

Eagle Bancorp Montana, Inc.
Form 10-K
September 19, 2012

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

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2012

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
State or other jurisdiction of
incorporation or organization

27-1449820
(I.R.S. Employer
Identification No.)

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

59601
(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
Common stock, par value \$0.01

Name of each exchange on which registered
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 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 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.

Yes 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).

Yes 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.

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)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes 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, 2011 was \$31,126,000. The outstanding number of shares of common stock of Eagle as of August 1, 2012, was 3,878,971.

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,” “estimate,” “plan,” “project,” “could,” “intend,” “target” and other similar words and expressions of the future. These forward-looking 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 businesses;

 - 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. The contents on or accessible through, our website are not incorporated into this filing.

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 45.6% 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.

On July 2, 2012, we announced the execution of a definitive agreement with Sterling Savings Bank of Spokane, Washington, to acquire certain liabilities and assets of Sterling's seven branch operations in Montana. This transaction is subject to approval of federal bank regulators and is expected to close in late 2012.

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 74 commercial banks as of June 30, 2012. 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:

	2012		At June 30,		2011	
	Amount	Percent of Total	(Dollars in thousands)		Amount	Percent of Total
Real estate loans:						
Residential mortgage (one- to four-family) (1)	\$61,671	35.11 %	\$70,003		37.34 %	
Commercial real estate	64,672	36.82 %	64,701		34.52 %	
Real estate construction	1,455	0.83 %	5,020		2.68 %	
Total real estate loans	127,798	72.76 %	139,724		74.54 %	
Other loans:						
Home equity	23,709	13.50 %	27,816		14.84 %	
Consumer	8,778	5.00 %	9,343		4.98 %	
Commercial	15,343	8.74 %	10,564		5.64 %	
Total other loans	47,830	27.24 %	47,723		25.46 %	
Total loans	175,628	100.00 %	187,447		100.00 %	
Less:						
Deferred loan fees (expenses)	164		176			
Allowance for loan losses	1,625		1,800			
Total loans, net	\$173,839		\$185,471			

(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 \$891,000 and \$830,000 for the years ended June 30, 2012 and 2011, respectively. Other loan related fee income for contract collections, late charges, credit life commissions and credit card fees were \$86,000 and \$78,000 for the years ended June 30, 2012 and 2011, respectively.

Loan Maturity Schedule.

The following table sets forth the estimated maturity of the loan portfolio of the Bank at June 30, 2012. 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.

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	6 to 12 Months	More than 1 year to 2 years	More than 2 years to 5 years	Over 5 years	Total
(In thousands)						
Residential mortgage (one- to four-family) (1)	\$-	\$30	\$1,014	\$2,208	\$69,032	\$72,284
Commercial real estate and land	369	3,286	2,263	6,703	52,051	64,672
Real estate construction	-	1,455	-	-	-	1,455
Home equity	242	3,318	3,519	9,844	6,786	23,709
Consumer	281	1,058	978	4,826	1,635	8,778
Commercial	184	4,865	1,872	3,231	5,191	15,343
Total loans (1)	\$1,076	\$14,012	\$9,646	\$26,812	\$134,695	\$186,241

(1) Includes loans held for sale.

The following table sets forth the dollar amount of all loans, at June 30, 2012, due after June 30, 2013, which have fixed interest rates and which have floating or adjustable interest rates:

	Fixed	Adjustable	Total
(Dollars in thousands)			
Residential mortgage (one- to four-family)	\$ 61,053	\$ 11,094	\$ 72,147
Commercial real estate and land	55,495	5,522	61,017
Home equity	14,290	5,859	20,149
Consumer	6,684	755	7,439
Commercial	6,362	3,933	10,295
Total loans (1)	\$ 143,884	\$ 27,163	\$ 171,047
Percent of total	84.12 %	15.88 %	100.00 %

(1) Due after June 30, 2013.

