Eagle Bancorp Montana, Inc.
Form 10-K
September 19, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2011

or

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

For the transition period from to

Commission file number 1-34682

Eagle Bancorp Montana, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-1449820
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
1400 Prospect Avenue, Helena, MT	59601
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 406-442-3080

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01	The NASDAQ Stock Market LLC

Securities registered pursuant to section 12(g) of the Act:

(Title of Class)

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the common stock held by non-affiliates of Eagle, computed by reference to the closing price at which the stock was sold as of December 31, 2010 was $36,432,000. The outstanding number of shares of common stock of Eagle as of August 1, 2011, was 3,912,987.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end is incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estin “plan,” “project,” “could,” “intend,” “target” and other similar words and expressions of the future. These forward-looki statements include, but are not limited to: (i) statements of our goals, intentions and expectations; (ii) statements regarding our business plans, prospects, growth and operating strategies; (iii) statements regarding the asset quality of our loan and investment portfolios; and (iv) estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes or volatility in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in our organization, compensation and benefit plans;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;

- the impact of a recurring recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;

- the impact of the current restructuring of the U.S. financial and regulatory system;

- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;

- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and

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

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as other reports that we file with the SEC.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

General

Eagle Bancorp Montana, Inc. ("Eagle" or "the Company"), is a Delaware corporation that holds 100% of the capital stock of American Federal Savings Bank ("American Federal" or "the Bank"), a federally chartered stock savings bank headquartered in Helena, Montana. Eagle's principal business is to hold the capital stock of American Federal. On April 5, 2010, Eagle completed a second-step conversion from a partially-public mutual holding company structure to a fully publicly-owned stock holding company structure. As part of that transaction it also completed a related stock offering. As a result of the conversion and offering, the Company became the stock holding company for American Federal Savings Bank, and Eagle Financial MHC and Eagle Bancorp ceased to exist. The Company sold a total of 2,464,274 shares of common stock at a purchase price of $10.00 per share in the offering for gross proceeds of $24.6 million. Concurrent with the completion of the offering, each share of Eagle Bancorp common stock owned by the public was exchanged for 3.800 shares of the Company's common stock owned immediately prior to completion of the transaction.

American Federal was founded in 1922 as a Montana chartered building and loan association and has conducted operations in Helena since that time. In 1975, the Bank adopted a federal thrift charter. The Bank currently has six full service offices. We also have seven automated teller machines located in our market area and we participate in the CashCard® and Money Pass® ATM networks. The Bank's website can be found at www.americanfederalsavingsbank.com.

Business Strategy

Our strategy is to continue profitable operations through building a diversified loan portfolio and positioning the Bank as a full-service community bank that offers both retail and commercial loan and deposit products in all of its markets. We believe that this focus will enable us to continue to grow our franchise, while maintaining our commitment to customer service, high asset quality, and sustained net earnings. The following are the key elements of our business strategy:

- Continue to diversify our portfolio through growth in commercial real estate and commercial business loans as a complement to our traditional single family residential real estate lending. Such loans now constitute about 40% of total loans;
- Continue to emphasize the attraction and retention of lower cost long-term core deposits;
- Seek opportunities where presented to acquire other institutions or expand our branch structure;
- Maintain our high asset quality levels; and
- Operate as a community-oriented independent financial institution that offers a broad array of financial services with high levels of customer service.

Our results of operations may be significantly affected by our ability to effectively implement our business strategy including our plans for expansion through strategic acquisitions. If we are unable to effectively integrate and manage acquired or merged businesses or attract significant new business through our branching efforts, our financial performance may be negatively affected.

Montana in the Economic Downturn

Market Area

From our headquarters in Helena, Montana, we operate six full service retail banking offices, including our main office. Our other full service branches are located in Helena – Neill (opened 1987), Helena - Skyway (opened 2009), Bozeman (opened 1980, relocated 2009), Butte (opened 1979) and Townsend (opened 1979), Montana. The original Bozeman branch opened in 1980 was closed August 1, 2010 due to reduced use by customers as a result of the new location opened in October 2009 approximately one mile away.

Montana is one of the largest states in terms of land mass but ranks as one of the least populated states. According to U.S. Census Bureau data for 2010, it had a population of 989,415. Helena, where we are headquartered, is Montana's state capital. It is also the county seat of Lewis and Clark County, which has a population of approximately 63,395 and is located within 120 miles of four of Montana's other five largest cities: Missoula, Great Falls, Bozeman and Butte. It is approximately midway between Yellowstone and Glacier National Parks. Its economy has shown moderate growth, in terms of both employment and income. State government and the numerous offices of the federal government comprise the largest employment sector. Helena also has significant employment in the service industries. Specifically, it has evolved into a central health care center with employment in the medical and the supporting professions as well as the medical insurance industry. The local economy is also dependent to a lesser extent upon ranching and agriculture. These have been more cyclical in nature and remain vulnerable to severe weather conditions, increased competition, both domestic and international, as well as commodity prices.

Bozeman is approximately 95 miles southeast of Helena. It is located in Gallatin County, which has a population of approximately 89,513. Bozeman is home to Montana State University and experienced fairly significant growth from 1990 to 2007, in part due to the growth of the University as well as the increased tourism for resort areas in and near Bozeman. Agriculture, however, remains an important part of Bozeman's economy. Bozeman has also become an attractive location for retirees, primarily from the West Coast, owing to its many winter and summer recreational opportunities and the presence of the University. Of the four communities that we serve, Bozeman has experienced the largest impact of the national and global economic downturn.

Butte, Montana is approximately 64 miles southwest of Helena. Butte and the surrounding Silver-Bow County have a population of approximately 34,200. Butte's economy is somewhat reliant on the mining industry. Butte's economy has been volatile from the fluctuations in metal and mineral commodity prices.

Townsend is the smallest community in which we operate. It has a population of about 1,878. Townsend is located in Broadwater County which has a population of approximately 5,612. Many of its residents commute to other Montana locations for work. Other employment in Townsend is primarily in agriculture and services. Townsend is approximately 32 miles southeast of Helena.

Competition

We face strong competition in our primary market area for the attraction of retail deposits and the origination of loans. Historically, Montana was a unit banking state. This means that the ability of Montana state banks to create branches was either prohibited or significantly restricted. As a result of unit banking, Montana has a significant number of independent financial institutions serving a single community in a single location. While the state's population is approximately 989,000 people, there are 57 credit unions in Montana as well as two federally chartered thrift institutions, and 72 commercial banks as of June 30, 2011. Our most direct competition for depositors has historically come from locally owned and out-of-state commercial banks, thrift institutions and credit unions operating in our primary market area. The number of such competitor locations has increased significantly in recent years. Our competition for loans also comes from banks, thrifts and credit unions in addition to mortgage bankers and brokers. Our principal market areas can be characterized as markets with moderately increasing incomes, relatively low unemployment, increasing wealth (particularly in the growing resort areas such as Bozeman), and moderate population growth.

Lending Activities

General.
American Federal Savings Bank primarily originates one- to four-family residential real estate loans and, to a lesser extent, commercial real estate loans, real estate construction loans, home equity loans, consumer loans and

commercial business loans. Commercial real estate loans include loans on multi-family dwellings, loans on nonresidential property and loans on developed and undeveloped land. Home equity loans include loans secured by the borrower's primary residence. Typically, the property securing such loans is subject to a prior lien. Consumer loans consist of loans secured by collateral other than real estate, such as automobiles, recreational vehicles and boats. Personal loans and lines of credit are made on deposits held by the Bank and on an unsecured basis. Commercial business loans consist of business loans and lines of credit on a secured and unsecured basis.

Loan Portfolio Composition.
The following table analyzes the composition of the Bank's loan portfolio by loan category at the dates indicated:

	At June 30,			
	2011		2010	
	(Dollars in thousands)			
	Amount	Percent of Total	Amount	Percent of Total
Real estate loans:				
Residential mortgage (one- to four-family) (1)	$70,003	37.34 %	$73,010	42.81 %
Commercial real estate	64,701	34.52 %	41,677	24.44 %
Real estate construction	5,020	2.68 %	7,016	4.11 %
Total real estate loans	139,724	74.54 %	121,703	71.36 %
Other loans:				
Home equity	27,816	14.84 %	29,795	17.46 %
Consumer	9,343	4.98 %	9,613	5.64 %
Commercial	10,564	5.64 %	9,452	5.54 %
Total other loans	47,723	25.46 %	48,860	28.64 %
Total loans	187,447	100.00 %	170,563	100.00 %
Less:				
Deferred loan fees (expenses)	176		(39)	
Allowance for loan losses	1,800		1,100	
Total loans, net	$185,471		$169,502	

(1) Excludes loans held for sale.

