PACIFICNET INC
Form NT 10-Q
November 14, 2006

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

FORM 12b-25
NOTIFICATION OF LATE FILING

(Check One) [ ] Form 10-K [ ] Form 20-F [ ] Form 11-K [X] Form 10-Q [ ] Form N-SAR

For Period Ended: September 30, 2006
[ ] Transition Report on Form 10-K
[ ] Transition Report on Form 20-F
[ ] Transition Report on Form 11-K
[ ] Transition Report on Form 10-Q
[ ] Transition Report on Form N-SAR
For the Transition Period Ended: ________________________

Read Instruction (on back page) Before Preparing Form. Please Print or Type.

Nothing in this form shall be construed to imply that the Commission has verified any information contained herein.

If the notification relates to a portion of the filing checked above, identify the Item(s) to which the notification relates:

PART I - REGISTRANT INFORMATION

Full Name of Registrant

PacificNet Inc.

Former Name if Applicable

Address of Principal Executive Office *(Street and Number)*

23/F, Tower A, Timecourt, No. 6 Shugang Xili
City, State and Zip Code

Chaoyang District, Beijing, China 100028

PART II
RULES 12b-25(b) AND (c)

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate)

	(a)	The reasons described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense;
XX	(b)	The subject annual report, semi-annual report, transition report on Form 10-K, Form 20-F, 11-K or Form N-SAR, or portion thereof, will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report of transition report on Form 10-Q, or portion thereof will be filed on or before the fifth calendar day following the prescribed due date; and
	(c)	The accountant's statement or other exhibit required by Rule 12b-25(c) has been attached if applicable.

PART III
NARRATIVE

State below in reasonable detail the reasons why Forms 10-K, 20-F, 11-K, 10-Q, N-SAR, N-CSR, or the transition report or portion thereof, could not be filed within the prescribed time period.

The report of PacificNet Inc. on Form 10-Q could not be filed within the prescribed time period because the Company’s financial statements were not finalized. As a result, the Company could not solicit and obtain the necessary review of the financial statements by its auditors.

PART IV
OTHER INFORMATION

(1) Name and telephone number of person to contact in regard to this notification

Mitchell S. Nussbaum, Esq.	212	407-4159
(Name)	(Area Code)	(Telephone Number)

(2) Have all other periodic reports required under Section 13 or 15(d) of the Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of 1940 during the preceding 12 months (or for such shorter) period that the registrant was required to file such reports) been filed? If answer is no, identify report(s). x Yes ¨ No

(3) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof? ¨ Yes x No

If so, attach an explanation of the anticipated change, both narratively and quantitatively, and, if appropriate, state the reasons why a reasonable estimate of the results cannot be made.

PacificNet Inc.
(Name of Registrant as Specified in Charter)

Has caused this notification to be signed on its behalf by the undersigned hereunto duly authorized.

Date : November 14, 2006

By: /s/ Victor Tong
Name: Victor Tong
Title: President

left">
Total

Total	$-	$-	$85,634	$89,277

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

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 3: Securities – continued

At June 30, 2012 and 2011, securities with a carrying value of $14,665,000 and $30,461,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The following table discloses, as of June 30, 2012 and 2011, the Company's investment securities that have been in a continuous unrealized-loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

	Less than 12 months		12 months or longer	
	June 30, 2012			
(Dollars in Thousands)	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. Government and agency	$1,751	$8	$341	$2
Corporate obligations	-	-	884	74
Municipal obligations	1,760	2	1,402	105
Private label CMOs	-	-	168	41
Mortgage-backed & CMOs	2,514	22	-	-
Total	$6,025	$32	$2,795	$222
	June 30, 2011			
U.S. Government and agency	$916	$2	$1,789	$4
Corporate obligations	944	1	-	-
Municipal obligations	4,412	194	1,714	412
Private label CMOs	216	14	-	-
Mortgage-backed & CMOs	1,151	2	-	-
Total	$7,639	$213	$3,503	$416

The table above shows the Company's investment gross unrealized losses and fair values, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2012 and 2011. 25 and 37 securities were in an unrealized loss position as of June 30, 2012 and 2011, respectively.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 3: Securities – continued

At June 30, 2012, 17 U.S. Government and agency securities and municipal obligations have unrealized losses with aggregate depreciation of less than 3.57% from the Company's amortized cost basis. These unrealized losses are principally due to changes in interest rates and credit spreads. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The fair value of these securities represents less than 3.54% of the total fair value of all securities available for sale and their unrealized loss is less than $115,000 as of June 30, 2012. 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, 2012, 7 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of less than 2.33% from the Company’s cost basis. 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 June 30, 2012 revealed no expected credit losses on the securities. One of the CMO securities is non-agency securities (backed by Alt-A collateral) which has a rating below investment grade from the credit rating agencies. The fair value of this security represents less than 0.19% of the total fair value of all securities available for sale and its unrealized loss is $41,000 as of June 30, 2012.

At June 30, 2012, 1 corporate obligation had an unrealized loss with aggregate depreciation of less than 7.72% from the Company's cost basis. This unrealized loss is principally due to changes in interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At June 30, 2011, 31 U.S. Government and agency securities and municipal obligations have unrealized losses with aggregate depreciation of less than 0.96% from the Company's amortized cost basis. These unrealized losses are principally due to changes in interest rates and credit spreads. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Two municipal obligations have a rating below investment grade from the credit rating agencies. The fair value of these securities represents less than 0.22% of the total fair value of all securities available for sale and their unrealized loss is of less than $1,000 as of June 30, 2011. 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 3: Securities – continued

At June 30, 2011, 5 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of less than 0.06% from the Company's cost basis. 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 June 30, 2011 revealed no expected credit losses on the securities. 1 of the CMO securities is non-agency securities (backed by Alt-A collateral) which has a rating below investment grade from the credit rating agencies. The fair value of this security represents less than 0.21% of the total fair value of all securities available for sale and its unrealized loss is $14,000 as of June 30, 2011.

At June 30, 2011, 1 corporate obligation had an unrealized loss with aggregate depreciation of less than 0.02% from the Company's cost basis. This unrealized loss is principally due to changes in interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans

A summary of the balances of loans follows:

	June 30,	
	2012	2011
(Dollars in Thousands)		
First mortgage loans:		
Residential mortgage (1-4 family)	$61,671	$70,003
Commercial real estate	64,672	64,701
Real estate construction	1,455	5,020
Other loans:		
Home equity	23,709	27,816
Consumer	8,778	9,343
Commercial	15,343	10,564
Subtotal	175,628	187,447
Less: Allowance for loan losses	(1,625)	(1,800)
Deferred loan fees, net	(164)	(176)
Total loans, net	$173,839	$185,471

Within the commercial real estate loan category above, $21,610,000 and $18,878,000 was guaranteed by the United States Department of Agriculture Rural Development, at June 30, 2012 and 2011, respectively.

