,000 higher in the current period. Basic earnings per share were \$0.39 for the current period, compared to \$0.34 (adjusted for the 3.8000 to 1.000 exchange ratio in the second-step conversion) for the previous year's period.

**Net Interest Income.** Net interest income increased to \$5.30 million for the six months ended December 31, 2010, from \$4.83 million for the previous year's period. This increase of \$473,000 was the result of a slight decrease in interest and dividend income of \$32,000 offset by a decrease in interest expense of \$505,000.

**Interest and Dividend Income.** Total interest and dividend income was \$7.49 million for the six months ended December 31, 2010, compared to \$7.52 million for the six months ended December 31, 2009, representing a decrease of \$32,000, or 0.43%. Interest and fees on loans increased to \$5.62 million for the six months ended December 31, 2010 from \$5.49 million for the same period ended December 31, 2009. This increase of \$129,000, or 2.35%, was due primarily to the increase in the average balances on loans for the six months ended December 31, 2010. Average balances for loans receivable, net, for the six months ended December 31, 2010 were \$181.72 million, compared to \$171.66 million for the previous year. This represents an increase of \$10.06 million, or 5.86%. The average interest rate earned on loans receivable decreased by 21 basis points, from 6.39% to 6.18%. Interest and dividends on investment securities available-for-sale (AFS) decreased slightly to \$1.86 million for the six months ended December 31, 2010 from \$2.01 million for the same period last year. Average balances on investments increased to \$110.28 million for the six months ended December 31, 2010, compared to \$90.24 million for the six months ended December 31, 2009. The average interest rate earned on investments decreased to 3.38% from 4.47%. Interest on deposits with banks decreased to \$9,000 from \$15,000, due to a decrease in average balances. Average balances on deposits with banks decreased to \$4.34 million for the six months ended December 31, 2010, compared to \$8.49 million for the six months ended December 31, 2009.

**Interest Expense.** Total interest expense decreased to \$2.19 million for the six months ended December 31, 2010, from \$2.69 million for the six months ended December 31, 2009, a decrease of \$505,000, or 18.75%, primarily due to decreases in interest paid on deposits. Interest on deposits decreased to \$764,000 for the six months ended December 31, 2010, from \$1.20 million for the six months ended December 31, 2009. This decrease of \$436,000, or 36.33%, was the result of a 0.52% decrease in average rates paid on deposit accounts. Interest bearing checking accounts decreased in average rates paid from 0.24% to 0.08%, and money market accounts decreased from 0.55% to 0.19%. Average balances in interest-bearing deposit accounts increased to \$184.04 million for the six months ended December 31, 2010, compared to \$178.27 million for the same period in the previous year. A decrease in the average balance of borrowings, partially offset by a small increase in the average rate paid, resulted in a decrease in interest paid on borrowings to \$1.43 million versus \$1.49 million paid in the same period ended December 31, 2009. The average rate paid on borrowings increased from 4.11% last year to 4.13% this year. The average rate paid on liabilities decreased 0.42% from the six months ended December 31, 2009 to the six months ended December 31, 2010.

**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 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 its 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 took a \$517,000 provision for loan losses for the six months ended December 31, 2010 versus \$242,000 in the six months ended December 31, 2009. This was due to an increase in loan delinquencies and to the weakened local and national economy. Total real estate and other assets acquired in settlement of loans, net of allowance for losses increased from \$619,000 at June 30, 2010 to \$1.49 million at December 31, 2010.

**Noninterest Income.** Total noninterest income increased to \$2.83 million for the six months ended December 31, 2010, from \$2.00 million for the six months ended December 31, 2009, an increase of \$834,000 or 41.74%. This increase is principally due to an increase of \$840,000 in net gain on sale of loans to \$1.63 million for the six months ended December 31, 2010 from \$789,000 for the six months ended December 31, 2009.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Results of Operations for the Six Months Ended December 31, 2010 and 2009 - continued

**Noninterest Expense.** Noninterest expense increased by \$857,000 or 18.68% to \$5.45 million for the six months ended December 31, 2010, from \$4.59 million for the six months ended December 31, 2009. This increase was primarily due to increases in amortization of mortgage servicing fees of \$436,000, occupancy costs of \$145,000, and salaries and employee benefits of \$68,000. The increase in salaries and employee benefits expense was due to merit raises, and other inflationary items such as health insurance premiums in addition to a slightly larger staff. The increase in occupancy costs were due to the opening of the Oak Street branch in Bozeman, Montana in October 2009. The increase in the amortization of mortgage servicing rights resulted from an increase in refinance activity that occurred during the period compared to the previous period. Other expense categories showed minor changes.

**Income Tax Expense.** Eagle's income tax expense was \$651,000 for the six months ended December 31, 2010, compared to \$599,000 for the six months ended December 31, 2009. The effective tax rate for the six months ended December 31, 2010 was 29.99% and was 30.00% for the six months ended December 31, 2009.

Liquidity, Interest Rate Sensitivity and Capital Resources

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision (OTS) regulations. The OTS has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OTS 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 December 31, 2010 and December 31, 2009.

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 September 30, 2010 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS in a 200 basis point rise in interest rates scenario, decreased to 218 basis points from 258 basis points at December 31, 2009. 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 by the OTS, increased from 9.36% as of December 31, 2009 to 12.96% as of December 31, 2010. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

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## 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 December 31, 2010, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At December 31, 2010, the Bank's tangible, core, and risk-based capital ratios amounted to 12.96%, 12.96%, and 19.59%, respectively, compared to regulatory requirements of 1.50%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

|                     | At December 31, 2010<br>(Unaudited) |                |
|---------------------|-------------------------------------|----------------|
|                     | Dollar<br>Amount                    | % of<br>Assets |
| Tangible capital:   |                                     |                |
| Capital level       | \$41,080                            | 12.96          |
| Requirement         | 4,753                               | 1.50           |
| Excess              | 36,327                              | 11.46          |
| Core capital:       |                                     |                |
| Capital level       | 41,080                              | 12.96          |
| Requirement         | 9,507                               | 3.00           |
| Excess              | 31,573                              | 9.96           |
| Risk-based capital: |                                     |                |
| Capital level       | 41,819                              | 19.59          |
| Requirement         | 17,077                              | 8.00           |
| Excess              | 24,742                              | 11.59          |

## 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.

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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 December 31, 2010, 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 Risk Factors.

1A.

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, 2010.

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

At its regular meeting of January 17, 2008, the Board of Directors of Eagle Bancorp announced a stock repurchase program for up to 28,750 shares. The plan was suspended on December 2, 2009 when the Board of Directors of Eagle Bancorp announced the adoption of a plan of conversion and reorganization for the conversion of Eagle Financial MHC to the stock form and an offering of stock by Eagle Bancorp Montana, Inc. The company did not repurchase any of the company's securities between October 1, 2010 and December 31, 2010.

Item 3. Defaults Upon Senior Securities.

Not applicable.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION (CONTINUED)

Item 4. (Removed and Reserved)

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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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: February 11, 2011

By: /s/ Peter J. Johnson  
Peter J. Johnson  
President/CEO

Date: February 11, 2011

By: /s/ Clint J. Morrison  
Clint J. Morrison  
Senior Vice President/CFO