Eagle Bancorp Montana, Inc.
Form 10-Q
February 12, 2014
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, 2013

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

For the transition period from _____ to _____.

Commission file number 1-34682

Eagle Bancorp Montana, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	27-1449820
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.americanfederalsavingsbank.com

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common stock, par value $0.01 per share — 3,918,399 shares outstanding

As of February 12, 2014

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

Note Regarding Forward-Looking Statements

This report includes “forward-looking statements” within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “contin “could,” “intend,” “target” and other similar words and expressions of the future. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- changes or volatility in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities or businesses;
- the possibility of goodwill impairment charges in the future;
- changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;
- the impact of the current economic conditions on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of recently enacted legislation to restructure the U.S. financial and regulatory system, including proposals to reform the housing markets and government-sponsored enterprises serving such markets;
- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and

- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	December 31, 2013	June 30, 2013
ASSETS		
Cash and due from banks	$6,439	$3,776
Interest-bearing deposits with banks	616	2,385
Total cash and cash equivalents	7,055	6,161
Securities available-for-sale, at market value	195,007	218,963
Federal Home Loan Bank stock, at cost	1,896	1,931
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held-for-sale	14,655	20,807
Loans receivable, net of deferred loan expenses of $319 at December 31, 2013 and $117 at June 30, 2013 and allowance for loan losses of $2,120 at December 31, 2013 and $2,000 at June 30, 2013	247,379	214,677
Accrued interest and dividends receivable	2,388	2,387
Mortgage servicing rights, net	3,526	3,192
Premises and equipment, net	19,155	18,943
Cash surrender value of life insurance	11,035	10,869
Real estate and other repossessed assets acquired in settlement of loans, net	419	550
Goodwill	7,034	6,890
Core deposit intangible, net	830	922
Other assets	5,853	4,087
Total assets	$516,387	$510,534

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	December 31, 2013	June 30, 2013
LIABILITIES		
Deposit accounts:		
Noninterest bearing	$56,775	$52,972
Interest bearing	375,466	364,779
Total deposits	432,241	417,751
Accrued expenses and other liabilities	3,167	3,535
FHLB advances and other borrowings	28,067	34,861
Subordinated debentures	5,155	5,155
Total liabilities	468,630	461,302
EQUITY		
Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)	-	-
Common stock (par value $0.01 per share; 8,000,000 shares authorized; 4,083,127 shares issued; 3,918,399 and 3,898,685 shares outstanding at December 31, 2013 and June 30, 2013, respectively)	41	41
Additional paid-in capital	22,118	22,109
Unallocated common stock held by employee stock ownership plan ("ESOP")	(1,307)	(1,390)
Treasury stock, at cost	(1,800)	(1,993)
Retained earnings	34,422	33,849
Accumulated other comprehensive loss	(5,717)	(3,384)
Total equity	47,757	49,232
Total liabilities and equity	$516,387	$510,534

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Interest and Dividend Income:				
Interest and fees on loans	$3,231	$2,753	$6,352	$5,304
Securities available-for-sale	1,083	735	2,102	1,404
Interest on deposits with banks	3	11	4	16
Total interest and dividend income	4,317	3,499	8,458	6,724
Interest Expense:				
Deposits	312	333	633	581
FHLB advances & other borrowings	183	230	365	524
Subordinated debentures	21	23	42	47
Total interest expense	516	586	1,040	1,152
Net interest income	3,801	2,913	7,418	5,572
Loan loss provision	153	187	312	422
Net interest income after loan loss provision	3,648	2,726	7,106	5,150
Noninterest Income:				
Service charges on deposit accounts	264	184	543	350
Net gain on sale of loans (includes $590 and $179 for the three months ended December 31, 2013 and 2012, respectively, and $582 and $192 for the six months ended December 31, 2013 and 2012, respectively, related to accumulated other comprehensive earnings reclassification)	963	962	2,554	1,774
Mortgage loan servicing fees	339	247	653	481
Net gain on sale of available for sale securities (includes $405 and $220 for the three months ended December 31, 2013 and 2012, respectively, and $836 amd $272 for the six months ended December 31, 2013 and 2012, respectively related to accumulated other comprehensive earnings reclassification)	405	245	836	312
Net loss on sale of OREO	(22)	(6)	(50)	(23)
Net gain on fair value hedge	48	28	71	65
Other	472	257	960	533
Total noninterest income	2,469	1,917	5,567	3,492

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Noninterest Expense:				
Salaries and employee benefits	3,088	2,131	6,430	3,572
Occupancy and equipment expense	688	508	1,375	850
Data processing	483	193	931	340
Advertising	206	218	457	419
Amortization of mortgage servicing rights	141	221	334	408
Amortization of core deposit intangible and tax credits	108	48	217	48
Federal insurance premiums	84	43	168	92
Postage	50	37	92	63
Legal, accounting, and examination fees	145	122	269	213
Consulting fees	69	35	155	61
Acquisition costs	-	731	-	1,208
Valuation losses on OREO	-	30	-	98
Other	551	469	1,038	849
Total noninterest expense	5,613	4,786	11,466	8,221
Income (loss) before provision for income taxes	504	(143)	1,207	421
Income Tax Expense (Benefit) (includes $594 and $323 for the three months ended December 31, 2013 and 2012, respectively, and $1,605 and $224 for the six months ended December 31, 2013 and 2012, respectively, related to income tax benefit from reclassification items)	30	(103)	66	39
Net Income (Loss)	$474	$(40)	$1,141	$382
Basic earnings per common share	$0.12	$(0.01)	$0.29	$0.10
Diluted earnings per common share	$0.12	$(0.01)	$0.29	$0.10
Weighted average shares outstanding (basic eps)	3,911,756	3,741,815	3,905,221	3,733,302
Weighted average shares outstanding (diluted eps)	3,978,978	3,933,114	3,978,260	3,931,030

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
NET INCOME (LOSS)	$ 474	$ (40)	$1,141	$ 382
OTHER ITEMS OF COMPREHENSIVE (LOSS) INCOME:				
Change in unrealized loss on investment securities available for sale, before income taxes	(828)	(787)	(2,886)	(481)
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(405)	(220)	(836)	(272)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	366	396	366	395
Reclassification adjustment for realized gains on derivatives designated as cash flow hedges, before income taxes	(590)	(179)	(582)	(192)
Total other items of comprehensive loss	(1,457)	(790)	(3,938)	(550)
Income tax benefit (expense) related to:				
Investment securities	503	412	1,517	307
Derivatives designated as cash flow hedges	91	(89)	88	(83)
	594	323	1,605	224
COMPREHENSIVE (LOSS) INCOME	$ (389)	$ (507)	$(1,192)	$ 56

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, July 1, 2012	$ -	$ 41	$ 22,112	$ (1,556)	$ (2,210)	$ 32,990	$ 2,273	$ 53,650
Net income						382		382
Other comprehensive loss							(326)	(326)
Dividends paid ($0.07125 per share per quarter)						(554)		(554)
Treasury stock reissued			(11)		217			206
ESOP shares allocated or committed to be released for allocation (8,308 shares)			2	83				85
Balance, December 31, 2012	$ -	$ 41	$ 22,103	$ (1,473)	$ (1,993)	$ 32,818	$ 1,947	$ 53,443
Balance, July 1, 2013	$ -	$ 41	$ 22,109	$ (1,390)	$ (1,993)	$ 33,849	$ (3,384)	$ 49,232
Net income						1,141		1,141
Other comprehensive loss							(2,333)	(2,333)

Dividends paid ($.0725 per share per quarter)						(568)		(568)
Treasury stock reissued					193			193
ESOP shares allocated or committed to be released for allocation (8,308 shares)			9	83				92
Balance, December 31, 2013	$ -	$ 41	$ 22,118	$ (1,307)	$ (1,800)	$ 34,422	$ (5,717)	$ 47,757