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

	June 30,	
	2012	2011
(Dollars in Thousands)		
Balance at beginning of period	$1,800	$1,100
Provision for loan losses	1,101	948
Loans charged off	(1,296)	(252)
Recoveries of loans previously charged off	20	4
Balance at end of period	$1,625	$1,800

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans – continued

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

	June 30, 2012		June 30, 2011	
	(Dollars in Thousands)			
Non-accrual loans	$1,814		$2,939	
Accruing loans delinquent 90 days or more	-		-	
Restructured loans, net	1,404		-	
Total nonperforming loans	3,218		2,939	
Real estate owned and other repossessed assets, net	2,361		1,181	
Total non-performing assets	$5,579		$4,120	
Total non-performing assets as a percentage of total assets	1.7	%	1.2	%
Allowance for loan losses	$1,625		$1,800	
Percent of allowance for loan losses to non-performing loans	50.5	%	61.2	%
Percent of allowance for loan losses to non-performing assets	29.1	%	43.7	%

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

	June 30, 2012									
	Helena		Bozeman		Butte		Townsend		Total	
Non-accrual loans	$1,735		$56		$22		$1		$1,814	
Accruing loans delinquent 90 days or more	-		-		-		-		-	
Restructured loans, net	90		1,314		-		-		1,404	
Real estate owned and other repossessed assets, net	689		1,610		-		62		2,361	
	$2,514		$2,980		$22		$63		$5,579	
Total loans, net	$90,744		$34,942		$42,417		$5,736		$173,839	
Percent of non-performing assets to loans	2.8	%	8.5	%	0.1	%	1.1	%	3.2	%
	June 30, 2011									
Non-accrual loans	$1,773		$1,138		$-		$28		$2,939	

Accruing loans delinquent 90 days or more	-		-		-		-		-	
Restructured loans, net	-		-		-		-		-	
Real estate owned and other repossessed assets, net	306		794		-		81		1,181	
	$2,079		$1,932		$-		$109		$4,120	
Total loans, net	$96,816		$41,916		$45,811		$928		$185,471	
Percent of non-performing assets to loans	2.2	%	4.6	%	0.0	%	11.8	%	2.2	%

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans – continued

The following table sets forth information regarding the activity in the allowance for loan losses for the dates as indicated (dollars in thousands):

	June 30, 2012						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Allowance for credit losses:							
Beginning balance, June 30, 2011	$369	$652	$ 18	$481	$57	$ 223	$1,800
Charge-offs	(125)	(309)	(239)	(351)	(33)	(239)	(1,296)
Recoveries	-	8	-	-	12	-	20
Provision	159	421	231	26	42	222	1,101
Ending balance, June 30, 2012	$403	$772	$ 10	$156	$78	$ 206	$1,625
Ending balance allocated to loans individually evaluated for impairment	$-	$-	$ -	$-	$2	$ -	$2
Ending balance allocated to loans collectively evaluated for impairment	$403	$772	$ 10	$156	$76	$ 206	$1,623
Loans receivable:							
Ending balance June 30, 2012	$61,671	$64,672	$ 1,455	$23,709	$8,778	$ 15,343	$175,628
Ending balance of loans individually evaluated for impairment June 30, 2012	$923	$833	$ -	$390	$93	$ 1,497	$3,736
Ending balance of loans collectively evaluated for impairment							

June 30, 2012	$60,748	$63,839	$ 1,455	$23,319	$8,685	$ 13,846	$171,892

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans – continued

	June 30, 2011						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Allowance for credit losses:							
Beginning balance, June 30, 2010	$391	$447	$ 110	$6	$78	$ 68	$1,100
Charge-offs	(75)	(130)	-	(30)	(17)	-	(252)
Recoveries	-	-	-	-	4	-	4
Provision	53	335	(92)	505	(8)	155	948
Ending balance, June 30, 2011	$369	$652	$ 18	$481	$57	$ 223	$1,800
Ending balance allocated to loans individually evaluated for impairment	$111	$260	$ -	$378	$14	$ 125	$888
Ending balance allocated to loans collectively evaluated for impairment	$258	$392	$ 18	$103	$43	$ 98	$912
Loans receivable:							
Ending balance June 30, 2011	$70,003	$64,701	$ 5,020	$27,816	$9,343	$ 10,564	$187,447
Ending balance of loans individually evaluated for impairment June 30, 2011	$1,411	$998	$ 721	$611	$135	$ 2,025	$5,901
Ending balance of loans collectively evaluated for impairment June 30, 2011	$68,592	$63,703	$ 4,299	$27,205	$9,208	$ 8,539	$181,546

The following table sets forth information regarding the internal classification of the loan portfolio as of the dates indicated (dollars in thousands):

	June 30, 2012						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Grade:							
Pass	$60,748	$63,839	$ 1,455	$23,319	$8,685	$ 13,846	$171,892
Special mention	-	51	-	-	-	5	56
Substandard	923	782	-	242	76	1,492	3,515
Doubtful	-	-	-	148	15	-	163
Loss	-	-	-	-	2	-	2
Total	$61,671	$64,672	$ 1,455	$23,709	$8,778	$ 15,343	$175,628
Credit Risk Profile Based on Payment Activity							
Performing	$61,011	$63,749	$ 1,455	$23,444	$8,742	$ 14,009	$172,410
Restructured loans	-	90	-	-	-	1,314	1,404
Nonperforming	660	833	-	265	36	20	1,814
Total	$61,671	$64,672	$ 1,455	$23,709	$8,778	$ 15,343	$175,628

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans – continued

	June 30, 2011						
	1-4 Family Real Estate	Commercial Real Estate	Construction	Home Equity	Consumer	Commercial	Total
Grade:							
Pass	$68,592	$63,703	$ 4,299	$27,205	$9,208	$ 8,539	$181,546
Special mention	-	-	-	-	-	1,454	1,454
Substandard	1,300	738	721	233	121	446	3,559
Doubtful	-	-	-	-	-	-	-
Loss	111	260	-	378	14	125	888
Total	$70,003	$64,701	$ 5,020	$27,816	$9,343	$ 10,564	$187,447
Credit Risk Profile Based on Payment Activity							
Performing	$68,579	$64,515	$ 4,370	$27,440	$9,287	$ 10,317	$184,508
Nonperforming	1,424	186	650	376	56	247	2,939
Total	$70,003	$64,701	$ 5,020	$27,816	$9,343	$ 10,564	$187,447

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

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

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

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

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

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans – continued

The following table sets forth information regarding impaired loans as of the dates indicated (dollars in thousands):

	June 30, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
1-4 Family	$-	$-	$-	$-	$-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	2	2	-	2
Commerical	-	-	-	-	-
With a related allowance:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Commerical	-	-	-	-	-
Total:					
1-4 Family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	2	2	-	2
Commerical	-	-	-	-	-
Total	$-	$2	$2	$-	$2