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

	Year Ended June 30,	
	2012	2011
	(In thousands)	
Net loans receivable at beginning of period (1)	\$ 187,255	\$ 177,197
Loans originated:		
Residential mortgage (one- to four-family)	117,248	115,030
Commercial real estate and land	9,609	38,131
Real estate construction	3,355	13,180
Home equity	5,611	16,550
Consumer	4,483	6,068
Commercial	11,272	15,311
Total loans originated	151,578	204,270
Loans sold:		
Whole loans	99,507	112,444
Principal repayments and loan refinancings	55,061	80,853
Deferred loan fees decrease (increase)	12	(215)
Allowance for losses decrease (increase)	175	(700)
Net loan increase (decrease)	(2,803)	10,058
Net loans receivable at end of period (1)	\$ 184,452	\$ 187,255

(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 35.1% of the Bank's loans as of June 30, 2012 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 \$891,000 for the year ended June 30, 2012. At June 30, 2012, American Federal Savings Bank had \$338.9 million in residential mortgage loans and \$16.1 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, 2012, \$23.7 million or 13.5% 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 36.8% of the Bank's total loan portfolio, or \$64.7 million at June 30, 2012. 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 \$311,000 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 \$11.5 million (\$10.4 million is guaranteed by Rural Development of the U.S. Department of Agriculture, leaving approximately \$1.1 million unguaranteed) on June 30, 2012, 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 \$1.5 million or 0.8% of the Bank's loan portfolio at June 30, 2012.

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, 2012, consumer loans totaled \$8.8 million or 5.0% 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 2011 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 \$15.3 million, or 8.7% of the Bank's total loan portfolio at June 30, 2012. 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 8.7% of the total portfolio at June 30, 2012, American Federal 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, 2012, our largest aggregation of loans to one borrower was approximately \$17.7 million. This consisted of two commercial real estate loans secured by two separate detention facilities. The first commercial real estate loan had a principal balance of \$6.1 million, but 90.0%, or \$5.5 million of the principal balance was sold to the Montana Board of Investments, leaving a net principal balance to the Bank of \$600,000. The second commercial real estate loan is to the same borrower for another detention facility. As of June 30, 2012, the principal balance on this loan was \$11.5 million with 90.0% of the loan guaranteed by the USDA Rural Development. Due to the USDA Rural Development guarantee, 90.0% of this loan, or \$10.4 million, is not required to be included in the Bank's limitations to a single borrower, thus leaving approximately \$1.1 million subject to the lending limit described above, thereby making a combined amount of \$1.7 million subject to the lending limit. 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, 2012, 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, 2012, was approximately \$6.48 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, 2012, American Federal Savings Bank had \$2.7 million of real estate owned (\$2.4 million net of valuation loss allowance).

Loans are reviewed on a quarterly basis and are placed on non-accrual status when they are 90 days or more 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, 2012, we had \$1.8 million (\$1.8 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 as of the date indicated:

	At June 30, 2012		Percentage of	
	Number	Amount (Dollars in thousands)	Total Delinquent Loans	
Loan type:				
Residential mortgage (one- to four-family)	5	\$ 613	44.84	%
Real estate construction	-	-	0.00	%
Commercial real estate and land	-	-	0.00	%
Home equity	13	362	26.48	%
Consumer	29	221	16.17	%
Commercial business	6	171	12.51	%
Total	53	\$ 1,367	100.00	%

Nonperforming Assets.

The following table sets forth information regarding American Federal Savings Bank's nonperforming assets as of the dates indicated.

	At June 30,			
	2012	2011	(Dollars in thousands)	
Non-accrual loans				
Real estate loans:				
Residential mortgage (one- to four-family)	\$ 660	\$ 1,424		
Real estate construction	-	650		
Commercial real estate and land	833	186		
Home equity	265	376		
Consumer	36	56		
Commercial business	20	247		
Accruing loans delinquent 90 days or more	-	-		
Restructured loans:				
Commercial business	90	-		
Commercial real estate and land	1,314	-		
Total nonperforming loans	3,218	2,939		
Real estate owned and other repossessed property, net	2,361	1,181		
Total nonperforming assets	\$ 5,579	\$ 4,120		
Total nonperforming loans to total loans	1.85	%	1.57	%
Total nonperforming loans to total assets	0.98	%	0.89	%
Total allowance for loan loss to non-performing loans	50.50	%	61.25	%