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,141	$382
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	312	422
Valuation losses on OREO	-	98
Depreciation	574	401
Net amortization of marketable securities premium and discounts	1,606	438
Amortization of mortgage servicing rights	334	408
Amortization of core deposit intangible and tax credits	217	48
Gain on sale of loans	(2,554)	(1,774)
Net realized gain on sale of available-for-sale securities	(836)	(312)
Loss on sale of OREO	50	23
Gain on fair value hedge	(71)	(65)
Net gain on sale/disposal of fixed assets	(26)	-
Appreciation in cash surrender value of life insurance, net	(166)	(150)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(1)	(583)
Loans held-for-sale	8,435	(2,495)
Other assets	(233)	(2,252)
(Decrease) increase in liabilities:		
Accrued expenses and other liabilities	(10)	105
Net cash provided by (used in) operating activities	8,772	(5,306)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities		
Sales	34,378	8,338
Maturities, principal payments, calls	14,491	11,474
Purchases	(29,405)	(136,976)
FHLB stock redeemed	35	36
Cash received in acquisition of Sterling Bank branches, net of cash paid	-	130,094
Final valuation adjustments related to acquisition of Sterling Bank branches	(144)	-
Net increase in loan receivable, excludes transfers to real estate acquired in settlement of loans	(33,682)	(282)
Proceeds from the sale of real estate and other repossessed property acquired in the settlement of loans	81	1,247
Insurance proceeds related to property and equipment	28	-
Purchase of property and equipment	(788)	(762)
Net cash (used in) provided by investing activities	(15,006)	13,169

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARIES

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

	Six Months Ended December 31,	
	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in checking and savings accounts	$14,490	$12,273
Net change in advances from the FHLB and other borrowings	(6,794)	(13,235)
Dividends paid	(568)	(554)
Net cash provided by (used in) financing activities	7,128	(1,516)
Net increase in cash	894	6,347
CASH AND CASH EQUIVALENTS, beginning of period	6,161	19,814
CASH AND CASH EQUIVALENTS, end of period	$7,055	$26,161
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$1,067	$1,240
Cash paid during the period for income taxes	$108	$372
Assets acquired through foreclosure	$-	$243
NON-CASH INVESTING ACTIVITIES:		
Decrease in market value of securities available-for-sale	$3,722	$753
Mortgage servicing rights recognized	$668	$540
ESOP shares released	$92	$85
Loans transferred to real estate and other assets acquied in foreclosure	$-	$468
Treasury shares reissued for compensation	$193	$206

See accompanying notes to the unaudited consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, such information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for the unaudited interim periods.

The results of operations for the six month period ended December 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2014 or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle's Form 10-K for the fiscal year ended June 30, 2013.

The Company evaluated subsequent events for potential recognition and/or disclosure through February 12, 2014 the date the consolidated financial statements were issued.

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

(In Thousands)	December 31, 2013				June 30, 2013			
		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	$45,458	$61	$(865)	$44,654	$50,904	$514	$(487)	$50,931
Municipal obligations	87,404	374	(7,337)	80,441	88,948	1,072	(5,584)	84,436
Corporate obligations	5,977	21	(144)	5,854	9,130	84	(153)	9,061
Mortgage-backed securities - government backed	28,682	14	(868)	27,828	27,680	35	(813)	26,902
CMOs - government backed	37,501	144	(1,415)	36,230	48,594	307	(1,268)	47,633
Total	$205,022	$614	$(10,629)	$195,007	$225,256	$2,012	$(8,305)	$218,963

For the three months ended December 31, 2013 and 2012, net proceeds from sales of securities available for sale amounted to $18,229,000 and $7,764,000, respectively. For the three months ended December 31, 2013 and 2012 gross realized gains amounted to $439,000 and $301,000, respectively and gross realized losses amounted to $34,000 and $56,000, respectively. For the six months ended December 31, 2013 and 2012, net proceeds from sales of securities available for sale amounted to $34,378,000 and $8,338,000, respectively. For the six months ended December 31, 2013 and 2012, gross realized gains amounted to $919,000 and $368,000, respectively and gross realized losses amounted to $83,000 and $56,000, respectively.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES – continued

The amortized cost and fair value of securities at December 31, 2013 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 1,130	$ 1,149
Due from one to five years	5,141	5,171
Due from five to ten years	18,320	17,659
Due after ten years	114,249	106,970
	138,840	130,949
Mortgage-backed securites - government-backed	28,682	27,828
CMOs - government backed	37,500	36,230
Total	$ 205,022	$ 195,007

Maturities of securities do not reflect repricing opportunities present in adjustable rate securities.

The following table discloses, as of December 31, 2013 and June 30, 2013, 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, 2013			
	Less Than 12 Months		12 Months or Longer	
	(In Thousands)			
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency	$15,783	$815	$2,768	$50
Corporate obligations	4,856	144	-	-
Municipal obligations	47,023	4,109	21,921	3,228
Mortgage-backed and CMOs	38,968	1,196	15,679	1,087
Total	$106,630	$6,264	$40,368	$4,365
	June 30, 2013			
	Less Than 12 Months		12 Months or Longer	
U.S. government and agency	$19,615	$487	$-	$-
Corporate obligations	5,017	153	-	-

Municipal obligations	60,910	5,495	539	89
Mortgage-backed & CMOs	52,548	2,080	309	1
Total	$138,090	$8,215	$848	$90

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES - continued

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 doing so, management considers contractual constraints, liquidity, capital, asset/liability management and securities portfolio objectives. With respect to its impaired debt securities at December 31, 2013 and June 30, 2013, 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, 2013 and June 30, 2013, there were, respectively, 136 and 126 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, 2013, 8 U.S. government and agency obligations had unrealized losses with aggregate depreciation of approximately 4.46% from the Company’s amortized cost basis of these securities. We believe these unrealized losses are principally due to interest rate movements. As such, the Company determined that none of such securities had other-than-temporary impairment.

At December 31, 2013, 5 corporate obligations had an unrealized loss of approximately 2.88% from the Company’s amortized cost basis of this security. We believe these unrealized losses are principally due to interest rate movements. As such, the Company determined that none of this security had other-than-temporary impairment.

At December 31, 2013, 102 municipal obligations had unrealized losses with aggregate depreciation of approximately 9.62% from the Company’s amortized cost basis of these securities. We believe these unrealized losses are principally due to interest rate movements and recent credit concerns in the overall municipal bond market. As such, the Company determined that none of such securities had other-than-temporary impairment.

At December 31, 2013, 21 mortgage backed and CMO securities had unrealized losses with aggregate depreciation of approximately 4.01% from the Company’s cost basis of these securities. We believe these unrealized losses are principally due to the credit market’s concerns regarding the stability of the mortgage market. Management considers available evidence to assess whether it is more likely than not that all amounts due would not be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligor, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. There has been no disruption of the scheduled cash flows on any of the securities. Management’s analysis as of December 31, 2013 revealed no expected credit losses on these securities.

At June 30, 2013, 98 U.S. Government and agency securities and municipal obligations had unrealized losses with aggregate depreciation of approximately 6.96% from the Company's amortized cost basis. These unrealized losses were principally due to changes in interest rates and credit spreads. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At June 30, 2013, 5 corporate obligations had unrealized losses with aggregate depreciation of approximately 2.96% from the Company's cost basis. This unrealized loss is principally due to changes in interest rates. No credit issues have been identified that caused management to believe the declines in market value were other than temporary. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At June 30, 2013, 23 mortgage backed and CMO securities had unrealized losses with aggregate depreciation of approximately 3.79% from the Company’s cost basis. We believed these unrealized losses were principally due to the credit market’s concerns regarding the stability of the mortgage market. There has been no disruption of the scheduled cash flows on any of the securities. Management’s analysis as of June 30, 2013 revealed no expected credit losses on the 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, 2013	June 30, 2013
	(In Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$83,445	$70,453
Commercial real estate	81,319	74,395
Real estate construction	4,213	2,738
Other loans:		
Home equity	36,697	35,660
Consumer	12,796	11,773
Commercial	31,348	21,775
Total	249,818	216,794
Allowance for loan losses	(2,120)	(2,000)
Deferred loan fees, net	(319)	(117)
Total loans, net	$247,379	$214,677

Within the commercial real estate loan category above, $13,067,000 and $13,134,000 was guaranteed by the United States Department of Agriculture Rural Development, at December 31, 2013 and June 30, 2013, respectively. Within the commercial loan category above, $3,269,000 and $0 were in loans originated through a syndication program where the business resides outside of Montana, at December 31, 2013, and June 30, 2013, respectively.