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans – continued

	June 30, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With no related allowance:					
1-4 Family	$-	$-	$-	$-	$-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Commerical	-	-	-	-	-
With a related allowance:					
1-4 Family	289	400	111	-	145
Commercial real estate	179	268	89	-	90
Construction	479	650	171	-	240
Home equity	-	378	378	-	-
Consumer	-	14	14	-	1
Commerical	57	182	125	-	29
Total:					
1-4 Family	289	400	111	-	145
Commercial real estate	179	268	89	-	90
Construction	479	650	171	-	240
Home equity	-	378	378	-	-
Consumer	-	14	14	-	1
Commerical	57	182	125	-	29
Total	$1,004	$1,892	$888	$-	$505

The following table sets forth information regarding the delinquencies within the loan portfolio as of the dates indicated (dollars in thousands):

	June 30, 2012					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still Accruing
1-4 Family real estate	$613	$501	$1,114	$60,557	$61,671	$-
	-	91	91	64,581	64,672	-

Commercial real estate						
Construction	-	-	-	1,455	1,455	-
Home equity	362	227	589	23,120	23,709	-
Consumer	221	37	258	8,520	8,778	-
Commerical	171	747	918	14,425	15,343	-
Total	$1,367	$1,603	$2,970	$172,658	$175,628	$-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 4: Loans – continued

	June 30, 2011					
	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	$638	$1,424	$2,062	$67,941	$70,003	$-
Commercial real estate	1,501	186	1,687	63,014	64,701	-
Construction	770	650	1,420	3,600	5,020	-
Home equity	132	376	508	27,308	27,816	-
Consumer	78	56	134	9,209	9,343	-
Commerical	-	247	247	10,317	10,564	-
Total	$3,119	$2,939	$6,058	$181,389	$187,447	$-

Interest income not accrued on these loans and cash interest income was immaterial for the years ended June 30, 2012 and 2011. The allowance for loan losses on nonaccrual loans as of June 30, 2012 and 2011 was $1,000 and $817,000, respectively. There were $2,000 ($0 net of loss reserves of $2,000) and $1,892,000 ($1,004,000 net of loss reserves of $888,000) of loans considered impaired at June 30, 2012 and 2011, respectively.

Loans are granted to directors and officers of the Company in the ordinary course of business. Such loans are made in accordance with policies established for all loans of the Company, except that directors, officers, and employees may be eligible to receive discounts on loan origination costs.

Loans receivable from directors and senior officers, and their related parties, of the Company at June 30, 2012 and 2011, were $1,787,000 ($7,998,000 including loans serviced for others) and $1,813,000 ($8,558,000 including loans serviced for others), respectively. During the year ended June 30, 2012, including loans sold and serviced for others, total principal additions amounted to $481,000 and total principal payments amounted to $1,041,000. Interest income from loans owned was $108,000 and $116,000 for the years ended June 30, 2012 and 2011, respectively. The Bank serviced, for the benefit of others, $6,211,000 and $6,745,000 at June 30, 2012 and 2011, respectively, loans from directors and senior officers.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 5: Troubled Debt Restructurings

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the quarter ended September 30, 2011. As required, the Company reassessed all restructurings that occurred on or after the beginning of the current fiscal year (July 1, 2011) for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying the reassessed receivables as troubled debt restructurings, the Company also identified them as impaired under the guidance in ASC 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. As of June 30, 2012, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was $1,404,000 (310-40-65-1(b)), and the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was $62,000 (310-40-65-1(b)).

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

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

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

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

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

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

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NOTE 5: Troubled Debt Restructurings – continued

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

	June 30, 2012		
	Accrual Status	Non-Accrual Status	Total Modification
Residential Mortgage (1-4 family)	-	-	-
Commercial Real Estate	90	-	90
Real estate construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	1,314	1,314
Total	$90	$1,314	$1,404

	June 30, 2011		
	Accrual Status	Non-Accrual Status	Total Modification
Residential Mortgage (1-4 family)	-	-	-
Commercial Real Estate	-	-	-
Real estate construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Commercial	-	-	-
Total	$-	$-	$-

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NOTE 5: Troubled Debt Restructurings - continued

The following tables present newly restructured loans that occurred as of June 30, 2012:

	June 30, 2012					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Pre-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	97	-	-	97
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	1,385	1,385
Total	$ -	$ -	$ 97	$ -	$ 1,385	$ 1,482

	June 30, 2012					
	Rate Modification	Term Modification	Interest Only Modification	Payment Modification	Combination Modification	Total Modification
Post-modification Outstanding Recorded Investment:						
Residential Mortgage (1-4 family)	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	90	-	-	90
Real estate construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	1,314	1,314
Total	$ -	$ -	$ 90	$ -	$ 1,314	$ 1,404

There were no loans modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default at June 30, 2012 and 2011. 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 June 30, 2012 and 2011, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

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NOTE 6: Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets is as follows:

	June 30,	
	2012	2011
(Dollars in Thousands)		
Balance at beginning of period	$189	$-
Provision for losses	169	201
Charge-offs	(58)	(12)
Balance at end of period	$300	$189

NOTE 7: Mortgage Servicing Rights

The Company is servicing loans for the benefit of others totaling approximately $355,020,000 and $343,750,000 at June 30, 2012 and 2011, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $3,943,000 and $2,569,000 at June 30, 2012 and 2011, respectively.

The following is a summary of activity in mortgage servicing rights and the valuation allowance:

	Years Ended June 30,	
	2012	2011
(Dollars in Thousands)		
Mortgage servicing rights		
Balance at beginning of period	$2,142	$2,337
Mortgage servicing rights capitalized	705	963
Amortization of mortgage servicing rights	(629)	(1,158)
Balance at end of period	2,218	2,142
Valuation allowance		
Balance at beginning of period	-	-
Provision (credited) to operations	-	-
Balance at end of period	-	-
Net mortgage servicing rights	$2,218	$2,142

The fair values of these rights were $2,424,000 and $2,871,000 at June 30, 2012 and June 30, 2011, respectively. The fair value of servicing rights was determined using discount rates ranging from 9.00% to 20.00%, prepayment speeds ranging from 220% to 420% PSA, depending on stratification of the specific right. The fair value was also adjusted for the affect of potential past dues and foreclosures.

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NOTE 8: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	June 30,	
	2012	2011
(Dollars in Thousands)		
Land, buildings, and improvements	$19,235	$19,189
Furniture and equipment	4,052	4,246
	23,287	23,435
Accumulated depreciation	(7,726)	(7,284)
	$15,561	$16,151

Depreciation expense totaled $760,000 and $739,000 for the years ended June 30, 2012 and 2011, respectively.