Fee Income.
American Federal Savings Bank receives lending related fee income from a variety of sources. Its principal source of this income is from the origination and servicing of sold mortgage loans. Fees generated from mortgage loan servicing, which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing for loans held by others, were $830,000 and $770,000 for the years ended June 30, 2011 and 2010, respectively. Other loan related fee income for contract collections, late charges, credit life commissions and credit card fees were $78,000 and $73,000 for the years ended June 30, 2011 and 2010, respectively.

Loan Maturity Schedule.
The following table sets forth the estimated maturity of the loan portfolio of the Bank at June 30, 2011. Balances exclude deferred loan fees and allowance for loan losses. Scheduled principal repayments of loans do not necessarily reflect the actual life of such assets. The average life of a loan is typically substantially less than its contractual terms because of prepayments. In addition, due on sale clauses on loans generally give American Federal Savings Bank the right to declare loans immediately due and payable in the event, among other things, that the borrower sells the real property, subject to the mortgage, and the loan is not paid off. All mortgage loans are shown to be maturing based on the date of the last payment required by the loan agreement, except as noted.

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Loans having no stated maturity, those without a scheduled payment, demand loans and matured loans, are shown as due within six months.

	Within 6 Months (In thousands)	6 to 12 Months	More than 1 year to 2 years	More than 2 years to 5 years	Over 5 years	Total
Residential mortgage (one- to four-family) (1)	$ 15	$ 59	$ 271	$ 3,185	$ 68,254	$ 71,784
Commercial real estate and land	2,928	4,615	2,393	9,699	45,067	64,702
Real estate construction	4,629	391	-	-	-	5,020
Home equity	2,645	1,346	3,608	11,419	8,798	27,816
Consumer	865	309	1,309	5,213	1,648	9,344
Commercial	1,824	1,618	1,622	2,155	3,346	10,565
Total loans (1)	$ 12,906	$ 8,338	$ 9,203	$ 31,671	$ 127,113	$ 189,231

(1) Includes loans held for sale.

The following table sets forth the dollar amount of all loans, at June 30, 2011, due after June 30, 2012, which have fixed interest rates and which have floating or adjustable interest rates:

	Fixed	Adjustable (Dollars in thousands)	Total
Residential mortgage (one- to four-family)	$ 58,952	$ 12,758	$ 71,710
Commercial real estate and land	56,629	530	57,159
Home equity	18,416	5,409	23,825
Consumer	7,421	749	8,170
Commercial	6,514	609	7,123
Total loans (1)	$ 147,932	$ 20,055	$ 167,987
Percent of total	88.06 %	11.94 %	100.00 %

(1) Due after June 30, 2012.

The following table sets forth information with respect to our loan originations, purchases and sales activity for the periods indicated:

	Year Ended June 30, 2011	Year Ended June 30, 2010
	(In thousands)	
Net loans receivable at beginning of period (1)	$ 177,197	$ 172,546
Loans originated:		
Residential mortgage (one- to four-family)	115,030	89,428
Commercial real estate and land	38,131	15,573
Real estate construction	13,180	9,193
Home equity	16,550	18,438
Consumer	6,068	6,685
Commercial	15,311	10,354
Total loans originated	204,270	149,671
Loans sold:		
Whole loans	112,444	76,925
Principal repayments and loan refinancings	80,853	67,440
Deferred loan fees decrease (increase)	(215)	60
Allowance for losses decrease (increase)	(700)	(715)
Net loan increase (decrease)	10,058	4,651
Net loans receivable at end of period (1)	$ 187,255	$ 177,197

(1) Includes loans held for sale.

Residential Lending.

The Bank's primary lending activity consists of the origination of one- to four-family residential mortgage loans secured by property located in the Bank's market area. Approximately 37.34% of the bank's loans as of June 30, 2011 were comprised of such loans. American Federal generally originates one- to four-family residential mortgage loans in amounts of up to 80% of the lesser of the appraised value or the selling price of the mortgaged property without requiring private mortgage insurance. A mortgage loan originated by the Bank, whether fixed rate or adjustable rate, can have a term of up to 30 years. The Bank holds substantially all of its adjustable rate and its 8, 10 and 12-year fixed rate loans in portfolio. Adjustable rate loans limit the periodic interest rate adjustment and the minimum and maximum rates that may be charged over the term of the loan. The Bank's fixed rate 15-year and 20-year loans are held in portfolio or sold in the secondary market depending on market conditions. Generally, all 30-year fixed rate loans are sold in the secondary market. The volume of loan sales is dependent on the volume, type and term of loan originations.

The Bank obtains a significant portion of its noninterest income from servicing of loans that it has sold. The Bank offers many of the fixed rate loans it originates for sale in the secondary market on a servicing retained basis. This means that we process the borrower's payments and send them to the purchaser of the loan. This retention of servicing enables the Bank to increase fee income and maintain a relationship with the borrower. Servicing income was $830,000 for the year ended June 30, 2011. At June 30, 2011, American Federal Savings Bank had $326.97 million in residential mortgage loans and $16.78 million in commercial real estate loans sold with servicing retained. American Federal Savings Bank does not ordinarily purchase home mortgage loans from other financial institutions.

Property appraisals on real estate securing the Bank's single-family residential loans are made by state certified and licensed independent appraisers who are approved annually by the board of directors. Appraisals are performed in accordance with applicable regulations and policies. American Federal Savings Bank generally obtains title insurance policies on all first mortgage real estate loans originated. On occasion, refinancings of mortgage loans are approved using title reports instead of title insurance. Title reports are also allowed on home equity loans. Borrowers generally remit funds with each monthly payment of principal and interest, to a loan escrow account from which American Federal Savings Bank makes disbursements for such items as real estate taxes and hazard and mortgage insurance premiums as they become due.

Home Equity Loans.
American Federal Savings Bank also originates home equity loans. These loans are secured by the borrowers' primary residence, but are typically subject to a prior lien, which may or may not be held by the Bank. At June 30, 2011, $27.82 million or 14.84% of our total loans were home equity loans. Borrowers may use the proceeds from the Bank's home equity loans for many purposes, including home improvement, debt consolidation, or other purchasing needs. The Bank offers fixed rate, fixed payment home equity loans as well as variable and fixed rate home equity lines of credit. Fixed rate home equity loans typically have terms of not longer than 15 years.

Although home equity loans are secured by real estate, they carry a greater risk than first lien residential mortgages because of the existence of a prior lien on the property securing the loan, as well as the flexibility the borrower has with respect to the loan proceeds. American Federal Savings Bank attempts to minimize this risk by maintaining conservative underwriting policies on such loans. We generally make home equity loans for up to only 85% of appraised value of the underlying real estate collateral, less the amount of any existing prior liens on the property securing the loan.

Commercial Real Estate and Land Loans.
American Federal Savings Bank originates commercial real estate mortgage and land loans, including both developed and undeveloped land loans, and loans on multi-family dwellings. Commercial real estate and land loans made up 34.52% of the Bank's total loan portfolio, or $64.70 million at June 30, 2011. The majority of these loans are non-residential commercial real estate loans. American Federal Savings Bank's commercial real estate mortgage loans are primarily permanent loans secured by improved property such as office buildings, retail stores, commercial warehouses and apartment buildings. The terms and conditions of each loan are tailored to the needs of the borrower and based on the financial strength of the project and any guarantors. Generally, commercial real estate loans originated by the Bank will not exceed 75% of the appraised value or the selling price of the property, whichever is less. The average loan size is approximately $297,000 and is typically made with fixed rates of interest and 5- to 15-year maturities. Upon maturity, the loan is repaid or the terms and conditions are renegotiated. Generally, all originated commercial real estate loans are secured by property located in the state of Montana and within the market area of the Bank. American Federal Savings Bank's largest single commercial real estate loan had a balance of approximately $11.86 million ($10.67 million is guaranteed by Rural Development of the U.S. Department of Agriculture, leaving approximately $1.19 million unguaranteed) on June 30, 2011, and is secured by a detention facility.