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

	December 31, 2013	June 30, 2013
	(Dollars in Thousands)	
Non-accrual loans	$778	$470
Accruing loans delinquent 90 days or more	-	-
Restructured loans, net	214	303
Total nonperforming loans	992	773
Real estate owned and other repossessed assets, net	419	550
Total	$1,411	$1,323

Total non-performing assets as a percentage of total assets	0.27 %	0.30 %
Allowance for loan losses	$2,120	$2,000
Percent of allowance for loan losses to non-performing loans	213.7 %	258.7 %
Percent of allowance for loan losses to non-performing assets	150.2 %	151.2 %

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables set forth information regarding the activity in the allowance for loan losses for the dates indicated:

	Three Months Ended December 31, 2013 (In Thousands)						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Allowance for credit losses:							
Beginning balance, October 1, 2013	$443	$818	$25	$324	$72	$318	$2,000
Charge-offs	-	(24)	-	-	(10)	-	(34)
Recoveries	-	-	-	-	1	-	1
Provision	20	120	-	-	(12)	25	153
Ending balance, December 31, 2013	$463	$914	$25	$324	$51	$343	$2,120

	Six Months Ended December 31, 2013						
Allowance for credit losses:							
Beginning balance, July 1, 2013	$423	$952	$15	$290	$40	$280	$2,000
Charge-offs	-	(178)	-	(5)	(11)	-	(194)
Recoveries	-	-	-	-	2	-	2
Provision	40	140	10	39	20	63	312
Ending balance, December 31, 2013	$463	$914	$25	$324	$51	$343	$2,120

	Three Months Ended December 31, 2012 (In Thousands)						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Allowance for credit losses:							
	$388	$862	$11	$217	$84	$238	$1,800

Beginning balance, October 1, 2012							
Charge-offs	(18)	(35)	-	(148)	(17)	-	(218)
Recoveries	-	-	-	-	1	55	56
Provision	28	78	2	97	8	(26)	187
Ending balance, December 31, 2012	$398	$905	$13	$166	$76	$267	$1,825

				Six Months Ended December 31, 2012			
Allowance for credit losses:							
Beginning balance, July 1, 2012	$403	$772	$10	$156	$78	$206	$1,625
Charge-offs	(73)	(35)	-	(148)	(25)	(1)	(282)
Recoveries	-	-	-	-	5	55	60
Provision	68	168	3	158	18	7	422
Ending balance, December 31, 2012	$398	$905	$13	$166	$76	$267	$1,825

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE – continued

The following table presents details of how the allowance for loan losses is allocated to each portfolio segment at December 31, 2013:

	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ 11	$ 49	$ -	$ 60
Ending balance allocated to loans collectively evaluated for impairment	$ 463	$ 914	$ 25	$ 313	$ 2	$ 343	$ 2,060
Loans receivable:							
Ending balance December 31, 2013	$ 83,445	$ 81,319	$ 4,213	$ 36,697	$ 12,796	$ 31,348	$ 249,818
Ending balance of loans individually evaluated for impairment December 31, 2013	$ 305	$ 130	$ -	$ 403	$ 182	$ 287	$ 1,307
Ending balance of loans collectively evaluated for impairment December 31, 2013	$ 83,140	$ 81,189	$ 4,213	$ 36,294	$ 12,614	$ 31,061	$ 248,511

The following table presents details of how the allowance for loan losses is allocated to each portfolio segment at June 30, 2013:

	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total

Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ 153	$ 6	$ -	$ 159
Ending balance allocated to loans collectively evaluated for impairment	$ 423	$ 952	$ 15	$ 137	$ 34	$ 280	$ 1,841
Loans receivable:							
Ending balance June 30, 2013	$ 70,453	$ 74,395	$ 2,738	$ 35,660	$ 11,773	$ 21,775	$ 216,794
Ending balance of loans individually evaluated for impairment June 30, 2013	$ 315	$ 722	$ -	$ 779	$ 78	$ 121	$ 2,015
Ending balance of loans collectively evaluated for impairment June 30, 2013	$ 70,138	$ 73,673	$ 2,738	$ 34,881	$ 11,695	$ 21,654	$ 214,779

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE – continued

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

Loans rated Pass: these are loans that are considered to be protected by the current net worth and paying capacity of the obligor, or by the value of the asset or the underlying collateral.

Loans rated Special Mention: these loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset at some future date.

Loans rated Substandard: these loans are inadequately protected by the current net worth and paying capacity of the obligor of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Loans rated Doubtful: these loans have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans rated Loss: these loans are considered uncollectible and of such little value that their continuance as assets without establishment of a specific reserve is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but, rather, that it is not practical or desirable to defer writing off a basically worthless asset even though practical recovery may be effected in the future.

On an annual basis, or more often if needed, the Company formally reviews the ratings of all commercial real estate, construction, and commercial business loans that have a principal balance of $500,000 or more. Quarterly, the Company reviews the rating of any consumer loan, broadly defined, that is delinquent 90 days or more. Likewise, quarterly, the Company reviews the rating of any commercial loan, broadly defined, that is delinquent 60 days or more. Annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following tables set forth information regarding the internal classification of the loan portfolio as of the dates indicated:

	December 31, 2013 (In Thousands)						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Grade:							
Pass	$83,140	$81,189	$4,213	$36,294	$12,614	$31,061	$248,511
Special mention	-	-	-	-	22	36	58
Substandard	305	130	-	392	89	107	1,023
Doubtful	-	-	-	-	22	144	166
Loss	-	-	-	11	49	-	60

Total	$83,445	$81,319	$4,213	$36,697	$12,796	$31,348	$249,818

Credit Risk Profile Based on Payment Activity

Performing	$83,391	$80,975	$4,213	$36,422	$12,666	$31,159	$248,826
Restructured loans	-	214	-	-	-	-	214
Nonperforming	54	130	-	275	130	189	778
Total	$83,445	$81,319	$4,213	$36,697	$12,796	$31,348	$249,818

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	June 30, 2013 (In Thousands)						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Grade:							
Pass	$70,138	$73,680	$2,738	$34,881	$11,695	$21,654	$214,786
Special mention	-	715	-	-	-	-	715
Substandard	315	-	-	626	62	121	1,124
Doubtful	-	-	-	-	10	-	10
Loss	-	-	-	153	6	-	159
Total	$70,453	$74,395	$2,738	$35,660	$11,773	$21,775	$216,794

Credit Risk Profile Based on Payment Activity

	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Performing	$70,395	$74,092	$2,738	$35,355	$11,732	$21,709	$216,021
Restructured loans	-	303	-	-	-	-	303
Nonperforming	58	-	-	305	41	66	470
Total	$70,453	$74,395	$2,738	$35,660	$11,773	$21,775	$216,794

The following tables set forth information regarding the delinquencies within the loan portfolio as indicated:

	December 31, 2013 (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	$299	$54	$353	$83,092	$83,445	$-
Commercial real estate	83	130	213	81,106	81,319	-
Construction	-	-	-	4,213	4,213	-
Home equity	171	263	434	36,263	36,697	-
Consumer	94	121	215	12,581	12,796	-
Commercial	119	189	308	31,040	31,348	-
Total	$766	$757	$1,523	$248,295	$249,818	$-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	June 30, 2013 (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	$312	$5	$317	$70,136	$70,453	$-
Commercial real estate	39	217	256	74,139	74,395	-
Construction	-	-	-	2,738	2,738	-
Home equity	265	196	461	35,199	35,660	-
Consumer	279	37	316	11,457	11,773	-
Commercial	187	-	187	21,588	21,775	-
Total	$1,082	$455	$1,537	$215,257	$216,794	$-

The following tables set forth information regarding impaired loans as indicated:

	December 31, 2013 (In Thousands)				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
1-4 Family	$ 305	$ 305	$ -	$ 7	$ 310
Commercial real estate	130	243	-	-	426
Construction	-	-	-	-	-
Home equity	331	421	-	4	366
Consumer	128	160	-	2	100
Commercial	287	314	-	2	204
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	72	72	11	-	226
Consumer	54	54	49	-	30
Commercial	-	-	-	-	-
Total:					
1-4 Family	305	305	-	7	310

Commercial real estate	130	243	-	-	426
Construction	-	-	-	-	-
Home equity	403	493	11	4	592
Consumer	182	214	49	2	130
Commercial	287	314	-	2	204
Total	$ 1,307	$ 1,569	$ 60	$ 15	$ 1,662

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

	June 30, 2013 (In Thousands)				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
1-4 Family	$ 315	$ 315	$ -	$ 14	$ 158
Commercial real estate	722	722	-	38	361
Construction	-	-	-	-	-
Home equity	400	400	-	10	200
Consumer	72	72	-	2	36
Commerical	121	121	-	7	61
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	113
Construction	-	-	-	-	-
Home equity	379	404	153	9	-
Consumer	6	6	6	-	4
Commerical	-	-	-	-	-
Total:					
1-4 Family	315	315	-	14	158
Commercial real estate	722	722	-	38	474
Construction	-	-	-	-	-
Home equity	779	804	153	19	200
Consumer	78	78	6	2	40
Commerical	121	121	-	7	61
Total	$ 2,015	$ 2,040	$ 159	$ 80	$ 933

NOTE 4. TROUBLED DEBT RESTRUCTURINGS

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

was $214,000 (310-40-65-1(b)), and the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was $120,000 (310-40-65-1(b)).