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NOTE 9: Deposits

The composition of deposits is summarized as follows:

	June 30, 2012			June 30, 2011		
(Dollars in Thousands)	Balance	Weighted Average Rate		Balance	Weighted Average Rate	
Noninterest checking	$23,425	0.00	%	$19,052	0.00	%
Interest bearing checking	46,125	0.05	%	40,352	0.05	%
Passbook savings	40,591	0.10	%	36,945	0.10	%
Money market accounts	28,489	0.14	%	28,284	0.12	%
Time certificates of deposits	81,359	1.12	%	84,553	1.29	%
	$219,989	0.46	%	$209,186	0.57	%

Time certificates of deposits with balances of $100,000 and greater was $26,356 and $25,463 at June 30, 2012 and 2011, respectively.

At June 30, 2012, the scheduled maturities of time deposits are as follows:

(Dollars in Thousands)	
Within one year	$54,748
One to two years	14,695
Two to three years	5,977
Three to four years	701
Thereafter	5,238
Total	$81,359

Interest expense on deposits is summarized as follows:

	Years Ended June 30, 2012	Years Ended June 30, 2011
(Dollars in Thousands)		
Checking	$24	$28
Passbook savings	39	48
Money market accounts	37	46
Time certificates of deposits	974	1,270
	$1,074	$1,392

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 9: Deposits – continued

As of May 20, 2009 FDIC insurance covers deposits up to $250,000 through December 31, 2013. On July 21, 2010, this coverage was made permanent with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. At June 30, 2012 the Company held $12,335,000 in non-interest bearing deposit accounts that included balances of $250,000 or more. Non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. At June 30, 2012 the Company held $23,425,000, in noninterest bearing accounts.

At June 30, 2012 and 2011, the Company reclassified $28,000 and $62,000, respectively, in overdrawn deposits as loans.

Directors' and senior officers' deposit accounts at June 30, 2012 and 2011, were $577,000 and $266,000, respectively.

NOTE 10: Advances from the Federal Home Loan Bank and Other Borrowings

Advances from the Federal Home Loan Bank of Seattle and other borrowings mature as follows:

	June 30,	
	2012	2011
(Dollars in Thousands)		
Within one year	$16,200	$18,200
One to two years	9,200	16,200
Two to three years	9,200	9,200
Three to four years	7,200	9,200
Four to five years	200	7,200
Thereafter	696	896
Total	$42,696	$60,896

Federal Home Loan Advances

The advances are due at maturity. The advances are subject to prepayment penalties. The interest rates on these advances are fixed. The advances are collateralized by investment securities pledged to the FHLB of Seattle and a blanket pledge of the Bank's 1-4 family residential mortgage portfolio. The carrying value of the securities collateralized for these advances was $10,000 as of June 30, 2012. At June 30, 2012 and 2011, the Company exceeded the collateral requirements of the FHLB. The Company's investment in FHLB stock is also pledged as collateral on these advances. The total FHLB funding line available to the Company at June 30, 2012, was 30% of total Bank assets, or approximately $94.4 million. The balance of advances was $33,696,000 and $37,896,000 at June 30, 2012 and 2011, respectively.

Other Borrowings

The Bank had $9,000,000 in structured repurchase agreements with PNC Financial Service Group, Inc. ("PNC") at June 30, 2012, and $23,000,000 at June 30, 2011. These agreements are collateralized by investment securities. The carrying value of these securities was $11,143,000 as of June 30, 2012. These agreements include terms, under certain conditions, which allow PNC to exercise a call option.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 10: Advances from the Federal Home Loan Bank and Other Borrowings – continued

Federal Funds Purchased

The Bank has a $7,000,000 Federal Funds line of credit with PNC. The balance was $0 as of June 30, 2012 and 2011.

The Bank has a $10,000,000 Federal Funds line of credit with Zions Bank. The balance was $0 as of June 30, 2012 and 2011.

The Bank has a $7,000,000 Federal Funds line of credit with Stockman Bank. The balance was $0 as of June 30, 2012 and 2011.

Federal Reserve Bank Discount Window

For additional liquidity sources, the Bank has a credit facility at the Federal Reserve Bank's Discount Window. The amount available to the Bank is limited by various collateral requirements. The Bank has pledged one Agency security at the Federal Reserve Bank that had a total carrying value of $2,120,000 as of June 30, 2012. The account had $0 balance as of June 30, 2012 and 2011.

For all borrowings outstanding the weighted average interest rate for advances at June 30, 2012 and 2011 was 3.49% and 3.79%, respectively. The weighted average amount outstanding was $58,806,000 and $69,163,000 for the years ended June 30, 2012 and 2011, respectively.

The maximum amount outstanding at any month-end was $60,879,000 and $68,346,000 during the years ended June 30, 2012 and 2011, respectively.

NOTE 11: Subordinated Debentures

On September 28, 2005, the Company completed the private placement of $5,155,000 in subordinated debentures to Eagle Bancorp Statutory Trust I ("the Trust"). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank, N.A. with a liquidation value of $5,155,000. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on December 15, 2005. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities was fixed at 6.02% until December 15, 2010 then became variable at 3-Month LIBOR plus 1.42%, making the rate 1.881% and 1.667% as of June 30, 2012, and 2011, respectively. Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in December 15, 2035 unless the Company elects and obtains regulatory approval to accelerate the maturity date to as early as December 15, 2010.

For the years ended June 30, 2012 and June 30, 2011, interest expense on the subordinated debentures was $97,000 and $192,000, respectively.

Subordinated debt may be included in regulatory Tier 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 12: Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

NOTE 13: Income Taxes

The components of the Company's income tax provision are as follows:

	Years Ended June 30,	
(Dollars in Thousands)	2012	2011
Current		
U.S. federal	$579	$1,436
Montana	115	389
	694	1,825
Deferred		
U.S. federal	102	(600)
Montana	(4)	(169)
	98	(769)
Total	$792	$1,056

The nature and components of deferred tax assets and liabilities, which are a component of other liabilities in 2012 and 2011 in the accompanying statement of financial condition, are as follows:

	June 30,	
(Dollars in Thousands)	2012	2011
Deferred tax assets:		
Deferred compensation	$422	$345
Loans receivable	373	402
Deferred loan fees	102	69
Other	299	311
Total deferred tax assets	1,196	1,127
Deferred tax liabilities:		
Premises and equipment	965	852
FHLB stock	529	474
Securities available-for-sale	1,485	823
Unrealized gain on hedging	78	5
Total deferred tax liabilities	3,057	2,154
Net deferred tax liability	$(1,861)	$(1,027)

The Company believes, based upon the available evidence, that all deferred tax assets will be realized in the normal course of operations. Accordingly, these assets have not been reduced by a valuation allowance.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 13: Income Taxes – continued

A reconciliation of the Company's effective income tax provision to the statutory federal income tax rate is as follows:

	Years Ended June 30,	
(Dollars in Thousands)	2012	2011
Federal income taxes at the statutory rate of 34%	$1,010	$1,178
State income taxes	200	235
Nontaxable income	(646)	(563)
Other, net	228	206
Income tax expense	$792	$1,056
Effective tax rate	26.7%	30.5%

Prior to January 1, 1987, the Company was allowed a special bad debt deduction limited generally in the current year to 32% (net of preference tax) of otherwise taxable income and subject to certain limitations based on aggregate loans and savings account balances at the end of the year. If the amounts that qualified as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, they will be subject to federal income tax at the then current corporate rate. Retained earnings include approximately $852,000 at both June 30, 2011 and 2010, for which federal income tax has not been provided.