Real Estate Construction Lending.
American Federal Savings Bank also lends funds for the construction of one-to-four-family homes and commercial real estate. Real estate construction loans are made both to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Real estate construction loans accounted for $5.02 million or 2.68% of the Bank's loan portfolio at June 30, 2011.

Consumer Loans.
As part of its strategy to invest in higher yielding shorter term loans, American Federal Savings Bank emphasized growth of its consumer lending portfolio in recent years. This portfolio includes personal loans secured by collateral other than real estate, unsecured personal loans and lines of credit, and loans secured by deposits held by the Bank. As of June 30, 2011, consumer loans totaled $9.34 million or 4.98% of the Bank's total loan portfolio. These loans consist primarily of auto loans, RV loans, boat loans, personal loans and credit lines and deposit account loans. Consumer loans are originated in the Bank's market area and generally have maturities of up to 7 years. For loans secured by savings accounts, American Federal Savings Bank will lend up to 90% of the account balance on single payment loans and up to 100% for monthly payment loans.

Consumer loans have a shorter term and generally provide higher interest rates than residential loans. Consumer loans can be helpful in improving the spread between average loan yield and cost of funds and at the same time improve the matching of the maturities of rate sensitive assets and liabilities. Although the amount of such loans declined slightly over 2010 levels, increasing consumer loans continues to be a major part of the Bank's strategy of operating more like a commercial bank than a traditional savings bank.

The underwriting standards employed by American Federal Savings Bank for consumer loans include a determination of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Creditworthiness of the applicant is of primary consideration; however, the underwriting process also includes a comparison of the value of the collateral in relation to the proposed loan amount.

Commercial Business Loans.
Commercial business loans amounted to $10.56 million, or 5.64% of the Bank's total loan portfolio at June 30, 2011. American Federal Savings Bank's commercial business loans are traditional business loans and are not secured by real estate. Such loans may be structured as unsecured lines of credit or may be secured by inventory, accounts receivable or other business assets. While the commercial business loan portfolio amounted to only 5.64% of the total portfolio at June 30, 2011, American Federal Savings Bank intends to increase such lending by focusing on market segments which it has not previously emphasized, such as business loans to doctors, lawyers, architects and other professionals as well as to small businesses within its market area. Our management believes that this strategy provides opportunities for growth, without significant additional cost outlays for staff and infrastructure.

Commercial business loans of this nature usually involve greater credit risk than one- to four-family residential mortgage loans. The collateral we receive is typically related directly to the performance of the borrower's business which means that repayment of commercial business loans is dependent on the successful operations and income stream of the borrower's business. Such risks can be significantly affected by economic conditions. In addition, commercial lending generally requires substantially greater oversight efforts compared to residential real estate lending.

Loans to One Borrower.
Under federal law, savings institutions have, subject to certain exemptions, lending limits to one borrower in an amount equal to the greater of $500,000 or 15% of the institution's unimpaired capital and surplus. As of June 30, 2011, our largest aggregation of loans to one borrower was approximately $12.51 million. This consisted of two commercial real estate loans secured by two separate detention facilities. The first commercial real estate loan has a principal balance of $6.56 million, and 90%, or $5.90 million, of it was sold to the Montana Board of Investments, leaving the net balance to the Bank of $656,000. The second commercial real estate loan is to the same borrower for another detention facility. As of June 30, 2011, the principal balance was $11.86 million with 90% of the loan guaranteed by the USDA Rural Development. Due to the USDA Rural Development guarantee, 90% of this loan, or $10.67 million, is not required to be included in the Bank's limitations to a single borrower, thus leaving approximately $1.85 million subject to the lending limit described above. The Bank entered into an interest rate swap with a third party to change the underlying cash flows of the second loan to be a variable market rate tied to one-month LIBOR. At June 30, 2011, these loans were performing in accordance with their terms. The Bank maintains the servicing for both these loans.

Loan Solicitation and Processing.
Our customary sources of mortgage loan applications include repeat customers, walk-ins, and referrals from home builders and real estate brokers. We also advertise in local newspapers and on local radio and television. We currently have the ability to accept online mortgage loan applications and provide pre-approvals through our

website. Our branch managers and loan officers located at our headquarters and in branches, have authority to approve certain types of loans when presented with a completed application. Other loans must be approved at our main offices as disclosed below. No loan consultants or loan brokers are currently utilized for either residential or commercial lending activities.

After receiving a loan application from a prospective borrower, a credit report and verifications are obtained to confirm specific information relating to the loan applicant's employment, income and credit standing. When required by our policies, an appraisal of the real estate intended to secure the proposed loan is undertaken by an independent fee appraiser. In connection with the loan approval process, our staff analyze the loan applications and the property involved. Officers and branch managers are granted lending authority based on the nature of the loan and the managers' level of experience. We have established a series of loan committees to approve any loans which may exceed the lending authority of particular officers or branch managers. A quorum (five directors) of the board of directors is required for approval of any loan, or aggregation of loans to a single borrower, that exceeds $1,250,000.

Loan applicants are promptly notified of the decision by a letter setting forth the terms and conditions of the decision. If approved, these terms and conditions include the amount of the loan, interest rate basis, amortization term, a brief description of real estate to be mortgaged, tax escrow and the notice of requirement of insurance coverage to be maintained. We generally require title insurance on first mortgage loans and fire and casualty insurance on all properties securing loans, which insurance must be maintained during the entire term of the loan.

Loan Commitments.
We generally provide commitments to fund fixed and adjustable-rate single-family mortgage loans for periods up to 60 days at a specified term and interest rate, and other loan categories for shorter time periods. The total amount of our commitments to extend credit as of June 30, 2011, was approximately $5.02 million, all of which was for residential mortgage loans.

Nonperforming Loans and Problem Assets

Collection Procedures.
Generally, our collection procedures provide that when a loan is 15 or more days delinquent, the borrower is sent a past due notice. If the loan becomes 30 days delinquent, the borrower is sent a written delinquency notice requiring payment. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower, including face to face meetings and counseling to resolve the delinquency. All collection actions are undertaken with the objective of compliance with the Fair Debt Collection Act.

For mortgage loans and home equity loans, if the borrower is unable to cure the delinquency or reach a payment agreement, we will institute foreclosure actions. If a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. As of June 30, 2011, American Federal Savings Bank had $1.37 million of real estate owned ($1.18 million net of valuation loss allowance).

Loans are reviewed on a quarterly basis and are placed on non-accrual status when they are more than 90 days delinquent. Loans may be placed on non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2011, we had $2.94 million ($2.12 million net of specific reserves for loan losses) of loans that were nonperforming and held on non-accrual status.

Delinquent Loans.
The following table provides information regarding the Bank's loans that are delinquent 30 to 89 days at June 30, 2011:

	Number	Amount	Percentage of Total Delinquent Loans
		(Dollars in thousands)	
Loan type:			
Residential mortgage (one- to four-family)	7	$ 638	20.46 %
Real estate construction	1	770	24.69 %
Commercial real estate and land	3	1,501	48.12 %
Home equity	6	132	4.23 %
Consumer	19	78	2.50 %
Commercial business	-	-	0.00 %
Total	36	$ 3,119	100.00 %

Nonperforming Assets.
The following table sets forth information regarding American Federal Savings Bank's nonperforming assets as of the dates indicated. As of June 30, 2011, the Bank had no loans considered to be a troubled debt restructuring within the meaning of FASB ASC 310 Receivables.

	At June 30, 2011	2010
	(Dollars in thousands)	
Non-accrual loans		
Real estate loans:		
Residential mortgage (one- to four-family)	$ 1,424	$ 754
Real estate construction	650	650
Commercial real estate and land	186	1,316
Home equity	376	40
Consumer	56	12
Commercial business	247	10
Accruing loans delinquent 90 days or more	-	29
Total nonperforming loans	2,939	2,811
Real estate owned and other repossed property, net	1,181	619
Total nonperforming assets	$ 4,120	$ 3,430
Total nonperforming loans to net loans	1.57 %	1.65 %
Total nonperforming loans to total assets	0.89 %	0.86 %
Total allowance for loan loss to non-performing loans	61.25 %	39.13 %
Total nonperforming assets to total assets	1.24 %	1.05 %

During the year ended June 30, 2011, the Bank had one foreclosed real estate property resulting in a loss of $2,000 upon sale after incurring a valuation loss of $12,000, and two other foreclosed real estate properties that incurred a provision for valuation losses of $189,000. During the year ended June 30, 2011, a minimal amount of interest was recorded on loans previously accounted for on a non-accrual basis.