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued

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

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

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

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

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

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

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

	December 31, 2013 (In Thousands)		
	Accrual Status	Non-Accrual Status	Total Modification
Residential Mortgage (1-4 family)	$ -	$ -	$ -
Commercial Real Estate	84	130	214
Real estate construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	-	-
Total	$ 84	$ 130	$ 214

	June 30, 2013		
Residential Mortgage (1-4 family)	$ -	$ -	$ -
Commercial Real Estate	86	217	303
Real estate construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	-	-
Total	$ 86	$ 217	$ 303

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLED DEBT RESTRUCTURINGS - continued

During the three and six months ended December 31, 2013 there were no newly restructured loans.

The following tables present newly restructured loans that occurred during the three months ended December 31, 2012:

	Three Months Ended December 31, 2012 (In Thousands)					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Pre-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$-	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-	243	243
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$-	$ -	$ -	$ -	$ 243	$ 243

	Three Months Ended December 31, 2012 (In Thousands)					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Post-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$-	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-	217	217
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$-	$ -	$ -	$ -	$ 217	$ 217

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLE DEBT RESTRUCTURINGS - continued

	Six Months Ended December 31, 2012 (In Thousands)					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Pre-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$-	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-	243	243
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$-	$ -	$ -	$ -	$ 243	$ 243

	Six Months Ended December 31, 2012 (In Thousands)					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Post-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$-	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-	217	217
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Total	$-	$ -	$ -	$ -	$ 217	$ 217

For the six months ended December 31, 2013, there was one loan modification classified as a troubled debt restructured loan that subsequently defaulted during the period. For the six months ended December 31, 2012, there was no loan modifications classified as troubled debt restructured loans that subsequently defaulted. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. As of December 31, 2013 and June 30, 2013, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. DEPOSITS

Deposits are summarized as follows:

	December 31, 2013	June 30, 2013
	(In Thousands)	
Noninterest checking	$56,775	$52,972
Interest-bearing checking	67,768	65,876
Savings	58,863	56,051
Money market	91,800	85,361
Time certificates of deposit	157,035	157,491
Total	$432,241	$417,751

Time certificates of deposit include $4,195,000 and $0 related to a 5 year, 1.80% fixed rate brokered CD at December 31, 2013, and June 30, 2013, respectively.

NOTE 6. EARNINGS PER SHARE

Basic earnings per share for the three months ended December 31, 2013 was computed using 3,911,756 weighted average shares outstanding. Basic earnings per share for the three months ended December 31, 2012 was computed using 3,741,815 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,978,978 for the three months ended December 31, 2013 and 3,933,114 for the three months ended December 31, 2012.

Basic earnings per share for the six months ended December 31, 2013 was computed using 3,905,221 weighted average shares outstanding. Basic earnings per share for the six months ended December 31, 2012 was computed using 3,733,302 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,978,260 for the six months ended December 31, 2013 and 3,931,030 for the six months ended December 31, 2012.

NOTE 7. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the fiscal year July 1, 2012 through June 30, 2013, Eagle paid dividends of $0.07125 per share for the first three quarters and paid $0.0725 per share in the fourth quarter. A dividend of $0.0725 per share was declared on July 26, 2013, and paid September 6, 2013 to stockholders of record on August 16, 2013. A dividend of $0.0725 per share was declared on October 29, 2013, and paid December 6, 2013 to shareholders of record on November 15, 2013. A dividend of $0.0725 per share was declared on January 23, 2014, payable on March 7, 2014 to shareholders of record on February 14, 2014.

On July 1, 2013, the Company announced that its Board of Directors authorized a common stock repurchase program for 150,000 shares of common stock, effective July 1, 2013. The program is intended to be implemented through purchases made from time to time in the open market or through private transactions.

The Company did not purchase any shares of our common stock during the first or second quarters of our fiscal year ending June 30, 2014.

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. Derivatives and hedging accounting requires that the Company recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with this guidance, the Company designates the interest rate swap on this fixed-rate loan as a fair value hedge.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES - continued

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

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

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

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

The hedged fixed rate loan has an original maturity of 20 years and is not callable. This loan is hedged with a "pay fixed rate, receive variable rate" swap with a similar notional amount, maturity, and fixed rate coupons. The swap is not callable. At December 31, 2013, and June 30, 2013, the loan had an outstanding principal balance of $11,018,000, and $11,191,000 and the interest rate swap had a notional value of $11,018,000, and $11,191,000, respectively.

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

	Asset Derivatives				Liabilities Derivatives			
(In Thousands)	December 31, 2013		June 30, 2013		December 31, 2013		June 30, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815	Other						Other	
Interest rate contracts	Assets	$ 218	n/a	$ -	n/a	$ -	Liabilities	$ 115
Change in fair value of								

financial instrument being hedged under ASC 815								
Interest rate contracts	Loans	$ (161)	Loans	$ 101	n/a	$ -	n/a	$ -

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 Income
For the Three Months Ended December 31, 2013 and 2012

(In Thousands)

Derivatives Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative 2013	2012
Interest rate contracts	Noninterest income	$ 48	$ 28

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

(In Thousands)

Derivatives Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative 2013	2012
Interest rate contracts	Noninterest income	$ 71	$ 65

NOTE 9. FAIR VALUE DISCLOSURES

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

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

The fair value hierarchy is as follows:

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

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

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

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

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

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

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

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

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

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

classifying these assets and liabilities as Level 2.

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

	December 31, 2013			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Financial Assets:				
Available for sale securities				
U.S. Government and agency	$ -	$ 44,654	$ -	$ 44,654
Municipal obligations	-	80,441	-	80,441
Corporate obligations	-	5,854	-	5,854
Mortgage backed securities				
government backed	-	27,828	-	27,828
CMOs - government backed	-	36,230	-	36,230
Loan subject to fair value hedge	-	10,857	-	10,857
Loans held-for-sale	-	14,655	-	14,655
Derivative financial instruments	-	218	-	218

	June 30, 2013			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In Thousands)			
Financial Assets:				
Available for sale securities				
U.S. Government and agency	$ -	$ 50,931	$ -	$ 50,931
Municipal obligations	-	84,436	-	84,436
Corporate obligations	-	9,061	-	9,061
Mortgage-backed securities				
government backed	-	26,902	-	26,902
CMOs - government backed	-	47,633	-	47,633
Loan subject to fair value hedge	-	11,306	-	11,306
Loans held-for-sale	-	20,807	-	20,807
Financial Liability:				
Derivative financial instruments	-	115	-	115

The following tables present the changes in loan subject to fair value hedges and the related derivative financial instrument that are measured at fair value on a recurring basis for the dates indicated.