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Total nonperforming assets to total assets	1.70	%	1.24	%
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During the year ended June 30, 2012, the Bank had one foreclosed real estate property resulting in a loss of \$11,000 upon sale and one resulting in a gain of \$2,000 after incurring valuation losses of \$58,000, and 5 other foreclosed real estate properties that incurred a provision for valuation losses of \$111,000. During the year ended June 30, 2012, 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:

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	At June 30,	
	2012	2011
	(Dollars in thousands)	
Residential mortgage (one- to four-family):		
Special Mention	\$ -	\$ -
Substandard	923	1,300
Doubtful	-	-
Loss	-	111
Commercial Real Estate and Land:		
Special Mention	51	-
Substandard	782	738
Doubtful	-	-
Loss	-	260
Real Estate construction:		
Special Mention	-	-
Substandard	-	721
Doubtful	-	-
Loss	-	-
Home equity loans:		
Special Mention	-	-
Substandard	242	233
Doubtful	148	-
Loss	-	378
Consumer loans:		
Special Mention	-	-
Substandard	76	121
Doubtful	15	-
Loss	2	14
Commercial loans:		
Special Mention	5	1,454
Substandard	1,492	446
Doubtful	-	-
Loss	-	125
Securities available for sale:		
Special Mention	-	-
Substandard	209	436
Doubtful	-	-
Loss	-	-
Real estate owned/repossessed property:		
Special Mention	-	-
Substandard	2,361	1,181
Doubtful	-	-

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Loss	300	189
Total classified loans and real estate owned	\$ 6,606	\$ 7,707

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. This 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 \$1,625,000 in allowances for loan losses and \$300,000 in allowance for valuation losses for other real estate owned at June 30, 2012.

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,				
	2012		2011		
	(Dollars in thousands)				
Balance at beginning of period	\$	1,800	\$	1,100	
Provision for loan losses		1,101		948	
Loans charged-off					
Real estate loans		(125)		(75)	
Commercial real estate and land		(309)		(130)	
Real estate construction		(239)		-	
Home equity		(351)		(30)	
Consumer		(33)		(17)	
Commercial business loans		(239)		-	
Recoveries					
Real estate loans		-		-	
Commercial real estate and land		8		-	
Real estate construction		-		-	
Home equity		-		-	
Consumer		12		4	
Commercial business loans		-		-	
Net loans charged-off		(1,276)		(248)	
Balance at end of period	\$	1,625	\$	1,800	
Allowance for loan losses to total loans		0.93	%	0.96	%
Allowance for loan losses to total non-performing loans		50.50	%	61.25	%
Net recoveries (charge-offs) to average loans outstanding during the period		-0.68	%	-0.13	%

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:

	(Dollars in thousands)					
	2012			2011		
	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)	\$403	24.80 %	35.11 %	\$369	20.56 %	37.34 %
Commercial real estate and land	772	47.51 %	36.82 %	652	36.22 %	34.52 %
Real estate construction	10	0.62 %	0.83 %	18	0.94 %	2.68 %
Total real estate loans	1,185	72.92 %	72.76 %	1,039	57.72 %	74.54 %
Other loans:						
Home equity	156	9.60 %	13.50 %	481	26.72 %	14.84 %
Consumer	78	4.80 %	5.00 %	57	3.17 %	4.98 %
Commercial business	206	12.68 %	8.74 %	223	12.39 %	5.64 %
Total other loans	440	27.08 %	27.24 %	761	42.28 %	25.46 %
Total	\$1,625	100.00 %	100.00 %	\$1,800	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 currently does not hold any securities for purposes of trading or held-to-maturity. 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 at time of purchase.

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, 2012, 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 none of

Eagle's total investment portfolio. Securities available-for-sale totaled 83% 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 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,					
	2012		2011			
	Carrying Value	Percentage of Total		Carrying Value	Percentage of Total	
(Dollars in Thousands)						
Securities available-for-sale, at fair value:						
U.S. Government and agency obligations	\$21,055	19.58	%	\$26,208	23.50	%
Corporate obligations	3,945	3.67	%	6,216	5.57	%
Municipal obligations	42,060	39.10	%	39,186	35.13	%
Collateralized mortgage obligations	15,370	14.29	%	24,718	22.16	%
Mortgage-backed securities	6,847	6.37	%	6,372	5.71	%
Total securities available for sale	89,277	83.00	%	102,700	92.07	%
Interest-bearing deposits	16,280	15.14	%	1,837	1.65	%
Federal funds sold	-	0.00	%	5,000	4.48	%
Federal Home Loan Bank capital stock, at cost	2,003	1.86	%	2,003	1.80	%
Total	\$107,560	100.00	%	\$111,540	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, 2012:

Securities available-for-sale:	At June 30, 2012										
	One Year or Less		One to Five Years		More than Five to Ten Years		More than Ten Years		Total Investment Securities		
	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	\$2,564	1.71%	\$13,152	2.36%	\$2,913	1.32%	\$2,426	2.42%	\$21,055	\$21,055	2.14%
Corporate obligations	-	-	3,945	3.19	-	-	-	-	3,945	3,945	3.19
Municipal obligations	-	-	5,719	3.89	15,933	4.99	20,408	6.27	42,060	42,060	5.46
Private collateralized mortgage obligations	-	-	-	-	-	-	169	7.01	169	169	7.01
Collateralized mortgage obligations	-	-	359	3.38	2,552	3.75	12,290	3.46	15,201	15,201	3.51
Mortgage-backed securities	10	4.34	33	5.32	376	3.39	6,428	3.60	6,847	6,847	3.60
Total securities available for sale	2,574	1.72	23,208	2.90	21,774	4.33	41,721	4.81	89,277	89,277	4.11
Interest-bearing deposits	16,280	0.02	-	-	-	-	-	-	16,280	16,280	0.02
Federal funds sold	0	-	-	-	-	-	-	-	0	-	-
Federal Home Loan Bank capital stock	-	-	-	-	2,003	-	-	-	2,003	2,003	-
Total	\$18,854	0.25%	\$23,208	2.90%	\$23,777	3.96%	\$41,721	4.81%	\$107,560	\$107,560	3.41%

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, 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 \$163.6 million or 74.35% of the Bank's deposits at June 30, 2012 (\$138.6 million or 63.0% 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:

	2012		At June 30,		2011			
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate		
Noninterest checking	\$23,425	10.65 %	0.00 %	\$19,052	9.11 %	0.00 %		
Savings	40,591	18.45 %	0.10 %	36,945	17.66 %	0.10 %		
NOW account/Interest bearing checking	46,125	20.97 %	0.05 %	40,352	19.29 %	0.05 %		
Money market accounts	28,489	12.95 %	0.14 %	28,284	13.51 %	0.12 %		
Total	138,630	63.02 %	0.08 %	124,633	59.58 %	0.07 %		
Certificates of deposit accounts:								
IRA certificates	24,941	11.34 %	0.98 %	25,020	11.96 %	1.07 %		
Brokered certificates	-	0.00 %	0.00 %	-	0.00 %	0.00 %		
Other certificates	56,418	25.65 %	1.18 %	59,533	28.46 %	1.38 %		
Total certificates of deposit	81,359	36.98 %	1.12 %	84,553	40.42 %	1.29 %		
Total deposits	\$219,989	100.00 %	0.46 %	\$209,186	100.00 %	0.57 %		

The following table sets forth the amounts and maturities of our certificates of deposit as of June 30, 2012, for the maturity dates indicated:

	June 30, 2013	June 30, 2014	June 30, 2015	After June 30, 2015	Total
under 0.51%	\$ 21,615	\$ -	\$ -	\$ -	\$ 21,615
0.51-0.75%	11,655	1,105	12	-	12,772
0.76-1.00%	1,761	906	522	6	3,195
1.01-1.25%	14,779	8,135	891	97	23,902
1.26-1.50%	374	298	348	908	1,928
1.51-2.00%	52	343	967	3,015	4,377
2.01% and higher	4,512	3,908	3,237	1,913	13,570
Total	\$ 54,748	\$ 14,695	\$ 5,977	\$ 5,939	\$ 81,359

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, 2012:

(In thousands)	Balance		Total
	\$100 - \$250	Greater than \$250	
3 months or less	\$ 3,910	\$ 1,011	\$ 4,921
Over 3 to 6 months	3,446	512	3,958
Over 6 to 12 months	5,123	2,666	7,789
Over 12 months	8,080	1,608	9,688
Total	\$ 20,559	\$ 5,797	\$ 26,356

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

	Year Ended June 30,	
	2012	2011
(Dollars in thousands)		
Opening balance	\$ 209,186	\$ 197,939
Deposits, net	9,748	9,867
Interest credited	1,055	1,380
Ending balance	\$ 219,989	\$ 209,186
Net increase	\$ 10,803	\$ 11,247
Percent increase	5.16 %	5.68 %
Weighted average cost of deposits during the period	0.56 %	0.75 %
Weighted average cost of deposits at end of period	0.46 %	0.57 %

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, 2012 the rate was 1.881%.