Classified Assets.
Management, in compliance with regulatory guidelines, conducts an internal loan review program, whereby loans are placed or classified in categories depending upon the level of risk of nonpayment or loss. These categories are special mention, substandard, doubtful or loss. When a loan is classified as substandard or doubtful, management is required to establish an allowance for loan losses in an amount that is deemed prudent. When management classifies a loan as a loss asset, an allowance equal up to 100% of the loan balance is required to be established or the loan is required to be charged-off. The allowance for loan losses is composed of an allowance for both inherent risk associated with lending activities and specific problem assets.

Management's evaluation of the classification of assets and the adequacy of the allowance for loan losses is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination process. In addition, each loan that exceeds $500,000 and each group of loans that exceeds $500,000 is monitored more closely. The following table reflects our classified assets as of the dates indicated:

	At June 30,	
	2011	2010
	(Dollars in thousands)	
Residential mortgage (one- to four-family):		
Special Mention	$ -	$ 536
Substandard	1,300	782
Doubtful	-	-
Loss	111	90
Commercial Real Estate and Land:		
Special Mention	-	-
Substandard	738	1,787
Doubtful	-	-
Loss	260	311
Real Estate construction:		
Special Mention	-	-
Substandard	721	-
Doubtful	-	-
Loss	-	-
Home equity loans:		
Special Mention	-	84
Substandard	233	214
Doubtful	-	-
Loss	378	5
Consumer loans:		
Special Mention	-	-
Substandard	121	79
Doubtful	-	-
Loss	14	10
Commercial loans:		
Special Mention	1,454	-

Substandard		446		97
Doubtful		-		-
Loss		125		-
Securities available for sale:				
Special Mention		-		-
Substandard		436		701
Doubtful		-		-
Loss		-		-
Real estate owned/repossessed property:				
Special Mention		-		-
Substandard		1,181		619
Doubtful		-		-
Loss		189		-
Total classified loans and real estate owned	$	7,707	$	5,315

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Allowance for Loan Losses and Real Estate Owned.
The Bank segregates its loan portfolio for loan losses into the following broad categories: real estate loans (residential mortgages [one- to four-family], real estate construction, commercial real estate and land) home equity loans, consumer loans, and commercial business loans. The Bank provides for a general allowance for losses inherent in the portfolio in the categories referenced above, which consists of two components: General loss percentages which are calculated based on historical analyses and other factors such as volume and severity of delinquencies, local and national economy, underwriting standards, and other factors. A supplemental portion of the allowance is calculated for inherent losses which probably exist as of the evaluation date even though they might not have been identified by the more objective processes used. This is due to the risk of error and/or inherent imprecision in the process.

This portion of the allowance is subjective in nature and requires judgments based on qualitative factors which do not lend themselves to exact mathematical calculations such as: trends in delinquencies and non-accruals; trends in volume; terms and portfolio mix; new credit products; changes in lending policies and procedures; and changes in the outlook for the local, regional and national economy.

At least quarterly, the management of the Bank evaluates the need to establish an allowance against losses on loans and other assets based on estimated losses on specific loans and on any real estate owned when a finding is made that a loss is estimable and probable. Such evaluation includes a review of all loans for which full collectibility may not be reasonably assured and considers, among other matters: the estimated market value of the underlying collateral of problem loans; prior loss experience; economic conditions; and overall portfolio quality.

Provisions for, or adjustments to, estimated losses are included in earnings in the period they are established. We had $1,800,000 in allowances for loan losses and $189,000 in allowance for valuation losses for other real estate owned at June 30, 2011.

While we believe we have established our existing allowance for loan losses in accordance with generally accepted accounting principles, there can be no assurance that bank regulators, in reviewing our loan portfolio, will not request that we significantly increase our allowance for loan losses, or that general economic conditions, a deteriorating real estate market, or other factors will not cause us to significantly increase our allowance for loan losses, therefore negatively affecting our financial condition and earnings.

In making loans, we recognize that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the security for the loan.

It is our policy to review our loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis.

The following table sets forth information with respect to our allowance for loan losses at the dates and for the periods indicated:

	For the Years Ended June 30, 2011	2010
	(Dollars in thousands)	
Balance at beginning of period	$ 1,100	$ 525
Provision for loan losses	948	715
Loans charged-off		
Real estate loans	(75)	(50)
Commercial real estate and land	(130)	-
Real estate construction	-	-
Home equity	(30)	-
Consumer	(17)	(71)
Commercial business loans	-	(22)
Recoveries		
Real estate loans	-	-
Commercial real estate and land	-	-
Real estate construction	-	-
Home equity	-	-
Consumer	4	3
Commercial business loans	-	-
Net loans charged-off	(248)	(140)
Balance at end of period	$ 1,800	$ 1,100
Allowance for loan losses to total loans	0.96 %	0.64 %
Allowance for loan losses to total non-performing loans	61.25 %	39.13 %
Net recoveries (charge-offs) to average loans outstanding during the period	-0.13 %	-0.08 %

The following table presents our allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans at the periods indicated:

	2011			2010		
	(Dollars in thousands)					
	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans
Real estate loans:						
Residential mortgage (one- to four-family)	$ 369	20.56 %	37.34 %	$ 391	35.55 %	42.81 %
Commercial real estate and land	652	36.22 %	34.52 %	447	40.62 %	24.43 %
Real estate construction	18	0.94 %	2.68 %	110	10.00 %	4.11 %
Total real estate loans	1,039	57.72 %	74.54 %	948	86.17 %	71.35 %
Other loans:						
Home equity	481	26.72 %	14.84 %	6	0.55 %	17.47 %
Consumer	57	3.17 %	4.98 %	78	7.10 %	5.64 %
Commercial business	223	12.39 %	5.64 %	68	6.18 %	5.54 %
Total other loans	761	42.28 %	25.46 %	152	13.83 %	28.65 %
Total	$ 1,800	100.00 %	100.00 %	$ 1,100	100.00 %	100.00 %

INVESTMENT ACTIVITIES

General.
Federally chartered savings banks such as American Federal Savings Bank have the authority to invest in various types of investment securities, including United States Treasury obligations, securities of various Federal agencies (including securities collateralized by mortgages), certificates of deposits of insured banks and savings institutions, municipal securities, corporate debt securities and loans to other banking institutions.

Eagle maintains liquid assets that may be invested in specified short-term securities and other investments. Liquidity levels may be increased or decreased depending on the yields on investment alternatives. They may also be increased based on management's judgment as to the attractiveness of the yields then available in relation to other opportunities. Liquidity levels can also change based on management's expectation of future yield levels, as well as management's projections as to the short-term demand for funds to be used in the Bank's loan origination and other activities. Eagle maintains an investment securities portfolio and a mortgage-backed securities portfolio as part of its investment portfolio.

Investment Policies.
The investment policy of Eagle, which is established by the board of directors, is designed to foster earnings and liquidity within prudent interest rate risk guidelines, while complementing American Federal's lending activities. The policy provides for available-for-sale (including those accounted for under FASB ASC 825), held-to-maturity, and trading classifications. However, Eagle does not hold any securities for purposes of trading. The policy permits investments in high credit quality instruments with diversified cash flows while permitting us to maximize total return within the guidelines set forth in our interest rate risk and liquidity management policies. Permitted investments include but are not limited to U.S. government obligations, government agency or government-sponsored agency obligations, state, county and municipal obligations, and mortgage-backed securities. Collateralized mortgage obligations, investment grade corporate debt securities, and commercial paper are also included. We also invest in Federal Home Loan Bank (FHLB) overnight deposits and federal funds, but these instruments are not considered part of the investment portfolio.

Our investment policy also includes several specific guidelines and restrictions to ensure adherence with safe and sound activities. The policy prohibits investments in high-risk mortgage derivative products (as defined within the policy) without prior approval from the board of directors. To secure such approval, management must demonstrate the business advantage of such investments.

We do not participate in the use of off-balance sheet derivative financial instruments, except interest rate caps and certain financial instruments designated as cash flow hedges related to loans committed to be sold in the secondary market and interest rate swaps designated as fair-value hedges. Further, Eagle does not invest in securities which are not rated investment grade.

The Board, through its asset liability committee, has charged the President and CEO with implementation of the investment policy. All transactions are reported to the board of directors monthly, as well as the current composition of the portfolio, including market values and unrealized gains and losses.