NOTE 14: Supplemental Cash Flow Information

	Years Ended June 30,	
(Dollars in Thousands)	2012	2011
Supplemental Cash Flow Information		
Cash paid during the year for interest	$3,261	$4,108
Cash paid during the year for income taxes	256	881
Non-Cash Investing Activities		
Increase in market value of securities available for sale	$898	$909
Mortgage servicing rights capitalized	705	963
Loans transferred to real estate and other assets acquired in foreclosure	1,741	930
ESOP shares released	168	173

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NOTE 15: Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted assets (as defined), and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of June 30, 2012 and 2011, that the Bank meets all capital adequacy requirements to which it is subject.

To be categorized as well-capitalized, the Bank must maintain minimum tangible, core, and risk-based ratios as set forth in the table below. The Bank's actual capital amounts and ratios are presented in the table below:

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 15: Regulatory Capital Requirements – continued

(Dollars in Thousands)	Actual			Minimum Capital Requirement			Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
June 30, 2012:	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Risk-based Capital to Risk Weighted Assets									
Consolidated	$58,001	28.85	%	$16,082	8.00	%	$N/A	N/A	%
Bank	43,337	21.91		15,823	8.00		19,779	10.00	
Tier I Capital to Risk Weighted Assets									
Consolidated	56,376	28.04		8,041	4.00		N/A	N/A	
Bank	41,714	21.09		7,911	4.00		11,867	6.00	
Tier I Capital to Adjusted Total Assets									
Consolidated	56,376	17.43		9,704	3.00		N/A	N/A	
Bank	41,714	13.40		9,339	3.00		15,565	5.00	
Tangible Capital to Adjusted Total Assets									
Consolidated	56,376	17.43		4,852	1.50		N/A	N/A	
Bank	41,714	13.40		4,670	1.50		N/A	N/A	
June 30, 2011:									
Total Risk-based Capital to Risk Weighted Assets									
Consolidated	$56,462	26.19	%	$17,248	8.00	%	$N/A	N/A	%
Bank	41,887	19.70		17,007	8.00		21,259	10.00	

Tier I Capital to Risk Weighted Assets						
Consolidated	55,551	25.77	8,624	4.00	N/A	N/A
Bank	40,975	19.27	8,504	4.00	12,755	6.00
Tier I Capital to Adjusted Total Assets						
Consolidated	55,551	16.92	9,850	3.00	N/A	N/A
Bank	40,975	13.05	9,421	3.00	15,701	5.00
Tangible Capital to Adjusted Total Assets						
Consolidated	55,551	16.92	4,925	1.50	N/A	N/A
Bank	40,975	13.05	4,710	1.50	N/A	N/A

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NOTE 15: Regulatory Capital Requirements – continued

A reconciliation of the Bank's capital determined by generally accepted accounting principles to capital defined for regulatory purposes, is as follows:

(Dollars in Thousands)	June 30, 2012	June 30, 2011
Capital determined by generally accepted accounting principles	$43,715	$42,744
Unrealized (gain) loss on securities available-for-sale	(1,887)	(1,757)
Unrealized gain on forward delivery commitments	(114)	(12)
Tier I (core) capital	41,714	40,975
General allowance for loan losses	1,623	912
Total risk based capital	$43,337	$41,887

Dividend Limitations

Under OCC regulations that became effective April 1, 1999, savings associations such as the Bank generally may declare annual cash dividends up to an amount equal to net income for the current year plus net income retained for the two preceding years. Dividends in excess of such amount require OCC approval. The Bank has paid dividends totaling $1,766,000 and $2,053,000 to the Company during the years ended June 30, 2012, and 2011, respectively. The Company had paid quarterly dividends of $.07125 per share per quarter for the year ended June 30, 2012. The Company had paid quarterly dividends of $.07 per share to its shareholders for the year ended June 30, 2011.

Liquidation Rights

Eagle Bancorp Montana, Inc. holds a liquidation account for the benefit of certain depositors of American Federal Savings Bank who remain depositors of the Bank at the time of liquidation. The liquidation account is designed to provide payments to these depositors of their liquidation interests in the event of a liquidation of Eagle and the Bank, or the Bank alone. In the unlikely event that Eagle and the Bank were to liquidate in the future, all claims of creditors, including those of depositors, would be paid first, followed by distribution to depositors as of November 30, 2008 (who continue to be the Bank's depositors) of the liquidation account maintained by Eagle. Also, in a complete liquidation of both entities, or of just the Bank, when Eagle has insufficient assets to fund the liquidation account distribution due to depositors and the Bank has positive net worth, the Bank would immediately pay amounts necessary to fund Eagle's remaining obligations under the liquidation account. If Eagle is completely liquidated or sold apart from a sale or liquidation of the Bank, then the rights of such depositors in the liquidation account maintained by Eagle would be surrendered and treated as a liquidation account in the Bank, the "bank liquidation account" and these depositors shall have an equivalent interest in the bank liquidation account and the same rights and terms as the liquidation account.

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NOTE 15: Regulatory Capital Requirements – continued

Liquidation Rights – continued

After two years from the date of conversion and upon the written request of the OTS, Eagle will eliminate or transfer the liquidation account and the interests in such account to the Bank and the liquidation account would become the liquidation account of the Bank and not subject in any manner or amount to Eagle's creditors. Also, under the rules and regulations of the OTS, no post-conversion merger, consolidation, or similar combination or transaction with another depository institution in which Eagle or the Bank is not the surviving institution would be considered a liquidation and, in such a transaction, the liquidation account would be assumed by the surviving institution.

NOTE 16: Related Party Transactions

The Bank has contracted with a subsidiary of a company which is partially owned by one of the Company's directors. The Bank paid $31,000 during the year ended June 30, 2012 for support services, and an additional $29,000 for computer hardware and software used by the Bank for its computer network. For the year ended June 30, 2011, expenditures were $75,000 for support services and $45,000 for computer hardware and software.

In 2007, the Bank also made a construction loan, in the normal course of lending, to this same affiliated entity for the construction of an office building. In fiscal 2008 the construction was completed and the loan was refinanced into $7,500,000 permanent financing. On July 9, 2008, 80 percent, or $6.0 million was sold to the Montana Board of Investments. As of June 30, 2012 this loan's principal balance was $6,644,000 ($1,329,000 net of participation sold). The Bank maintains the servicing for this loan and the loan is current.