	Balance as of	Total Realized/ Unrealized Gains (Losses) Included in Noninterest	Purchases, Sales,	Balance as of

	October 1, 2013	Income	Issuances, and Settlements, net	December 31, 2013
		(In Thousands)		
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 11,161	$ (215)	$ (89)	$ 10,857
Derivative financial instruments	(45)	263	-	218

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

	Balance as of July 1, 2013	Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income	Purchases, Sales, Issuances, and Settlements, net	Balance as of December 31, 2013
	(In Thousands)			
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 11,306	$ (276)	$ (173)	$ 10,857
Derivative financial instruments	(115)	333	-	218

	Balance as of October 1, 2012	Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income	Purchases, Sales, Issuances, and Settlements, net	Balance as of December 31, 2012
	(In Thousands)			
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 12,331	$ (120)	$ (79)	$ 12,132
Derivative financial instruments	(1,061)	148	-	(913)

	Balance as of	Total Realized/ Unrealized Gains (Losses) Included in Noninterest	Purchases, Sales, Issuances, and	Balance as of

	July 1, 2012	Income	Settlements, net	December 31, 2012
	(In Thousands)			
Financial Assets (Liability):				
Loan subject to fair value hedge	$ 12,372	$ (76)	$ (164)	$ 12,132
Derivative financial instruments	(1,054)	141	-	(913)

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

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

	December 31, 2013 (In Thousands)			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans	$ -	$ -	$ 1,247	$ 1,247
Repossessed assets	-	-	419	419
	June 30, 2013			
Impaired loans	$ -	$ -	$ 2,015	$ 2,015
Repossessed assets	-	-	550	550

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES – continued

During the six months ended December 31, 2013, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of $1,307,000 were reduced by specific valuation allowance allocations totaling $60,000 to a total reported fair value of $1,247,000 based on collateral valuations utilizing Level 3 valuation inputs.

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements – The following table represents the Banks's Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those financial assets and liabilities, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument (Dollars In Thousands)	Fair Value at December 31, 2013		Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$	1,247	Appraisal of collateral (1)	Appraisal adjustments	10-30%
Repossessed Assets	$	419	Appraisal of collateral (1)(3)	Liquidation expenses (2)	10-30%

Instrument (Dollars In Thousands)	Fair Value at June 30, 2013		Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$	2,015	Appraisal of collateral (1)	Appraisal adjustments	10-30%
Repossessed Assets	$	550	Appraisal of collateral (1)(3)	Liquidation expenses (2)	10-30%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable, less associated allowance.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
(3) Includes qualitative adjustments by management and estimated liquidation expenses.

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES – continued

	December 31, 2013 (In Thousands)				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
Financial Assets:					
Cash and cash equivalents	$ 7,055	$ -	$ -	$ 7,055	$ 7,055
FHLB stock	1,896	-	-	1,896	1,896
Loans receivable, net	-	-	254,479	254,479	247,379
Accrued interest and dividends receivable	2,388	-	-	2,388	2,388
Mortgage servicing rights	-	-	4,664	4,664	3,526
Cash surrender value of life insurance	11,035	-	-	11,035	11,035
Financial Liabilities:					
Non-maturing interest bearing deposits	-	-	218,431	218,431	218,431
Non-interest bearing deposits	56,775	-	-	56,775	56,775
Time certificates of deposit	-	-	157,977	157,977	157,035
Accrued expenses and other liabilities	3,167	-	-	3,167	3,167
Advances from the FHLB & other borrowings	-	-	28,583	28,583	28,067
Subordinated debentures	-	-	3,855	3,855	5,155
Off-balance-sheet instruments					
Forward loan sales commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES – continued

	June 30, 2013				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
			(In Thousands)		
Financial Assets:					
Cash and cash equivalents	$ 6,161	$ -	$ -	$ 6,161	$ 6,161
FHLB stock	1,931	-	-	1,931	1,931
Loans receivable, net	-	-	219,894	219,894	214,677
Accrued interest on dividends receivable	2,387	-	-	2,387	2,387
Mortgage servicing rights	-	-	3,589	3,589	3,192
Cash surrender value of life insurance	10,869	-	-	10,869	10,869
Financial Liabilities:					
Interest bearing deposits	-	-	207,288	207,288	207,288
Non-interest bearing deposits	52,972	-	-	52,972	52,972
Time certificates of deposit	-	-	158,452	158,452	157,491
Accrued expenses and other liabilities	3,535	-	-	3,535	3,535
Advances from the FHLB & other borrowings	-	-	35,611	35,611	34,861
Subordinated debentures			3,860	3,860	5,155
Off-balance-sheet instruments					
Forward loan sales commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments. However, the 2013 Form 10-K provides additional description of valuation methodologies used in estimating fair value of these financial instruments.

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

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

Loans receivable – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms. For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated

by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. FAIR VALUE DISCLOSURES - continued

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

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

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

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

NOTE 10. BUSINESS COMBINATION

On June 29, 2012, the Company and Sterling Savings Bank, a Washington state-chartered bank ("Sterling") entered into a Purchase and Assumption Agreement (the "Agreement") pursuant to which Eagle agreed to purchase Sterling's banking operations in the state of Montana, including seven branch locations, certain deposit liabilities, loans and other assets and liabilities associated with such branch locations. The actual amount of deposits, loans and value of other assets and liabilities transferred to Eagle and the actual price paid was determined at the time of the closing of the transaction, in accordance with the terms and conditions of the Agreement. The closing of the transaction was subject to the terms and conditions set forth in the Agreement. The transaction was completed on November 30, 2012. The purchase price was $8.07 million and exceeded the estimated fair value of tangible net assets acquired by approximately $8.07 million, which was recorded as goodwill and intangible assets.

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

Fair value of net assets acquired	$182,463
Cash paid for deposit premium	(8,065)
Liabilities assumed	(182,463)
Goodwill and intangible assets recorded	$(8,065)

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

will complement with the Company's existing growth strategy. Fair value adjustments and related goodwill are recorded in the statement of financial condition of the Company. Final valuation adjustments of $144,000 were recorded during the quarter ended December 31, 2013 and impacted goodwill.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. BUSINESS COMBINATION - continued

The following is a condensed balance sheet disclosing the estimated fair value amounts of the acquired branches of Sterling assigned to the major consolidated asset and liability captions at the acquisition date (in thousands):

ASSETS		
Cash and cash equivalents	$	129,950
Loans receivable		41,323
Premises and equipment		2,980
Goodwill and intangible assets		8,065
Other assets		145
Total assets	$	182,463
LIABILITIES AND EQUITY		
Deposits and accrued interest	$	182,463
Equity		-
Total liabilities and equity	$	182,463

We estimated the fair value for most loans to be acquired from Sterling by utilizing a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity, and repricing terms. Cash flows for each pool were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. To estimate the fair value of the remaining loans, we analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans were derived from the eventual sale of the collateral. The value of the collateral was based on recently completed appraisals adjusted to the valuation date based on recognized industry indices. We discounted those values using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. There will be no carryover of Sterling's allowance for loan losses associated with the loans we acquired as the loans will be initially recorded at fair value.

Information about the Sterling loan portfolio that was acquired, at the acquisition date, is as follows (in thousands):

Contractually required principal and interest at acquisition	$41,223
Contractual cash flows not expected to be collected (nonaccretable discount)	(769)
Expected cash flows at acquisition	40,454
Interest component of expected cash flows (accretable discount)	869
Fair value of acquired loans	$41,323

The core deposit intangible asset that was recognized as part of the business combination was $1.0 million and will be amortized over its estimated useful life of approximately ten years utilizing an accelerated method. The goodwill,

which will not be amortized for financial statement purposes, will be deductible for tax purposes.

The fair value of savings and transaction deposit accounts acquired from Sterling was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The projected cash flows from maturing certificates were calculated based on contractual rates. The fair value of the certificates of deposit was calculated by discounting their contractual cash flows at a market rate for a certificate of deposit with a corresponding maturity.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. BUSINESS COMBINATION - continued

Direct costs related to the Sterling acquisition were expensed as incurred in the year ended June 30, 2013. These acquisition and integration expenses included salaries and benefits, technology and communications, occupancy and equipment, professional services and other noninterest expenses. No acquisition costs were incurred for the three and six months ended December 31, 2013. For the three and six months ended December 31, 2012, $731,000 and $1.21 million of acquisition costs were incurred and expensed, respectively.

The following table presents an unaudited pro forma balance sheet of the Company as if the acquisition of the Sterling branches had occurred on June 30, 2012 (in thousands). The pro forma balance sheet does not necessarily reflect the combined balance sheet that will result as of the closing of the branch acquisition of the Sterling branches.