Investment Securities.
We maintain a portfolio of investment securities, classified as either available-for-sale (including those accounted for under FASB ASC 825) or held-to-maturity to enhance total return on investments. At June 30, 2011, our investment securities included U.S. government and agency obligations, Small Business Administration pools, municipal securities, mortgage-backed securities, collateralized mortgage obligations and corporate obligations, all with varying characteristics as to rate, maturity and call provisions. Investment securities held-to-maturity represented 0.00% of

Eagle's total investment portfolio. Securities available-for-sale totaled 92.07% of Eagle's total investment portfolio. The remaining percentage is comprised of interest-bearing deposits in banks and stock in the FHLB of Seattle. The Bank does not expect to alter the mix of U.S. Treasury obligations it will hold and purchase, notwithstanding the recent downgrade of U.S. Treasury debt obligations to AA+ by Standard & Poors. It will, however, continue to monitor developments.

The following table sets forth the carrying value of our investment securities portfolio at the dates indicated:

	At June 30,									
	2011				2010					
	(Dollars in Thousands)									
		Carrying Value	Percentage of Total			Carrying Value	Percentage of Total			
Securities available-for-sale, at fair value:										
U.S. Government and agency obligations	$	26,208	23.50	%	$	32,241	27.41	%		
Corporate obligations		6,216	5.57	%		7,451	6.33	%		
Municipal obligations		39,186	35.13	%		35,412	30.11	%		
Collateralized mortgage obligations		24,718	22.16	%		37,669	32.03	%		
Mortgage-backed securities		6,372	5.71	%		1,755	1.49	%		
Total securities available for sale		102,700	92.07	%		114,528	97.37	%		
Securities held to maturity, at book value:										
Municipal obligations		-	0.00	%		125	0.11	%		
Total securities held to maturity		-	0.00	%		125	0.11	%		
Total securities		102,700	92.07	%		114,653	97.48	%		
Interest-bearing deposits		1,837	1.65	%		966	0.82	%		
Federal funds sold		5,000	4.48	%		-	0.00	%		
Federal Home Loan Bank capital stock, at cost		2,003	1.80	%		2,003	1.70	%		
Total	$	111,540	100.00	%	$	117,622	100.00	%		

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The following table sets forth information regarding the carrying values, weighted average yields and maturities of our investment securities portfolio at June 30, 2011:

	At June 30, 2011										
	One Year or Less		One to Five Years		More than Five to Ten Years		More than Ten Years		Total Investment Securities		
Securities available-for-sale:	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Approximate Market Value	Annualized Weighted Average Yield
U.S. Government and agency obligations	$5,605	1.47%	$16,709	2.27%	$2,596	1.39%	$1,300	1.64%	$26,210	$26,210	1.98%
Corporate obligations	4,198	4.66	2,018	3.87	-	-	-	-	6,216	6,216	4.40
Municipal obligations	-	-	4,541	4.42	11,315	5.26	23,328	6.47	39,184	39,184	5.88
Private collateralized mortgage obligations	-	-	-	-	-	-	291	6.35	291	291	6.35
Collateralized mortgage obligations	-	-	1,843	3.01	3,335	3.40	19,249	4.01	24,427	24,427	3.85
Mortgage-backed securities	3	0.06	49	4.17	2,558	2.91	3,762	3.52	6,372	6,372	3.28
Total securities available for sale	9,806	2.84	25,160	2.84	19,804	4.14	47,930	5.12	102,700	102,700	4.15
Interest-bearing deposits	1,837	0.87	-	-	-	-	-	-	1,837	1,837	0.87
Federal funds sold	5,000	0.25	-	-	-	-	-	-	5,000	5,000	0.25
Federal Home Loan Bank capital stock	-	-	-	-	2,003	-	-	-	2,003	2,003	-
Total	$16,643	1.84%	$25,160	2.84%	$21,807	3.76%	$47,930	5.12%	$111,540	$111,540	3.85%

SOURCES OF FUNDS

General.
Deposits are the major source of our funds for lending and other investment purposes. Borrowings (principally from the FHLB of Seattle) are also used to compensate for reductions in the availability of funds from other sources. In addition to deposits and borrowings, we derive funds from loan and mortgage-backed securities principal repayments, and proceeds from the maturity, call and sale of mortgage-backed securities and investment securities and from the sale of loans. Loan and mortgage-backed securities payments are a relatively stable source of funds, while loan prepayments and deposit inflows are significantly influenced by general interest rates and financial market conditions.

Deposits.
We offer a variety of deposit accounts. Deposit account terms vary, primarily as to the required minimum balance amount, the amount of time that the funds must remain on deposit and the applicable interest rate.

Our current deposit products include certificates of deposit accounts ranging in terms from 90 days to five years as well as checking, savings and money market accounts. Individual retirement accounts (IRAs) are included in certificates of deposit.

Deposits are obtained primarily from residents of Helena, Bozeman, Butte and Townsend. We believe we are able to attract deposit accounts by offering outstanding service, competitive interest rates and convenient locations and service hours. We use traditional methods of advertising to attract new customers and deposits, including radio, television, print media advertising and sales training and incentive programs for employees. Management believes that non-residents of Montana hold an insignificant number and amount of deposit accounts.

We pay interest rates on deposits which are competitive in our market. Interest rates on deposits are set by senior management, based on a number of factors, including: projected cash flow; a current survey of a selected group of competitors' rates for similar products; external data which may influence interest rates; investment opportunities and loan demand; and scheduled certificate maturities and loan and investment repayments.

Core deposits are deposits that are more stable and somewhat less sensitive to rate changes. They also represent a lower cost source of funds than rate sensitive, more volatile accounts such as certificates of deposit. We believe that our core deposits are our checking, as well as NOW accounts, statement savings accounts, money market accounts and IRA accounts. Based on our historical experience, we include IRA accounts funded by certificates of deposit as core deposits because they exhibit the principal features of core deposits in that they are stable and generally are not rate sensitive. Core deposits amounted to $149.65 million or 71.54% of the Bank's deposits at June 30, 2011 ($124.63 million or 59.58% if IRA certificates of deposit are excluded). The presence of a high percentage of core deposits and, in particular, transaction accounts, is part of our strategy to restructure our liabilities to more closely resemble the lower cost liabilities of a commercial bank. However, a significant portion of our deposits remains in certificate of deposit form. These certificates of deposit, if they mature and are renewed at higher rates, would result in an increase in our cost of funds.

The following table sets forth American Federal's distribution of deposit accounts at the dates indicated and the weighted average interest rate on each category of deposit represented:

	At June 30,					
	2011			2010		
	(Dollars in thousands)					
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
Noninterest checking	$ 19,052	9.11 %	0.00 %	$ 18,376	9.28 %	0.00 %
Savings	36,945	17.66 %	0.10 %	30,875	15.60 %	0.21 %
NOW account/Interest bearing checking	40,352	19.29 %	0.05 %	34,658	17.51 %	0.15 %
Money market accounts	28,284	13.51 %	0.12 %	29,021	14.65 %	0.24 %
Total	124,633	59.58 %	0.07 %	112,930	57.05 %	0.16 %
Certificates of deposit accounts:						
IRA certificates	25,020	11.96 %	1.07 %	26,358	13.32 %	2.10 %
Brokered certificates	-	0.00 %	0.00 %	-	0.00 %	0.00 %
Other certificates	59,533	28.46 %	1.38 %	58,651	29.63 %	1.61 %
Total certificates of deposit	84,553	40.42 %	1.29 %	85,009	42.95 %	1.76 %
Total deposits	$ 209,186	100.00 %	0.57 %	$ 197,939	100.00 %	0.85 %

The following table sets forth the amounts and maturities of our certificates of deposit as of June 30, 2011, for the maturity dates indicated:

	June 30, 2012	June 30, 2013	June 30, 2014	After June 30, 2015	Total
under 0.51%	$ 7,009	$ -	$ -	$ -	$ 7,009
0.51-0.75%	15,352	20	-	-	15,372
0.76-1.00%	19,519	4,604	-	-	24,123
1.01-1.25%	10,871	2,934	257	-	14,062
1.26-1.50%	1,196	353	305	61	1,915
1.51-2.00%	5,846	51	105	280	6,282
2.01% and higher	2,521	4,499	4,114	4,656	15,790
Total	$ 62,314	$ 12,461	$ 4,781	$ 4,997	$ 84,553

The following table shows the amount of certificates of deposit with balances of $100,000 to $250,000 and of more than $250,000 by time remaining until maturity as of June 30, 2011:

(In thousands)	Balance $100 - $250	Greater than $250	Total
3 months or less	$ 3,719	$ 1,142	$ 4,861
Over 3 to 6 months	6,322	1,117	7,439
Over 6 to 12 months	4,893	1,821	6,714
Over 12 months	5,773	676	6,449
Total	$ 20,707	$ 4,756	$ 25,463

The following table sets forth the net changes in deposit accounts for the periods indicated:

	Year Ended June 30, 2011		2010	
	(Dollars in thousands)			
Opening balance	$ 197,939		$ 187,199	
Deposits, net	9,867		8,592	
Interest credited	1,380		2,148	
Ending balance	$ 209,186		$ 197,939	
Net increase	$ 11,247		$ 8,348	
Percent increase	5.68	%	4.67	%
Weighted average cost of deposits during the period	0.75	%	1.19	%
Weighted average cost of deposits at end of period	0.57	%	0.85	%

Our depositors are primarily residents of the state of Montana.