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NOTE 17: Business Combination

On June 29, 2012, the Company and Sterling Savings Bank, a Washington state-chartered bank ("Sterling") entered into a Purchase and Assumption Agreement (the "Agreement") pursuant to which Eagle agreed to purchase Sterling's banking operations in the state of Montana, including seven branch locations, certain deposit liabilities, loans and other assets and liabilities associated with such branch locations. The actual amount of deposits, loans and value of other assets and liabilities transferred to Eagle and the actual price paid will be determined at the time of the closing of the transaction, in accordance with the terms and conditions of the Agreement. The closing of the transaction is subject to the terms and conditions set forth in the Agreement, including the receipt of regulatory approval, but is currently expected to be completed by the end of the second quarter of fiscal 2013. As of June 30, 2012 the purchase price would have approximated $7.3 million and would have exceeded the estimated fair value of tangible net assets acquired by approximately $6.6 million, which will be recorded as goodwill.

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

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

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

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NOTE 17: Business Combination – continued

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

ASSETS

Cash and cash equivalents	$827
Loans receivable	44,591
Premises and equipment	5,000
Goodwill and intangible assets	7,646
Investment securities	127,962
Other assets	2,339
Total assets	$188,365
LIABILITIES AND EQUITY	
Deposits	$188,365
Equity	-
Total liabilities and equity	$188,365

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.

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June 30, 2012 and 2011

NOTE 17: Business Combination – continued

Information about the Sterling loan portfolio to be acquired as of June 30, 2012 is as follows (in thousands):

Contractually required principal and interest at acquisition	$46,404
Contractual cash flows not expected to be collected (nonaccretable discount)	(561)
Expected cash flows at acquisition	45,843
Interest component of expected cash flows (accretable discount)	(1,252)
Fair value of acquired loans	$44,591

The core deposit intangible asset that will be recognized as part of the business combination will amount to approximately $1.1 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.

Direct costs related to the Sterling acquisition will be expensed as incurred in the year ended June 30, 2013. These merger and acquisition integration expenses will include salaries and benefits, technology and communications, occupancy and equipment, professional services and other noninterest expenses. 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.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 17: Business Combination – continued

ASSETS	
Cash and cash equivalents	$20,641
Loans receivable	229,042
Premises and equipment	20,561
Goodwill and intangible assets	7,646
Investment securities	219,397
Other assets	18,377
Total assets	$515,664
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	$408,354
Other liabilities	53,660
Equity	53,650
Total liabilities and shareholders' equity	$515,664

The following table presents unaudited pro forma results of operations as if the acquisition of the Sterling branches had occurred on July 1, 2010 (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. Merger and acquisition integration costs of $850 thousand that we expect to be incurred during the year ended June 30, 2013 are reflected in the unaudited pro forma amounts for the year ended June 30, 2011. 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 years ended June 30, 2012 and 2011.

	Year Ended June 30,	
	2012	2011
Net interest income	$14,234	$14,697
Noninterest income	5,542	5,991
Noninterest expense	14,390	15,302
Net income1)	3,990	3,850
Pro forma earnings per share1)		
Basic	$1.07	$0.99
Diluted	1.02	0.99

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.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 18: Employee Benefits

Profit Sharing Plan

The Company provides a noncontributory profit sharing plan for eligible employees who have completed one year of service. The amount of the Company's annual contribution, limited to a maximum of 15% of qualified employees' salaries, is determined by the Board of Directors. Profit sharing expense was $158,000 and $162,000 for the years ended June 30, 2012 and 2011, respectively.

The Company's profit sharing plan includes a 401(k) feature. At the discretion of the Board of Directors, the Company may match up to 50% of participants' contributions up to a maximum of 4% of participants' salaries. For the years ended June 30, 2012 and 2011, the Company's match totaled $54,000 and $53,000, respectively.

Deferred Compensation Plans

The Company has entered into deferred compensation contracts with current key employees. The contracts provide fixed benefits payable in equal annual installments upon retirement. The Company purchased life insurance contracts that may be used to fund the payments. The charge to expense is based on the present value computations of anticipated liabilities. For the years ended June 30, 2012 and 2011, the total expense was $184,000 and $104,000, respectively. The Company has recorded a liability for the deferred compensation plan of $1,045,000 and $946,000 at June 30, 2012 and 2011, respectively, which is included in the balance of accrued expenses and other liabilities.

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NOTE 18: Employee Benefits – continued

Employee Stock Ownership Plan

The Company has established an ESOP for eligible employees who meet certain age and service requirements. At inception, in April 2000, the ESOP borrowed $368,000 from Eagle Bancorp and used the funds to purchase 46,006 shares of common stock, at $8 per share, in the initial offering. This borrowing was fully paid on December 31, 2009. Again, in conjunction with the subsequent offering in April 2010, the ESOP borrowed $1,971,420 from Eagle Bancorp Montana, Inc. and used the funds to purchase 197,142 shares of common stock, at $10 per share. The Bank makes periodic contributions to the ESOP sufficient to satisfy the debt service requirements of the loan that has a twelve-year term and bears interest at 8%. The ESOP uses these contributions, and any dividends received by the ESOP on unallocated shares, to make principal and interest payments on the loan.

Shares purchased by the ESOP are held in a suspense account by the plan trustee until allocated to participant accounts. Shares released from the suspense account are allocated to participants on the basis of their relative compensation in the year of allocation. Participants become vested in the allocated shares over a period not to exceed seven years. Any forfeited shares are allocated to other participants in the same proportion as contributions.

Total ESOP expenses of $120,000 and $121,000 were recognized in fiscal 2012 and 2011, respectively. 16,616 shares were released and allocated to participants during the year ended June 30, 2012. The cost of the 155,601 ESOP shares ($1,556,000 at June 30, 2012) that have not yet been allocated or committed to be released to participants is deducted from stockholders' equity. The fair value of these shares was approximately $1,556,010 at that date.

Stock Incentive Plan

The Company adopted the Stock Incentive Plan ("the Plan") on November 1, 2011. The Plan provides for different types of awards including stock options, restricted stock and performance shares. Under the Plan, 98,571 shares of restricted stock were granted to directors and certain officers during fiscal 2012. The Company expects the total expense over the five year vesting period to approximate $984,000. $131,000 was recognized as an expense during the fiscal year 2012 and is included in salaries and employee benefits in the consolidated statements of income. The remaining expense of approximately $853,000 will be fully recognized by November 1, 2016. These shares of restricted stock vest in equal installments over five years beginning one year from the grant date, November 1, 2011. There were no stock options granted under the Plan during fiscal 2011.

NOTE 19: Financial Instruments and Off-Balance-Sheet Activities

All financial instruments held or issued by the Company are held or issued for purposes other than trading. In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and forward delivery commitments for the sale of whole loans to the secondary market.