ASSETS		
Cash and cash equivalents	$	149,764
Loans receivable		215,159
Premises and equipment		18,541
Goodwill and intangible assets		8,065
Investment securities		89,277
Other assets		28,956
Total assets	$	509,762
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$	402,452
Other liabilities		53,660
Equity		53,650
Total liabilities and shareholders' equity	$	509,762

Operations of the branches acquired have been included in the consolidated financial statements since December 1, 2012. The Company does not consider these branches a separate reporting unit and does not track the amount of revenues and net income attributable to these branches since the acquisition. As such, it is impracticable to determine such amounts for the three and six months ended December 31, 2013.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10. BUSINESS COMBINATION - continued

The following table presents unaudited pro forma results of operations for the three and six months ended December 31, 2013 and 2012 as if the acquisition of the Sterling branches had occurred on July 1, 2011 (in thousands). This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments and amortization of the core deposit intangible asset. The pro forma information does not necessarily reflect the results of operations that would have occurred had the Company purchased and assumed the assets and liabilities of the Sterling branches at July 1, 2011. Cost savings are also not reflected in the unaudited pro forma amounts for the three and six months ended December 31, 2013 and 2012.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net interest income	$ 3,648	$ 3,684	$ 7,106	$ 7,209
Noninterest income	2,469	2,259	5,567	4,176
Noninterest expense	5,613	5,289	11,466	10,078
Net income1)	474	558	1,141	1,047
Pro forma earnings per share1)				
Basic	$ 0.12	$ 0.15	$ 0.29	$ 0.28
Diluted	0.12	0.14	0.29	0.27

1) Significant assumptions utilized include the acquisition cost noted above, amortization/accretion of interest rate fair value adjustments, amortization of the core deposit intangible asset and a 25% effective tax rate for the three and six months ended December 31, 2012.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth information regarding the activity in accumulated other comprehensive income (loss) for the dates as indicated:

	Gains (Losses) on Derivatives Designated as Cash Flow Hedges (In Thousands)	Unrealized Losses on Investment Securities Available for Sale	Total
Balance, July 1, 2013	$ 345	$ (3,729)	$ (3,384)
Other comprehensive income (loss), before reclassifications and income taxes	590	(2,058)	(1,468)
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(582)	(431)	(1,013)
Income tax (expense) benefit	(3)	1,014	1,011
Total other comprehensive income (loss)	5	(1,475)	(1,470)
Balance, September 30, 2013	350	(5,204)	(4,854)
Other comprehensive income (loss), before reclassifications and income taxes	366	(828)	(462)
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(590)	(405)	(995)
Income tax benefit	91	503	594
Total other comprehensive loss	(133)	(730)	(863)
Balance, December 31, 2013	$ 217	$ (5,934)	$ (5,717)

	Gains (Losses) on Derivatives Designated as Cash Flow Hedges (In Thousands)	Unrealized Gains (Losses) on Investment Securities Available for Sale	Total
Balance, July 1, 2012	$ 114	$ 2,159	$ 2,273
Other comprehensive income, before reclassifications and income taxes	178	304	482
Amounts reclassified from accumulated other comprehensive income, before income taxes	(192)	(52)	(244)
Income tax benefit (expense)	6	(103)	(97)

Total other comprehensive (loss) income	(8)	149	141
Balance, September 30, 2012	106	2,308	2,414
Other comprehensive income (loss), before reclassifications and income taxes	396	(787)	(391)
Amounts reclassified from accumulated other comprehensive income (loss), before income taxes	(179)	(220)	(399)
Income tax (expense) benefit	(89)	412	323
Total other comprehensive income (loss)	128	(595)	(467)
Balance, December 31, 2012	$ 234	$ 1,713	$ 1,947

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

Overview

The Company's primary activity is its ownership of its wholly owned subsidiary, American Federal Savings Bank (the "Bank"). The Bank is a federally chartered savings bank, engaging in typical banking activities: acquiring deposits from local markets and originating loans and investing in securities. Recent federal legislation mandated that the consolidated regulatory functions of The Office of Thrift Supervision ("OTS") over the Bank and the Company be transferred to two federal agencies and that the OTS be merged into the Office of the Comptroller of the Currency (the "OCC"). Thus, as a result of the enactment in July of 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Federal Reserve Board (the "FRB") became, as of July 21, 2011, the principal federal bank regulatory agency for the Company and the OCC the principal federal regulator for the Bank. The Bank's charter was not affected and the Bank continues to operate as a federal stock savings bank. Its deposits are 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 have not been affected.

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 changes in market interest rates. The Bank also generates noninterest income in the form of fee income and gain on sale of loans.

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

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

usually more expensive than retail deposits) will be needed to supplement it.

The level and movement of interest rates impacts the Bank's earnings as well. The Federal Reserve's Federal Open Market Committee ("FOMC") did not change the federal funds target rate which remained at 0.25% during the six months ended December 31, 2013.

Acquisition of Sterling Savings Bank Branches

From time to time the Bank has considered growth through mergers or acquisition as an alternative to its strategy of organic growth. In this connection, on June 29, 2012, the Bank entered into a definitive agreement with Sterling Savings Bank, a Washington state-chartered bank, to acquire Sterling's banking operations in the state of Montana, including seven branch locations, certain deposit liabilities, loans and other assets and liabilities associated with such branch locations. As a result of this acquisition, which closed on November 30, 2012, the Bank acquired approximately $182.5 million in additional assets, including approximately $41.3 million of pass-rated performing loans and assumed $181.6 million in new deposits. The Bank expects that the increase in its branch network as a result of the Sterling branch acquisition will substantially increase its loan origination volume and, due to the substantial increase in deposits, fee income. In addition, the acquisition of the branches is expected to increase certain of the Bank's expenses, including salaries and employee benefits and occupancy and equipment expense. The Bank received approximately $130.0 million in cash in the transaction, which may not be able to be immediately used to fund loans. While a substantial amount of the cash has been invested in securities, it may require additional time to deploy all of the proceeds to fund loans.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Overview - continued

Acquisition of Sterling Savings Bank Branches - continued

The branch acquisition complements the Bank's existing growth strategy by expanding into the southern Montana market and more than doubling the Bank's retail branch network from six to 13 locations. Of the seven acquired branches six are in new markets for the Bank, including two in Missoula, one in Billings, and one each in Hamilton, Livingston and Big Timber. The seventh is in Bozeman where the Bank already has a presence. After the acquisition, the Bank became the sixth largest Montana-based banking institution.

In addition, the transaction also strengthens the Bank's mortgage origination franchise and adds a wealth management business headquartered in Bozeman, Montana. The addition of Sterling's Montana mortgage banking unit will double the Bank's mortgage banking business. This increase in the mortgage banking business and the addition of a wealth management business is expected to increase the Bank's noninterest income and further the Bank's strategy to increase fee income to complement its margin.

Financial Condition

Comparisons of financial condition in this section are between December 31, 2013 and June 30, 2013.

Total assets at December 31, 2013 were $516.39 million, an increase of $5.86 million, or 1.1%, from $510.53 million at June 30, 2013. Loans receivable increased by $32.70 million, or 15.2%, to $247.38 million at December 31, 2013, from $214.68 million at June 30, 2013. Residential mortgage loans increased by $13.00 million, commercial real estate loans increased by $6.92 million and commercial loans increased by $9.57 million. These were the largest increases among the various loan types. Home equity, consumer loans, and construction loans increased more moderately. Total loan originations were $159.87 million for the six months ended December 31, 2013, with single family mortgages accounting for $118.24 million of the total. Home equity and construction loan originations totaled $4.99 million and $7.85 million, respectively, for the same period. Commercial real estate and land loan originations totaled $17.72 million. Consumer loans originated totaled $4.00 million. Commercial loans originated totaled $7.07 million, with $3.27 million originating from loan syndication programs with borrowers residing outside of Montana. Loans held-for-sale decreased $6.15 million, to $14.66 million at December 31, 2013 from $20.81 million at June 30, 2013.

Total cash and cash equivalents increased by $900,000, and securities available-for-sale decreased $23.95 million. Almost all security categories decreased during the period with the largest decrease in the collateralized mortgage obligation category of $11.40 million, or 23.9%.

Deposits increased $14.49 million, or 3.4%, to $432.24 million at December 31, 2013 from $417.75 million at June 30, 2013. Growth occurred across most deposit products with the exception of time certificates of deposits which decreased slightly during the period. Management attributes the organic increase in deposits to increased marketing of checking accounts as well as customers' preference for placing funds in secure, federally insured accounts.

