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

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

FORM 10-Q

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

For the quarterly period ended December 31, 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	27-1449820
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 Prospect Avenue, Helena, MT 59601
(Address of principal executive offices)

(406) 442-3080
(Issuer's telephone number)

Website address: www.americanfederalsavingsbank.com

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common stock, par value $0.01 per share 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 31, 2010 (Unaudited)	June 30, 2010 (Audited)
ASSETS		
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 and allowance for loan losses of $1,400 at 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, net of allowance for losses	1,487	619
Other assets	1,683	1,117
Total assets	$ 332,928	$ 325,739

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 31, 2010 (Unaudited)	June 30, 2010 (Audited)
LIABILITIES		
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
EQUITY		
Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)	-	-
Common stock (par value $0.01 per share; 8,000,000 shares authorized; 4,083,127 shares issued and oustanding 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 December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
Interest and Dividend Income:				
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
Interest Expense:				
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
Noninterest income:				
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 December 31,		Six Months Ended 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 STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS)	TOTAL
Balance, June 30, 2009	$ -	$ 12	$ 4,564	$ (18)	$ (5,034)	$ 28,850	$ (582)	$ 27,792
Net income	-	-	-	-		1,397	-	1,397
Other comprehensive income	-	-	-	-		-	1,266	1,266
Total comprehensive income	-	-	-	-		-	-	2,663
Dividends paid ($0.26 per share)						(221)		(221)
Treasury stock purchased (805 shares @ $28.25)					(22)			(22)
ESOP shares allocated or committed to be released for allocation (1.150 shares)			50	18				68
Balance, December 31, 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 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 December 31, 2010	Six Months Ended December 31, 2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
CASH FLOWS FROM INVESTING ACTIVITIES:		
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 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 December 31, 2010	Six Months Ended December 31, 2009
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
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
Net increase in cash	758	497
CASH AND CASH EQUIVALENTS, beginning of period	3,509	6,328
CASH AND CASH EQUIVALENTS, end of period	$4,267	$6,825
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$2,189	$2,704
Cash paid during the period for income taxes	$792	$407
NON-CASH INVESTING ACTIVITIES:		
(Increase) decrease in market value of securities available-for-sale	$700	$(1,843)
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 (Unaudited)				June 30, 2010 (Audited)			
		GROSS UNREALIZED				GROSS UNREALIZED		
	AMORTIZED COST	GAINS	(LOSSES)	FAIR VALUE	AMORTIZED COST	GAINS	(LOSSES)	FAIR VALUE
Available-for-sale:								
U.S. government and agency obligations	$28,898	$507	$ (8)	$29,397	$31,852	$418	$ (29)	$32,241
Municipal obligations	38,552	516	(983)	38,085	35,181	752	(521)	35,412
Corporate obligations	7,012	309	(2)	7,319	7,110	341	-	7,451
Mortgage-backed securities -								

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	
	(In thousands)			
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized 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	-	-
Total	$20,273	$608	$2,985	$501

	June 30, 2010			
	Less Than 12 Months		12 Months or Longer	
	(In thousands)			
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. Government and agency	$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	-	-
Total	$16,587	$208	$5,130	$495

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.

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 31, 2010 (Unaudited)	June 30, 2010 (Audited)
	(In thousands)	
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 Ended December 31, 2010 (Unaudited)	Six Months Ended December 31, 2009 (Unaudited)	Twelve Months Ended June 30, 2010 (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 31, 2010 (Unaudited)		June 30, 2010 (Audited)	
	(in Thousands)			
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 (Unaudited)					June 30, 2010 (Unaudited)				
	Helena	Bozeman	Butte	Townsend	Total	Helena	Bozeman	Butte	Townsend	T
Non-accrual loans	$1,228	$1,122	$-	$33	$2,383	$1,094	$1,683	$-	$5	$2,7
Accruing loans delinquent 90 days or more	-	-	-	-	-	29	-	-	-	29
Real estate owned and other repossessed assets, net	306	958	-	223	1,487	-	396	-	223	61
	$1,534	$2,080	$-	$256	$3,870	$1,123	$2,079	$-	$228	$3,4
Total loans, net	$106,363	$44,318	$36,209	$1,696	$188,586	$92,379	$43,901	$32,036	$1,186	$16

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

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 Real Estate	Commercial Real Estate	Construction	Home 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

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 Real Estate	Commercial Real Estate	Construction	Home 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 on 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 Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still 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):

December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
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	-

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

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 31, 2010 (Unaudited)	June 30, 2010 (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.

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 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(In thousands)		
Financial Assets:				
Investment securities 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
Financial Liabilities:				
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/

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

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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 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair 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 bas 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

	December 31, 2010 (Unaudited)		June 30, 2010 (Audited)	
(Dollars in Thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(In thousands)		
Financial Assets:				
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
Financial Liabilities:				
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