Commitments to extend credit – In response to marketplace demands, the Company routinely makes commitments to extend credit for fixed rate and variable rate loans with or without rate lock guarantees. When rate lock guarantees are made to customers, the Company becomes subject to market risk for changes in interest rates that occur between the rate lock date and the date that a firm commitment to purchase the loan is made by a secondary market investor.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 19: Financial Instruments and Off-Balance-Sheet Activities – continued

Generally, as interest rates increase, the market value of the loan commitment goes down. The opposite effect takes place when interest rates decline.

Commitments to extend credit are agreements to lend to a customer as long as the borrower satisfies the Company's underwriting standards and related provisions of the borrowing agreements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Collateral is required for substantially all loans, and normally consists of real property. The Company's experience has been that substantially all loan commitments are completed or terminated by the borrower within 3 to 12 months.

The notional amounts of the Company's commitments to extend credit at fixed and variable interest rates were approximately $6,482,000 and $5,016,000 at June 30, 2012 and 2011, respectively. Fixed rate commitments are extended at rates ranging from 2.50% to 6.63% and 3.75% to 6.75% at June 30, 2012 and 2011, respectively. The Company has lines of credit representing credit risk of approximately $59,972,000 and $66,460,000 at June 30, 2012 and 2011, respectively, of which approximately $27,052,000 and $34,406,000 had been drawn at June 30, 2012 and 2011, respectively. The Company has credit cards issued representing credit risk of approximately $832,000 and $652,000 at June 30, 2012 and 2011, respectively, of which approximately $41,000 and $43,000 had been drawn at June 30, 2012 and 2011, respectively. The Company has letters of credits issued representing credit risk of approximately $2,712,000 and $5,365,000 at June 30, 2012 and 2011, respectively.

Derivative loan commitments – Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of interest rate lock commitments was $6,482,000 and $4,076,000 at June 30, 2012 and 2011, respectively. The fair value of such commitments was insignificant.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 20: Derivatives and Hedging Activities

Interest rate contracts

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company entered into an interest rate swap agreement on August 27, 2010 with a third party to manage interest rate risk associated with a fixed-rate loan. The interest rate swap agreement effectively converted the loan's fixed rate into a variable rate. The derivatives and hedging accounting guidance (FASB ASC 815-10) requires that the Company recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with this guidance, the Company designates the interest rate swap on this fixed-rate loan as a fair value hedge.

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

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

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

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

The fixed rate loan hedged has an original maturity of 20 years and is not callable. This loan is hedged with a "pay fixed rate, receive variable rate" swap with a similar notional amount, maturity, and fixed rate coupons. The swap is not callable. At June 30, 2012, the loan had an outstanding principal balance of $11,536,000, and the interest rate swap had a notional value of $11,536,000.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 20: Derivatives and Hedging Activities – continued

Interest rate contracts – continued

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

	Asset Derivatives				Liability Derivatives			
(In Thousands)	June 30, 2012		June 30, 2011		June 30, 2012		June 30, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designed as fair value hedging instruments under ASC 815 Interest rate contracts		$-	Other Assets	$650	Other Liabilities	$1,054	n/a	$-
Change in fair value of financial instrument being hedged under ASC 815 Interest rate contracts	Loans	$836	Loans	$(452)	n/a	$-	n/a	$-

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

(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 2012	2011
Interest rate contracts	Noninterest income	$(417)	$198

Forward delivery commitments

The Company uses mandatory sell forward delivery commitments to sell whole loans. These commitments are also used as a hedge against exposure to interest-rate risks resulting from rate locked loan origination commitments on certain mortgage loans held-for-sale. Gains and losses in the items hedged are deferred and recognized in other comprehensive income until the commitments are completed. At the completion of the commitments the gains and losses are recognized in the Company's income statement.

As of June 30, 2012 and 2011, the Company had entered into commitments to deliver approximately $10,505,000 and $1,779,000 respectively, in loans to various investors, all at fixed interest rates ranging from 2.63% to 3.88 % and 3.50% to 4.75% at June 30, 2012 and 2011, respectively. The Company had approximately $192,000 and $18,000 of gains deferred as a result of the forward delivery commitments entered into as of June 30, 2012 and 2011, respectively. The fair value of such commitments is insignificant.

The Company did not have any gains or losses reclassified into earnings as a result of the ineffectiveness of its hedging activities. The Company considers its hedging activities to be highly effective.

The Company did not have any gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it was probable that the original forecasted transaction would not occur by the end of the originally specified time frame as of June 30, 2012.

NOTE 20: Derivatives and Hedging Activities – continued

Forward delivery commitments – continued

Refer to Note 19 for additional information regarding the Company's use of derivative loan commitments. These derivative instruments are not designated as hedging instruments.

NOTE 21: 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.
- § Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- § Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

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NOTE 21: Fair Value Disclosures – continued

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.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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June 30, 2012 and 2011

NOTE 21: Fair Value Disclosures – continued

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	June 30, 2012			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
Available for sale securities				
U.S. Government and agency	$-	21,055	$-	$21,055
Municipal obligations	-	42,060	-	42,060
Corporate obligations	-	3,945	-	3,945
Mortgage-backed securities				-
government backed	-	6,847	-	6,847
Private lable CMOs	-	169	-	169
CMOs - government backed	-	15,201	-	15,201
Loan subject to fair value hedge	-	-	12,372	12,372
Loans held-for-sale	-	10,613	-	10,613
Financial Liabilities:				
Derivative financial instruments	-	-	1,054	1,054

	June 30, 2011			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
Available for sale securities				
U.S. Government and agency	$-	26,208	$-	$26,208
Municipal obligations	-	39,186	-	39,186
Corporate obligations	-	6,216	-	6,216
Mortgage-backed securities	-	-	-	-
government backed	-	6,372	-	6,372
Private lable CMOs	-	291	-	291
CMOs - government backed	-	24,427	-	24,427
Loan subject to fair value hedge	-	-	11,405	11,405
Loans held-for-sale	-	1,784	-	1,784
Derivative financial instruments	-	-	650	650

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NOTE 21: Fair Value Disclosures – continued

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

	Year Ended June 30, 2012			
	Balance as of July 1, 2011	Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income	Purchases, Sales, Issuances, and Settlements, net	Balance as of June 30, 2012
	(In thousands)			
Financial Assets (Liabilities):				
Loan subject to fair value hedge	$11,405	$ 1,287	$ (320)	$12,372
Derivative financial instruments	650	(1,704)	-	(1,054)

	Year Ended June 30, 2011			
	Balance as of July 1, 2010	Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income	Purchases, Sales, Issuances, and Settlements, net	Balance as of June 30, 2011
	(In thousands)			
Financial Assets:				
Loan subject to fair value hedge	$-	$ (452)	$ 11,857	$11,405
Derivative financial instruments		650	-	650

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 June 30, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	June 30, 2012			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value

Impaired loans	$-	$-	$-	$-
Repossessed assets	-	-	2,361	2,361

	June 30, 2011			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans	$-	$-	$1,004	$1,004
Repossessed assets	-	-	1,181	1,181

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NOTE 21: Fair Value Disclosures – continued

During the year ended June 30, 2012, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of $2,000 were reduced by specific valuation allowance allocations totaling $2,000 to a total reported fair value of $0 based on collateral valuations utilizing Level 3 valuation inputs.