The ability of the Bank to continue to grow its retail deposit base during the period enabled the Bank to decrease wholesale funding during the period. Advances from the Federal Home Loan Bank and other borrowings decreased

$6.79 million, or 19.5%, to $28.07 million at December 31, 2013 from $34.86 million at June 30, 2013.

Total stockholders' equity decreased $1.47 million or 3.0%, to $47.76 million at December 31, 2013 from $49.23 million at June 30, 2013. This was a result of an increase in accumulated other comprehensive loss of $2.34 million (mainly due to an increase in net unrealized losses on securities available-for-sale) and dividends paid of $568,000, partially offset by net income of $1.14 million.

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, 2013 and 2012

Net Income. Eagle's net income for the quarter was $474,000 versus a net loss of $40,000 for the three months ended December 31, 2012. The increase of $514,000 was due to increases in net interest income of $888,000 and noninterest income of $552,000, and reductions in provision for loan losses of $34,000. These were partially offset by an increase in noninterest expense of $827,000 and income tax expense of $133,000. These increases were principally the result of the significant growth in assets and employees as a result of the Sterling acquisition. The increase in noninterest income was partially attributable to an increase in the gain on sale of available-for-sale securities. The provision for loan losses decreased from the prior period due to improved credit indicators such as delinquencies. Basic earnings per share were $0.12 for the current period, and $(0.01) per share for the prior comparable period.

Net Interest Income. Net interest income increased to $3.80 million for the quarter ended December 31, 2013, from $2.91 million for the previous year's quarter. This increase of $888,000 was the result of an increase in interest and dividend income of $818,000 and by a decrease in interest expense of $70,000.

Interest and Dividend Income. Total interest and dividend income was $4.32 million for the quarter ended December 31, 2013, compared to $3.50 million for the quarter ended December 31, 2012, an increase of $818,000, or 23.4%. Interest and fees on loans increased to $3.23 million for the three months ended December 31, 2013 from $2.75 million for the same period ended December 31, 2012. This increase of $478,000, or 17.5%, was due to an increase in the average balance of loans partially offset by a decrease in the average yield of loans for the quarter ended December 31, 2013. The average interest rate earned on loans receivable decreased by 66 basis points, from 5.74% to 5.08%. Average balances for loans receivable, net, including loans held for sale, for the quarter ended December 31, 2013 were $254.60 million, compared to $191.70 million for the prior year period. This represents an increase of $62.90 million, or 32.8%. Interest and dividends on investment securities available-for-sale (AFS) increased by $348,000 for the quarter ended December 31, 2013 from $735,000 for the same quarter last year. Average balances on investments increased to $199.60 million for the quarter ended December 31, 2013, from $126.85 million for the quarter ended December 31, 2012. The average interest rate earned on investments decreased to 2.17% from 2.32%. Interest on deposits with banks decreased to $3,000 from $11,000, due to a decrease in average balances partially offset by an increase in the average rates. Average balances on deposits with banks decreased to $2.37 million for the quarter ended December 31, 2013, compared to $25.9 million for the quarter ended December 31, 2012 and the average rates on such deposits with banks increased from 0.17% at December 31, 2012 to 0.51% at December 31, 2013.

Interest Expense. Total interest expense declined in the quarter to $516,000 from $586,000 for the quarter ended December 31, 2012, a decrease of $70,000, or 11.9%. The decrease was attributable to decreases in interest on borrowings and deposits. The average rates on deposits, which include non-interest bearing deposits, decreased from 46 basis points to 29 basis points, but this was offset by the growth in average deposit balances. This increase in average balances is the result of both the Sterling branch acquisition and organic growth. The organic growth was likely the result of the Bank's customers continuing to opt for the safety of federally insured deposits, notwithstanding historically low rates on such deposits, over the risks and uncertainty of the capital markets. The average balances increased from $287.33 million to $426.75 million, an increase of $139.42 million. All account types experienced some decrease in average rates. Money market accounts declined one basis point to 13 basis points down from 14 basis points. Interest bearing checking account rates declined two basis points to 4 basis points down from 6 basis

points. Savings account rates declined to 0.05% from 0.09%, and certificates of deposit rates decreased from 1.13% to 0.70%. Because of the increase in retail funding due to deposit growth average balances in borrowings decreased to $33.34 million for the quarter ended December 31, 2013, compared to $36.86 million for the same quarter in the previous year. A decline in the average rate paid to 2.44% from 2.75%, along with the decrease in average borrowing balances, resulted in a decrease in interest expense for borrowings to $183,000 for the quarter ended December 31, 2013 versus $230,000 in the previous year. The average rate paid on all interest-bearing liabilities decreased 31 basis points from the quarter ended December 31, 2012 to the quarter ended December 31, 2013.

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management of the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, national and local economic conditions, and past due loans in portfolio. The Bank's policies require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. The Bank recorded $153,000 in provision for loan losses for the quarter ended December 31, 2013 and $187,000 in the quarter ended December 31, 2012. This decrease from 2012 was based on an analysis of a variety of factors including delinquencies within the loan portfolio. Total nonperforming loans, including restructured loans, net decreased from $1.50 million at December 31, 2012 to $992,000 at December 31, 2013. The Bank currently has $419,000 in foreclosed real estate property and other repossessed property.

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, 2013 and 2012 – continued

Noninterest Income. Total noninterest income increased to $2.47 million for the quarter ended December 31, 2013, from $1.92 million for the quarter ended December 31, 2012, an increase of $552,000 or 28.6%. Mortgage loan servicing fees accounted for $92,000 of the increase, while another $80,000 was attributable to increased deposit account service charges. These increases can be attributed to the additional account volume after the Sterling acquisition. The gain on sale of securities contributed to the increase in noninterest income. Gain on sale of securities increased to $405,000 from the prior period's amount of $245,000.

Noninterest Expense. Noninterest expense was $5.61 million for the quarter ended December 31, 2013, and $4.79 million for the quarter ended December 31, 2012. The primary cause of this increase was the increase in salaries and employee benefits of $957,000 resulting from the increase in staff from the Sterling acquisition. Occupancy and equipment expense and data processing also increased as the result of the Sterling acquisition. There were no acquisition costs for the quarter ended December 31, 2013 compared to acquisition costs of $731,000 for the same quarter last year. There was no valuation loss on OREO recorded for the quarter ended December 31, 2013 compared to $30,000 in the same period last year. This decrease was due to stabilizing values in the Company's foreclosed properties.

Income Tax Expense. Our income tax expense was $30,000 for the quarter ended December 31, 2013, compared to income tax benefit of $103,000 for the quarter ended December 31, 2012. The effective tax rate for the quarter ended December 31, 2013 was 5.95% and was -72.03% for the quarter ended December 31, 2012.

Results of Operations for the Six Months Ended December 31, 2013 and 2012

Net Income. Eagle's net income for the six months ended December 31, 2013 was $1.14 million compared to $382,000 for the six months ended December 31, 2012. The increase of $759,000 was due to increases in net interest income of $1.85 million and noninterest income of $2.08 million, and reductions in provision for loan losses of $110,000. These were partially offset by an increase in noninterest expense of $3.25 million and income tax expense of $27,000. The increase in noninterest income resulted from an increase in home mortgage refinancing activity, resulting in increased gain on sale of loans. The noninterest income increase was also attributable to an increase in the gain on sale of available-for-sale securities. The provision for loan losses decreased from the prior period due to improved credit indicators such as delinquencies. Eagle's tax provision was $27,000 lower in the current period. The Company's tax rate is low primarily due to the new market tax credit project initiated in the previous year. Basic earnings per share were $0.29 for the current period and $0.10 per share for the prior comparable period.

Net Interest Income. Net interest income increased to $7.42 million for the six months ended December 31, 2013, from $5.57 million for the previous year. This increase of $1.85 million was the result of an increase in interest and dividend income of $1.73 million and by a decrease in interest expense of $112,000.