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,	
	2012	2011
	(Dollars in thousands)	
FHLB Advances:		
Average balance	\$ 35,973	\$ 41,008
Maximum balance at any month-end	37,879	45,346
Balance at period end	33,696	37,896
Weighted average interest rate during the period	3.25 %	3.47 %
Weighted average interest rate at period end	3.19 %	3.26 %
Repurchase Agreements:		
Average balance	\$ 17,678	\$ 23,000
Maximum balance at any month-end	23,000	23,000
Balance at period end	9,000	23,000
Weighted average interest rate during the period	4.66 %	4.66 %
Weighted average interest rate at period end	4.61 %	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	\$ 53,651	\$ 64,008
Maximum balance at any month-end	60,879	68,346
Balance at period end	42,696	60,896
Weighted average interest rate during the period	3.49 %	3.90 %
Weighted average interest rate at period end	3.49 %	3.79 %

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, 2012, we had 83 full-time employees and 7 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

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 which have been adopted by the OCC. The Federal Reserve Board assumed regulatory responsibility for Eagle during this 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.

On July 21, 2011, under the requirements of the Dodd-Frank Act, our primary federal regulator, the Office of Thrift Supervision, was merged 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) came 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, but may evaluate other charter options in the future. 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 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, 2012, and a description of certain historical regulatory aspects. The information related to the Office of Thrift Supervision is expected to a significant degree to 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, 2012.

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 had 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 the Comptroller of the Currency 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 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 the Comptroller of the Currency 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 the 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 FDIC-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, 2012 was \$394,000. 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 as of the quarter ended March 31, 2012 was 0.66 basis points of assessable deposits.

Capital Requirements. Federally insured savings institutions, such as American Federal, are required by the Office of the Comptroller of the Currency 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 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 Comptroller of the Currency 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. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. The Comptroller of the Currency 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 Comptroller of the Currency is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." Regulations also require that a capital restoration plan be filed with the Comptroller of the Currency 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 Comptroller of the Currency 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, 2012, American Federal's capital ratios met the "well capitalized" standards.

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 Comptroller of the Currency 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 of the Comptroller of the Currency approval prior to making such distribution. The Comptroller of the Currency 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, 2012, 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 of the Comptroller of the Currency 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 Comptroller of the Currency 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 Comptroller of the Currency 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 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, i.e. “covered 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 became the principal federal bank regulatory agency for Eagle during the fiscal year. Accordingly, Eagle is required to register and file reports with Federal Reserve Board and is subject to regulation and examination by the Federal Reserve Board. In addition, the Federal Reserve Board has enforcement authority over Eagle and its non-savings institution subsidiaries which also permits the Federal Reserve Board 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 the Comptroller of the Currency regulation. The Comptroller of the Currency 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 Comptroller of the Currency 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 Comptroller of the Currency has found that the acquisition will not result in a change in control of Eagle. In acting on such a notice or application, the Comptroller of the Currency 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. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, filed with or furnished to the U.S. Securities and Exchange Commission ("SEC"), are available free of charge through our Internet website, www.americanfederalsavingsbank.com, as soon as reasonably practical after we have electronically filed such material with, or furnished it to, the SEC. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents on or accessible through, these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

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 2013. Loan portfolio quality has improved at many institutions, reflecting in part, the improving U.S. economy and rising employment. In addition, the values of real estate collateral supporting many commercial loans and home mortgages appear to have stabilized but may continue to decline. The continuing stagnation in the real estate market 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 enacted by Congress will, among other things, 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 enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in July 2010. 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. Effective July 21, 2011, the Dodd-Frank Act eliminated the federal prohibitions against 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. So far this impact has been minimal, however, we suspect it will change once the current low interest rate environment changes.