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 June 30, 2012 and 2011, 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.

	June 30, 2012				
(Dollars in Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
Financial Assets:					
Cash and cash equivalents	$19,814	$-	$-	$19,814	$19,814
FHLB stock	-	-	2,003	2,003	2,003
Loans receivable, net	-	-	183,830	183,830	173,839
Accrued interest on dividends receivable	1,371	-	-	1,371	1,371
Mortage servicing rights	-	-	2,424	2,424	2,218
Cash surrender value of life insurance	-	-	9,101	9,101	9,172
Financial Liabilities:					
Deposits	138,630	-	-	138,630	138,630
Time certificates of deposit	-	-	82,613	82,613	81,359
Accrued expenses and other liabilities	5,809	-	-	5,809	5,809
Advances from the FHLB & other borrowings	-	-	44,310	44,310	42,696
Subordinated debentures			4,196	4,196	5,155
Off-balance-sheet instruments					
Forward loan sales commitments	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-
Rate lock commitments	-	-	-	-	-

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
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NOTE 21: Fair Value Disclosures – continued

(Dollars in Thousands)	June 30, 2011 Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
Financial Assets:					
Cash and cash equivalents	$9,540	$-	$-	$9,540	$9,540
FHLB stock	-	-	2,003	2,003	2,003
Loans receivable, net	-	-	192,361	192,361	185,471
Accrued interest on dividends receivable	1,558	-	-	1,558	1,558
Mortage servicing rights	-	-	2,871	2,871	2,142
Cash surrender value of life insurance	-	-	6,900	6,900	6,900
Financial Liabilities:					
Deposits	124,633	-	-	124,633	124,633
Time certificates of deposit	-	-	85,719	85,719	84,553
Accrued expenses and other liabilities	3,371	-	-	3,371	3,371
Advances from the FHLB & other borrowings	-	-	63,612	63,612	60,896
Subordinated debentures			3,779	3,779	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.

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.

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

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE 21: Fair Value Disclosures – continued

Loans receivable – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms. For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

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

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

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

Mortgage servicing rights – The fair value of servicing rights was determined using discount rates ranging from 9.0% to 20.0%, prepayment speeds ranging from 140% to 324% PSA, depending on stratification of the specific right. The fair value was also adjusted for the affect 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 June 30, 2012 and 2011, respectively if the borrowings repriced according to their stated terms.

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 22: Condensed Parent Company Financial Statements

Set forth below is the condensed statements of financial condition as of June 30, 2012 and 2011, of Eagle Bancorp Montana, Inc. together with the related condensed statements of income and cash flows for the years ended June 30, 2012 and 2011.

Condensed Statements of Financial Condition
(Dollars in Thousands)

	2012	2011
Assets		
Cash and cash equivalents	$2,500	$337
Securities available for sale	12,290	14,230
Investment in Eagle Bancorp Statutory Trust I	155	155
Investment in American Federal Savings Bank	43,714	42,744
Other assets	341	253
Total assets	$59,000	$57,719
Liabilities and stockholders' equity		
Accounts payable and accrued expenses	195	79
Long-term subordinated debt	5,155	5,155
Stockholders' Equity	53,650	52,485
Total liabilities and stockholders' equity	$59,000	$57,719

Condensed Statements of Income
(Dollars in Thousands)

	2012	2011
Interest income	$430	$467
Interest expense	(96)	(191)
Noninterest expense	(778)	(389)
Loss before income taxes	(444)	(113)
Income tax benefit	(117)	(35)
Loss before equity in undistributed earnings of American Federal Savings Bank	(327)	(78)
Equity in undistributed earnings of American Federal Savings Bank	2,505	2,488
Net income	$2,178	$2,410

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 22: Condensed Parent Company Financial Statements – continued

Condensed Statements of Cash Flow
(Dollars in Thousands)

	2012	2011
Cash flows from operating activities		
Net income	$2,178	$2,410
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of American Federal Savings Bank	(2,505)	(2,488)
Other adjustments, net	(92)	16
Net cash used in operating activities	(419)	(62)
Cash flows from investing activities		
Cash contribution from American Federal Savings Bank	1,766	2,053
Cash contribution to American Federal Savings Bank	-	-
Activity in available for sale securities		
Sales	351	1,552
Maturities, prepayments and calls	1,806	3,581
Purchases	-	(4,311)
Net cash provided by investing activities	3,923	2,875
Cash flows from financing activities		
ESOP payments and dividends	179	163
Payments to purchase treasury stock	(414)	(1,796)
Dividends paid	(1,106)	(1,144)
Net cash used in financing activities	(1,341)	(2,777)
Net change in cash and cash equivalents	2,163	36
Cash and cash equivalents at beginning of period	337	301
Cash and cash equivalents at end of period	$2,500	$337

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
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NOTE 23: Quarterly Results of Operations (Unaudited)

The following is a condensed summary of quarterly results of operations for the years ended June 30, 2012 and 2011:

	Year ended June 30, 2012			
(Dollars in Thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and dividend income	$3,653	$3,660	$3,526	$3,257
Interest expense	894	828	766	677
Net interest income	2,759	2,832	2,760	2,580
Loan loss provision	258	325	258	260
Net interest income after loan loss provision	2,501	2,507	2,502	2,320
Non interest income	569	1,075	1,304	1,226
Non interest expense	2,455	2,880	2,906	2,793
Income before income tax expense	615	702	900	753
Income tax expense	187	215	242	148
Net income	$428	$487	$658	$605
Comprehensive income (loss)	$905	$(230)	$(153)	$(183)
Basic earnings per common share	$0.11	$0.13	$0.18	$0.17
Diluted earnings per common share	$0.11	$0.12	$0.17	$0.16

	Year ended June 30, 2011			
Interest and dividend income	$3,775	$3,721	$3,773	$3,690
Interest expense	1,117	1,078	974	917
Net interest income	2,658	2,643	2,799	2,773
Loan loss provision	283	234	276	155
Net interest income after loan loss provision	2,375	2,409	2,523	2,618
Non interest income	1,496	1,397	944	786
Non interest expense	2,626	2,880	2,863	2,713
Income before income tax expense	1,245	926	604	691
Income tax expense	369	282	196	209
Net income	$876	$644	$408	$482
Comprehensive income (loss)	$1,189	$(1,884)	$19	$1,086
Basic earnings per common share	$0.22	$0.17	$0.11	$0.12
Diluted earnings per common share	$0.22	$0.17	$0.11	$0.12