Borrowings.
Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances from the FHLB of Seattle and other borrowings from PNC Financial Services, Inc. (PNC) to supplement our supply of lendable funds and to meet deposit withdrawal requirements.

During the fiscal year ended June 30, 2006, our predecessor entity formed a special purpose subsidiary, Eagle Bancorp Statutory Trust I (the "Trust"), for the purpose of issuing trust preferred securities in the amount of $5.0 million. Our predecessor entity has issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the trust preferred securities. Upon the closing of the second-step conversion and reorganization, we assumed the obligations of our predecessor in connection with the subordinated debentures and trust preferred securities. For regulatory purposes, the securities qualify as Tier 1 Capital, while for accounting purposes they are recorded as long term debt. The securities have a 30 year maturity and carried a fixed coupon of 6.02% for the first five years, at which time the coupon became variable, at a spread of 142 basis points over 3 month LIBOR. At June 30, 2011 the rate was 1.667%.

The following table sets forth information concerning our borrowing from the FHLB of Seattle and PNC at the end of, and during, the periods indicated:

	Ended June 30,					
		2011			2010	
	(Dollars in thousands)					
FHLB Advances:						
Average balance	$	41,008		$	43,090	
Maximum balance at any month-end		45,346			45,500	
Balance at period end		37,896			44,224	
Weighted average interest rate during the period		3.47	%		3.95	%
Weighted average interest rate at period end		3.26	%		3.32	%
Repurchase Agreements:						
Average balance	$	23,000		$	23,000	
Maximum balance at any month-end		23,000			23,000	
Balance at period end		23,000			23,000	
Weighted average interest rate during the period		4.66	%		4.66	%
Weighted average interest rate at period end		4.66	%		4.66	%
Other:						
Average balance	$	-		$	-	
Maximum balance at any month-end		-			-	
Balance at period end		-			-	
Weighted average interest rate during the period		n/a			n/a	
Weighted average interest rate at period end		n/a			n/a	
Total borrowings:						
Average balance	$	64,008		$	66,090	
Maximum balance at any month-end		68,346			68,500	
Balance at period end		60,896			67,224	
Weighted average interest rate during the period		3.90	%		4.13	%
Weighted average interest rate at period end		3.79	%		3.78	%

SUBSIDIARY ACTIVITY

We are permitted to invest in the capital stock of, or originate secured or unsecured loans to, subsidiary corporations. We do not have any subsidiaries, except for American Federal Savings Bank and Eagle Bancorp Statutory Trust I.

Personnel

As of June 30, 2011, we had 77 full-time employees and 11 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

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REGULATION

Set forth below is a brief description of certain laws and regulations applicable to Eagle and American Federal. These descriptions of laws and regulations as well as those contained elsewhere do not purport to be complete and are qualified in their entirety by reference to applicable laws and regulations. Legislative or regulatory changes in the future could adversely affect our operations or financial condition.

General

As a federally-chartered savings institution, American Federal is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC") which assumed jurisdiction over Eagle and American Federal after the close of Eagle's June 30, 2011 fiscal year as its primary federal regulator, and the FDIC, as the insurer of its deposits. American Federal is a member of the Federal Home Loan Bank, or FHLB, System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the FDIC. There are periodic examinations to evaluate American Federal's safety and soundness and compliance with various regulatory requirements. Under certain circumstances, the FDIC may also examine American Federal. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate allowance for loan losses for regulatory purposes. Eagle, as a savings and loan holding company, was required to file certain reports with, is subject to examination by, and otherwise comply with the rules and regulations of the Office of Thrift Supervision. The Federal Reserve Board will assume regulatory responsibility for Eagle in the Company's next fiscal year. Eagle is also subject to the rules and regulations of the SEC under the federal securities laws. See "—Holding Company Regulation."

Dodd-Frank Act

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies. Regulations implementing the changes described below have not been promulgated by the federal banking agencies, so we cannot determine the full impact on our business and operations at this time. However, one important change is the transfer of regulatory jurisdiction over federal savings association regulation from the Office of Thrift Supervision to the OCC. The FDIC will regulate state-chartered savings associations.

The Dodd-Frank Act, effective July 21, 2011, merged our primary federal regulator, the Office of Thrift Supervision, with and into the Office of the Comptroller of the Currency (the primary federal regulator for national banks). As a result, shortly after the conclusion of Eagle's fiscal year of June 30, 2011, all federal savings associations (including American Federal) will be under the principal jurisdiction of a different, federal bank regulatory agency, the OCC, which has historically regulated the national banks. The OCC has extensive experience in the regulation of community banks such as American Federal but it is unclear without more experience how the change in federal regulatory agencies will impact American Federal. American Federal will retain its federal thrift charter under the OCC. The Dodd-Frank Act also authorizes the Board of Governors of the Federal Reserve System to supervise and regulate all savings and loan holding companies like Eagle, in addition to bank holding companies which it currently regulates. As a result, the Federal Reserve Board's current regulations applicable to bank holding companies, including, in the future, holding company capital requirements, will apply to savings and loan holding companies like Eagle. The capital requirements are expected to take effect in five years The Dodd-Frank Act will require the Federal Reserve Board to set minimum capital levels for depository institution holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets.

The Dodd-Frank Act also created, on July 21, 2011 a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as American Federal Savings Bank, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will continue to be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

The legislation also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. Lastly, the Dodd-Frank Act directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

Federal Regulation of Savings Institutions

The following description relates to both Eagle and American Federal's regulation through the completion of the fiscal year ending June 30, 2011, and a description of certain historical regulatory aspects. The information related to the Office of Thrift Supervision is expected to a significant degree be descriptive of regulations and policies of the OCC which has adopted virtually all of the Office of Thrift Supervision rules. However, because neither Eagle nor American Federal has had any experience with federal bank regulators other than the Office of Thrift Supervision, and the FDIC with respect to insurance of accounts, the descriptions that follow refer to Eagle and American Federal's past experience through the end of its fiscal year of June 30, 2011.

Office of Thrift Supervision. The Office of Thrift Supervision had extensive authority over the operations of savings institutions. As part of this authority, American Federal was required to file periodic reports with the Office of Thrift Supervision and is subject to periodic examinations. The Office of Thrift Supervision also has extensive enforcement authority over all savings institutions and their holding companies, including American Federal and Eagle. Authority over Eagle has been transferred to the Federal Reserve Board as a result of enactment of the Dodd-Frank Act. Enforcement authority over Eagle includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders and initiate prompt corrective action orders. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with federal bank regulatory agencies. Except under certain circumstances, public disclosure of final enforcement actions is required.

In addition, the investment, lending and branching authority of American Federal also are prescribed by federal laws, which prohibit American Federal from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the Office of Thrift Supervision. Federal savings institutions are generally authorized to branch nationwide. American Federal is in compliance with the noted restrictions.

American Federal paid assessments to the Office of Thrift Supervision to fund its operations. The general assessments, paid on a semi-annual basis, are determined based on total assets, including consolidated subsidiaries.

American Federal's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus).

The federal banking agencies, have adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan.

Federal Home Loan Bank System. American Federal is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. As a member, American Federal is required to purchase and maintain stock in the FHLB of Seattle.

The FHLBs have continued and continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of American Federal's FHLB stock may result in a corresponding reduction in American Federal's capital.