Interest and Dividend Income. Total interest and dividend income was $8.46 million for the six months ended December 31, 2013, compared to $6.72 million for the six months ended December 31, 2012, an increase of $1.74 million, or 25.9%. Interest and fees on loans increased to $6.35 million for the six months ended December 31, 2013 from $5.30 million for the same period ended December 31, 2012. This increase of $1.05 million, or 19.8%, was due to an increase in the average balance of loans partially offset by a decrease in the average yield of loans for the six

months ended December 31, 2013. The average interest rate earned on loans receivable decreased by 61 basis points, from 5.70% to 5.09%. Average balances for loans receivable, net, including loans held for sale, for the six months ended December 31, 2013 were $249.58 million, compared to $186.24 million for the prior year period. This represents an increase of $63.34 million, or 34.0%. Interest and dividends on investment securities AFS increased by $698,000 for the six months ended December 31, 2013 from $1.40 million for the same period last year. Average balances on investments increased to $205.19 million for the six months ended December 31, 2013, from $108.74 million for the six months ended December 31, 2012. The average interest rate earned on investments decreased to 2.05% from 2.58%. Interest on deposits with banks decreased to $4,000 from $16,000, due to a decrease in average balances partially offset by an increase in the average rates. Average balances on deposits with banks decreased to $1.93 million for the six months ended December 31, 2013, compared to $18.94 million for the six months ended December 31, 2012 and the average rates on such deposits with banks increased from 0.17% at December 31, 2012 to 0.41% at December 31, 2013.

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, 2013 and 2012 – continued

Interest Expense. Total interest expense declined for the six months ended December 31, 2013 to $1.04 million from $1.15 million for the six months ended December 31, 2012, a decrease of $112,000, or 9.6%. The decrease was attributable to decreases in interest on borrowings partially offset by an increase in expense on deposits. The average rates on deposits, which include non-interest bearing deposits, decreased from 46 basis points to 30 basis points, but this was offset by the growth in average deposit balances. This increase in average balances is the result of both the Sterling branch acquisition and organic growth. The organic growth was likely the result of the Bank's customers continuing to opt for the safety of federally insured deposits, notwithstanding historically low rates on such deposits, over the risks and uncertainty of the capital markets. The average balances increased from $253.34 million to $424.52 million, an increase of $171.18 million. All account types experienced some decrease in average rates. Money market accounts declined two basis points to 12 basis points down from 14 basis points. Interest bearing checking account rates declined one basis point to 4 basis points down from 5 basis points. Savings account rates declined to 0.05% from 0.09%, and certificates of deposit rates decreased from 1.12% to 0.71%. Because of the increase in retail funding due to deposit growth average balances in borrowings decreased to $36.89 million for the six months ended December 31, 2013, compared to $38.89 million for the same period in the previous year. The average rate paid, along with the decrease in average borrowing balances, resulted in a decrease in interest expense for borrowings to $365,000 for the six months ended December 31, 2013 versus $524,000 in the previous period. The average rate paid on borrowings decreased from 2.94% last year to 2.21% for the six months ended December 31, 2013. The average rate paid on all interest-bearing liabilities decreased 36 basis points from the six months ended December 31, 2012 to the six months ended December 31, 2013.

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management of the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, national and local economic conditions, and past due loans in portfolio. The Bank's policies require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. The Bank recorded $312,000 in provision for loan losses for the six months ended December 31, 2013 and $422,000 for the six months ended December 31, 2012. This decrease from 2012 was based on an analysis of a variety of factors including delinquencies within the loan portfolio. Total nonperforming loans, including restructured loans, decreased from $1.50 million at December 31, 2012 to $992,000 at December 31, 2013. The Bank currently has $419,000 in foreclosed real estate property and other repossessed property.

Noninterest Income. Due to the continued historic low long term interest rates, the Bank continued to experience significant refinancing activity in residential real estate as well as benefiting from operating the mortgage banking activities resulting from the Sterling acquisition which augmented our existing mortgage lending. This increased activity had a significant effect on the amount of noninterest income with total noninterest income increasing to $5.57 million for the six months ended December 31, 2013, from $3.49 million for the six months ended December 31, 2012, an increase of $2.08 million or 59.6%. Of this amount, net gain on sale of loans increased to $2.55 million for the six months ended December 31, 2013 from $1.77 million for the six months ended December 31, 2012. During this period, $118.23 million of 1-4 family mortgage loans were originated compared to $89.48 million in the six months ended December 31, 2012. In addition, $105.63 million of mortgage loans were sold during the period compared to $84.61 million sold for the six months ended December 31, 2012, an increase of $21.02 million. Service

charge income on deposit accounts increased $193,000 to $543,000 for the six months ended December 31, 2013 due to the increased number of deposit accounts as a result of the Sterling branch acquisition. Mortgage loan servicing fees increased $172,000 to $653,000 for the six months ended December 31, 2013 primarily due to the higher balances of residential mortgage loans serviced by the Company. The gain on sale of securities also contributed to the increase in noninterest income. Gain on sale of securities increased to $836,000 from the prior period amount of $312,000.

Noninterest Expense. Noninterest expense was $11.47 million for the six months ended December 31, 2013, and $8.22 million for the six months ended December 31, 2012. The primary cause of this increase was the increase in salaries and employee benefits of $2.86 million resulting from the increase in staff from the Sterling acquisition. Occupancy and equipment expense and data processing also increased as the result of the Sterling acquisition and now operating a larger entity. There were no acquisition costs for the six months ended December 31, 2013 compared to $1.21 million for the same period last year as the acquisition was fully completed by the third quarter of fiscal year 2013. There was no valuation losses on OREO recorded for the six months ended December 31, 2013 compared to $98,000 in the same period last year. This decrease was due to stabilizing values in the Company's foreclosed properties.

Income Tax Expense. Our income tax expense was $66,000 for the six months ended December 31, 2013, compared to $39,000 for the six months ended December 31, 2012. The effective tax rate for the six months ended December 31, 2013 was 5.47% and was 9.26% for the six months ended December 31, 2012. The Company's tax rate is significantly lower than in previous years primarily due to the new market tax credit project initiated in the previous year. Also, the deductibility for tax purposes of goodwill resulting from the Sterling acquisition has helped reduce the effective tax rate. Previous filings have further detail on the new market tax credits owned by the Company. The Company has equity investments in Certified Development Entities which have received allocations of New Markets Tax Credits ("NMTC"). Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over a seven-year credit allowance period.

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

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of the Comptroller of the Currency ("OCC") regulations. The OCC has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OCC states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with the FHLB of Seattle. The Bank exceeded those minimum ratios as of both December 31, 2013 and December 31, 2012.

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 November 30, 2013, the Bank's measure, as internally determined, of sensitivity to interest rate movements, as measured by a 200 basis point rise in interest rates scenario, decreased the economic value of equity ("EVE") by 16.8%. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity. The Bank's tier I core capital ratio, as measured under OCC rules, increased from 8.46% as of December 31, 2012 to 8.58% as of December 31, 2013. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

As of December 31, 2013, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At December 31, 2013, the Bank's tangible, core, and risk-based capital ratios amounted to 8.58%, 8.58%, and 15.20%, respectively, compared to regulatory requirements of 1.50%, 3.00%, and 8.00%, respectively. See the following table:

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

	At December 31, 2013 (Unaudited) (Dollars in Thousands)	
	Dollar Amount	% of Assets
Tangible capital:		
Capital level	$43,910	8.58
Requirement	7,680	1.50
Excess	36,230	7.08
Core capital:		
Capital level	43,910	8.58
Requirement	15,359	3.00
Excess	28,551	5.58
Risk-based capital:		
Capital level	46,030	15.20
Requirement	24,221	8.00
Excess	21,809	7.20

Impact of Inflation and Changing Prices

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

CONTROLS AND PROCEDURES

Item 4. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer ("CEO") and Interim 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 Interim CFO concluded that as of December 31, 2013, 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 that have materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

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

On April 26, 2011, the Company announced that its Board of Directors authorized a common stock repurchase program for 204,156 shares of common stock, effective April 27, 2011. The program was intended to be implemented through purchases made from time to time in the open market or through private transactions. The program was scheduled to terminate on April 19, 2012. All of the 204,156 shares were purchased by December 27, 2011.

On July 1, 2013, the Company announced its Board of Directors has approved a stock repurchase program for the shares of the Company's common stock. Pursuant to the program, Eagle may acquire up to 150,000 shares of its common stock, subject to market conditions, on the open market or in privately negotiated transactions. The repurchase program expires on June 30, 2014.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

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

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

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

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 12, 2014	By:	/s/ Peter J. Johnson Peter J. Johnson President/CEO
Date: February 12, 2014	By:	/s/ Miranda J. Spaulding Miranda J. Spaulding Interim Principal Accounting Officer