Federal Reserve System. The Federal Reserve System requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their checking, NOW, and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve System may be used to satisfy the Office of Thrift Supervision liquidity requirements.

Savings institutions have authority to borrow from the Federal Reserve System “discount window”. American Federal maintains a “primary credit” facility at the Federal Reserve’s discount window.

Insurance of Deposit Accounts. Deposit accounts at American Federal are insured by the Federal Deposit Insurance Corporation, generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. American Federal’s deposits, therefore, are subject to Federal Deposit Insurance Corporation deposit insurance assessments. Assessments paid to the FDIC by American Federal and other banking institutions are used to fund the FDIC’s Federal Deposit Insurance Fund (“DIF”).

Insurance of Accounts and Regulation by the FDIC. As insurer of deposits in banks, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision an opportunity to take such action. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement with the FDIC. We are not aware of any practice, condition or violation that might lead to termination of American Federal’s deposit insurance.

New Assessments Under Dodd-Frank. The FDIC assesses deposit insurance premiums on each insured institution quarterly based on annualized rates for one of four risk categories. As required by the Dodd-Frank Act, the FDIC adopted rules effective April 1, 2011, under which insurance premium assessments are based on an institution's total assets minus its tangible equity (defined as Tier I capital) instead of its deposits. Under these rules, an institution with total assets of less than $10 billion is assigned to a Risk Category and a range of initial base assessment rates applies to each category, subject to adjustment downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjustment upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Effective April 1, 2011, total base assessment rates will range from 2.5 to 9 basis points for Risk Category I, 9 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued by another FD1C-insured institution. The FDIC may increase or decrease its rates for each quarter by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

Prepaid FDIC Premiums. As a result of a decline in the reserve ratio (the ratio of the DIF to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter which was due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of 3 basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at annual rate of 5%. Collection of the prepayment does not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future. The balance of American Federal’s prepaid assessment at June 30, 2011 was $562,000. The FDIC will continue to offset prepared assessments through the earlier of June 30, 2013, or exhaustion of the prepaid assessment of the DIF.

Minimum Reserve Ratios. The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act, The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset. In addition to the statutory minimum ratio, the FDIC must designate a reserve ratio, known as the designated reserve ratio or DRR, which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future.

In addition to the assessment for deposit insurance, through 2019, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the four quarters ending March 31, 2011 averaged 1.025 basis points of assessable deposits.

Capital Requirements. Federally insured savings institutions, such as American Federal, are required by the Office of Thrift Supervision to maintain minimum levels of regulatory capital. These minimum capital standards include: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards, discussed below, also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The Office of Thrift Supervision regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks believed inherent in the type of asset. Tier 1 (core) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. The Office of Thrift Supervision also has authority to establish individual minimum capital requirements for financial institutions.

Prompt Corrective Action. Federal bank regulatory agencies are required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." Office of Thrift Supervision regulations also require that a capital restoration plan be filed with the Office of Thrift Supervision within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The Office of

Thrift Supervision also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. At June 30, 2011, American Federal's capital ratios met the "well capitalized" standards. See "Historical and Pro Forma Regulatory Capital Compliance."

Limitations on Capital Distributions. Federal banking regulations impose various restrictions on institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as American Federal, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision may have its dividend authority restricted.

Generally, savings institutions proposing to make any capital distribution need not submit written notice to the Office of Thrift Supervision prior to such distribution unless they are a subsidiary of a holding company or would not remain well capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain Office of Thrift Supervision approval prior to making such distribution. The Office of Thrift Supervision may object to the distribution during that 30-day period based on safety and soundness concerns.

Qualified Thrift Lender Test. All savings institutions, including American Federal, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code ("Code"). Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. As of June 30, 2011, American Federal met the qualified thrift lender test.

Activities of Associations and their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must file a notice or application with the FDIC and the Office of Thrift Supervision at least 30 days in advance and receive regulatory approval or non-objection. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The Office of Thrift Supervision or its successor may determine that the continuation by a savings institution of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the association or is inconsistent with sound banking practices or with the purposes of the FDIC. Based upon that determination, the FDIC or the Office of Thrift Supervision has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the Deposit Insurance Fund. If so, it may require that no FDIC insured institution engage in that activity directly.

Transactions with Affiliates. American Federal's authority to engage in transactions with "affiliates" is limited by Office of Thrift Supervision regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. Eagle is an affiliate of American Federal. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

Holding Company Regulation

General. Eagle is a unitary savings and loan holding company subject historically to regulatory oversight of the Office of Thrift Supervision. The Federal Reserve Board will become the principal federal bank regulatory agency for Eagle for the forthcoming fiscal year. Accordingly, Eagle is required to register and file reports with the Office of Thrift Supervision and is subject to regulation and examination by the Office of Thrift Supervision. In addition, the Office of Thrift Supervision has enforcement authority over Eagle and its non-savings institution subsidiaries which also permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to present a serious risk to the subsidiary savings institution.

Activities Restrictions. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999, or GLBA, provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Upon any non-supervisory acquisition by Eagle of another savings association as a separate subsidiary, Eagle would become a multiple savings and loan holding company and would be limited to activities permitted multiple holding companies by Office of Thrift Supervision regulation. Office of Thrift Supervision has issued an interpretation concluding that multiple savings and loan holding companies may also engage in activities permitted for financial holding companies, including lending, trust services, insurance activities and underwriting, investment banking and real estate investments.

Mergers and Acquisitions. Eagle must obtain approval from the Federal Reserve Board before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for Eagle to acquire control of a savings institution, the Federal Reserve Board would consider the financial and managerial resources and future prospects of Eagle and the target institution, the effect of the acquisition on the risk to the Deposit Insurance Fund, the convenience and the needs of the community and competitive factors.

Acquisition of Eagle. Under the Savings and Loan Holding Company Act and the Change in Bank Control Act, a notice or application must be submitted to the Office of Thrift Supervision if any person (including a company), or a group acting in concert, seeks to acquire 10% or more of Eagle's outstanding voting stock, unless the Office of Thrift Supervision has found that the acquisition will not result in a change in control of Eagle. In acting on such a notice or application, the Office of Thrift Supervision must take into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effect of the acquisition. Any company that acquires control will be subject to regulation as a savings and loan holding company.

Federal Securities Laws

Eagle's common stock is registered with the Securities and Exchange Commission under the Exchange Act. We are subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

ITEM 1A. RISK FACTORS.

We cannot accurately predict the effect of the current economic downturn on our future results of operations or market price of our stock.

The national economy and the financial services sector in particular, are currently facing challenges of a scope unprecedented in recent history. We cannot accurately predict the severity or duration of the current economic downturn, which has adversely impacted the markets we serve. Any further deterioration in the economies of the nation as a whole or in our markets would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and could also cause the market price of our stock to decline. While it is impossible to predict how long adverse economic conditions may exist, a slow or fragile recovery or subsequent recession could continue to present risks for some time for the industry and our company.

If the allowance for credit losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. If the assumptions prove to be incorrect, the allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease net income.

Our emphasis on the origination of consumer, commercial real estate and commercial business loans is one of the more significant factors in evaluating the allowance for loan losses. As we continue to increase the amount of such loans, additional or increased provisions for loan losses may be necessary and would decrease earnings.

Bank regulators periodically review our allowance for loan losses and may require an increase to the provision for loan losses or further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition.

We could record future losses on our securities portfolio.

A number of factors or combinations of factors could require us to conclude in one or more future reporting periods that an unrealized loss exists with respect to our investment securities portfolio that constitutes an impairment that is other than temporary, which could result in material losses to us. These factors include, but are not limited to, continued failure by the issuer to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of securities could decline if the overall economy and the financial condition of some of the issuers continues to deteriorate and there remains limited liquidity for these securities.

A prolonged economic downturn, especially one affecting our geographic market area, will adversely affect our business and financial results.

The United States and many industrial nations are experiencing adverse economic conditions and slow recovery which are expected to continue in 2012. Loan portfolio quality has deteriorated at many institutions, reflecting in part, the deteriorating U.S. economy and rising unemployment. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. The continuing real estate downturn also has resulted in reduced demand for the construction of new housing and increased delinquencies in construction, residential and commercial mortgage loans. Financial institution stock prices have declined substantially, and it is significantly more difficult for financial institutions to raise capital or borrow in the debt markets.

Continued negative developments in the financial services industry and the domestic and international credit markets may significantly affect the markets in which we do business, the market for and value of our loans and investments, and our ongoing operations, costs and profitability. Moreover, continued volatility or declines in the stock market in general, or stock values of financial institutions and their holding companies, could adversely affect our stock performance.

As a federal savings bank, American Federal Savings Bank is required to maintain a certain percentage of its total assets in qualifying loans and investments, which limits our asset mix and could significantly restrict our ability to diversify our loan portfolio.

A savings bank or thrift differs from a commercial bank in that it is required to maintain at least 65% of its total assets in housing-related loans and investments, such as loans for the purchase, refinance, construction, improvement, or repair of residential real estate, home equity loans, educational loans and small business loans. To maintain our thrift charter we have to pass the Qualified Thrift Lender test, or QTL test, in nine out of 12 of the immediately preceding months. The QTL test limits the extent to which we can grow our commercial loan portfolio. However, a loan that does not exceed $2 million (including a group of loans to one borrower) and is for commercial, corporate, business, or agricultural purposes is not so limited. We may be limited in our ability to change our asset mix and increase the yield on our earning assets by growing our commercial loan portfolio.

In addition, if we continue to grow our commercial loan portfolio and our single-family loan portfolio declines, it is possible that in order to maintain our QTL status, we could be forced to buy mortgage-backed securities or other qualifying assets at times when the terms might not be attractive. Alternatively, we could find it necessary to pursue different structures, including converting American Federal Savings Bank’s current thrift charter to a commercial bank charter.

Because we intend to increase our commercial real estate and commercial business loan originations, our credit risk will increase and continued downturns in the local real estate market or economy could adversely affect our earnings.

We intend to continue our recent emphasis on originating commercial real estate and commercial business loans. Commercial real estate and commercial business loans generally have more risk than the one- to four-family residential real estate loans we originate. Because the repayment of commercial real estate and commercial business loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. A downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. As our commercial real estate and commercial business loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase.

Declines in home values could decrease our loan originations and increase delinquencies and defaults.

Declines in home values in our markets could adversely impact results from operations. Like all financial institutions, we are subject to the effects of any economic downturn, and in particular, a significant decline in home values would likely lead to a decrease in new home equity loan originations and increased delinquencies and defaults in both the consumer home equity loan and residential real estate loan portfolios and result in increased losses in these portfolios. Declines in the average sale prices of homes in our primary markets could lead to higher loan losses.

We depend on the services of our executive officers and other key employees.

Our success depends upon the continued employment of certain members of our senior management team. We also depend upon the continued employment of the individuals that manage several of our key functional areas. The departure of any member of our senior management team may adversely affect our operations.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits, borrowings and trust preferred securities. Because our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would tend to result in a decrease in net interest income.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates.

Strong competition may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Our profitability depends upon our ability to successfully compete in our market areas.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency. The federal banking laws and regulations govern the activities in which we may engage, and are primarily for the protection of depositors and the Deposit Insurance Fund at the Federal Deposit Insurance Corporation. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

Financial reform legislation recently enacted by Congress will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that are expected to increase our costs of operations.

Congress recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, the new law provided that the Office of Thrift Supervision, currently our primary federal regulator, will be merged with the OCC on July 21, 2011. The Board of Governors of the Federal Reserve System will begin supervising and regulating all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including the Company.

At that time, also effective on July 21, 2011, the Dodd-Frank Act eliminated the federal prohibitions against on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Savings institutions such as American Federal Savings Bank with $10 billion or less in assets will continued to be examined for compliance with the consumer laws by their primary bank regulators.

It is difficult to predict at this time what impact the Dodd-Frank Act and its implementing rules will have on community banks like American Federal. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

If our investment in the Federal Home Loan Bank of Seattle becomes impaired, our earnings and stockholders’ equity could decrease.

We are required to own common stock of the Federal Home Loan Bank of Seattle to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank’s advance program. The aggregate cost of our Federal Home Loan Bank common stock as of June 30, 2011 was $2.00 million. Federal Home Loan Bank common stock is not a marketable security and can only be redeemed by the Federal Home Loan Bank.

Federal Home Loan Banks may be subject to accounting rules and asset quality risks that could materially lower their regulatory capital. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the Federal Home Loan Bank of Seattle, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in Federal Home Loan Bank of Seattle common stock could be deemed impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders’ equity to decrease by the amount of the impairment charge.

Future legislative or regulatory actions responding to perceived financial and market problems could impair our ability to foreclose on collateral.

There have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution’s ability to foreclose on mortgage collateral. Were proposals such as these, or other proposals limiting our rights as a creditor, to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor. In addition, there have been legislative proposals to create a federal consumer protection agency that may, among other powers, have the ability to limit our rights as a creditor.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company's business activities consist of its ownership of 100% of the common stock of the Bank. Eagle's and the Bank's executive office is located at 1400 Prospect Avenue in Helena, Montana. American Federal conducts its business through six offices, which are located in Helena, Bozeman, Butte, and Townsend, Montana. All of its offices are owned. Its principal banking office in Helena also serves as its executive headquarters and operations center. This office houses over 50% of American Federal's full-time employees. The following table sets forth the location of each of American Federal's offices, the year the office was opened, and the net book value including land, buildings, computer software and its related equipment and furniture. The square footage at each location is also shown.

Location	Address	Opened	Value At June 30, 2011 (In thousands)		Square Footage
Helena Main Office	1400 Prospect Ave. Helena, MT 59601	1997	$	3,785	32,304
Helena Neill Avenue Branch	28 Neill Ave. Helena, MT 59601	1987	$	1,064	1,391
Helena Skyway Branch	2090 Cromwell Dixon Helena, MT 59602	2009	$	2,294	4,643
Butte Office	3401 Harrison Ave. Butte, MT 59701	1979	$	545	3,890
Bozeman Office	606 North Seventh Bozeman, MT 59715	1980 (closed August 1, 2010)	$	395	5,886
Bozeman Branch	1455 Oak St Bozeman, MT 59715	2009	$	7,867	19,818
Townsend Office	416 Broadway Townsend, MT 59644	1979	$	201	1,973

As of June 30, 2011, the net book value of land, buildings, furniture, and equipment owned by American Federal, less accumulated depreciation, totaled $16.15 million.

ITEM 3. LEGAL PROCEEDINGS.

American Federal, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which American Federal Savings Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of American Federal. There were no lawsuits pending or known to be contemplated against Eagle or American Federal as of June 30, 2011.

ITEM 4. (REMOVED AND RESERVED).

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The common stock is traded on the NASDAQ Global Market under the symbol "EBMT." At the close of business on June 30, 2011, there were 3,918,687 shares of common stock outstanding, held by approximately 1,000 shareholders of record. The closing price of the common stock on June 30, 2011, was $10.69 per share.

On April 5, 2010, Eagle completed a second-step conversion from the partially-public mutual holding company structure to the fully publicly-owned stock holding company. Prior to April 5, 2010, our predecessor's common stock was traded on the OTC Bulletin Board. The prices below before April 5, 2010 have been adjusted for the 3.8 to 1.0 exchange ratio in the second-step conversion.

Quarter Ended		High Bid	Low Bid	Dividends Paid
Fiscal Year 2011				
June 30, 2011		$ 11.75	$ 10.49	$ 0.070
March 31, 2011		$ 11.81	$ 10.58	$ 0.070
December 31, 2010		$ 10.83	$ 9.05	$ 0.070
September 30, 2010		$ 9.95	$ 9.00	$ 0.070
Fiscal Year 2010				
June 30, 2010		$ 10.79	$ 9.70	$ 0.068
March 31, 2010	*	$ 11.58	$ 8.59	$ 0.068
December 31, 2009	*	$ 9.21	$ 7.50	$ 0.068
September 30, 2009	*	$ 8.64	$ 7.11	$ 0.068

*Dividend paid adjusted for the 3.8 to 1.0 exchange on April 5, 2010.

Our predecessor, Eagle Financial MHC, waived receipt of its dividends during the year prior to April 5, 2010 when it ceased to exist.

Payment of dividends on our shares of common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, our results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will be declared or, if declared, what the amount of dividends will be, or whether such dividends, once declared, will continue.

The following table provides information regarding our purchases of our common stock during the fourth quarter of our fiscal year ended June 30, 2011:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1, 2011 through April 30, 2011	-	n/a	n/a	204,156
May 1, 2011 through May 31, 2011	5,160	11.26		