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, 2012 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.

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, 2012 (In thousands)	Square Footage
Helena Main Office	1400 Prospect Ave. Helena, MT 59601	1997	\$3,664	32,304
Helena Neill Avenue Branch	28 Neill Ave. Helena, MT 59601	1987	\$1,017	1,391
Helena Skyway Branch	2090 Cromwell Dixon Helena, MT 59602	2009	\$2,208	4,643
Butte Office	3401 Harrison Ave. Butte, MT 59701	1979	\$500	3,890
Bozeman Office	606 North Seventh Bozeman, MT 59715	1980 (closed August 1, 2010)	\$374	5,886
Bozeman Branch	1455 Oak St Bozeman, MT 59715	2009	\$7,616	19,818
Townsend Office	416 Broadway Townsend, MT 59644	1979	\$182	1,973

As of June 30, 2012, the net book value of land, buildings, furniture, and equipment owned by American Federal, less accumulated depreciation, totaled \$15.56 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, 2012.

ITEM MINE SAFETY DISCLOSURES.

4.
Not applicable.

PART II

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

Our common stock is traded on the NASDAQ Global Market under the symbol "EBMT." At the close of business on June 30, 2012, there were 3,878,971 shares of common stock outstanding, held by approximately 1,000 shareholders of record. The closing price of the common stock on June 30, 2012, was \$10.00 per share.

Quarter Ended Fiscal Year 2012	High Bid	Low Bid	Dividends Paid
June 30, 2012	\$ 10.25	\$ 9.90	\$ 0.07125
March 31, 2012	\$ 10.18	\$ 9.75	\$ 0.07125
December 31, 2011	\$ 10.49	\$ 9.50	\$ 0.07125
September 30, 2011	\$ 10.82	\$ 10.40	\$ 0.07125
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

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, 2012:

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, 2012 through April 30, 2012	-		-	-
May 1, 2012 through May 31, 2012	-		-	-
June 1, 2012 through June 30, 2012	-		-	-
Total	-	\$ -	-	-

On April 26, 2011, the Company announced that its Board of Directors authorized a common stock repurchase program for 204,156 shares of common stock, effective April 27, 2011. The program was intended to be implemented through purchases made from time to time in the open market or through private transactions. The program terminated on December 27, 2011 with its final purchase of shares within the program.

On April 21, 2011, the Company entered into a pre-arranged Rule 10b5-1 written trading plan (“the Trading Plan”) with a broker to facilitate the repurchase of its shares of common stock, in conformity with the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. A broker selected by the Company had the authority under the terms and limitations specified in the Trading Plan to repurchase shares on the Company’s behalf in accordance with the terms of the Trading Plan. The Trading Plan facilitated the Company’s share repurchase program, went into effect on April 27, 2011 and was completed on December 27, 2011. The Trading Plan enabled the Company to continue to repurchase shares without suspension for self-imposed trading blackout periods. The shares repurchased under the Trading Plan were in accordance with and subject to the limitations of the stock repurchase program.

ITEM 6. SELECTED FINANCIAL DATA.

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

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of the financial condition and results of operations of Eagle is intended to help investors understand our company and our operations. The financial review is provided as a supplement to, and should be read in conjunction with the Consolidated Financial Statements and the related Notes included elsewhere in this report.

Overview

Historically, our principal business has consisted of attracting deposits from the general public and the business community and making loans secured by various types of collateral, including real estate and other consumer assets. We are significantly affected by prevailing economic conditions, particularly interest rates, as well as government policies concerning, among other things, monetary and fiscal affairs, housing and financial institutions and regulations regarding lending and other operations, privacy and consumer disclosure. Attracting and maintaining deposits is influenced by a number of factors, including interest rates paid on competing investments offered by other financial and non-financial institutions, account maturities, fee structures, and levels of personal income and savings. Lending activities are affected by the demand for funds and thus are influenced by interest rates, the number and quality of lenders and regional economic conditions. Sources of funds for lending activities include deposits, borrowings, repayments on loans, cash flows from maturities of investment securities and income provided from operations.

Our earnings depend primarily on our level of net interest income, which is the difference between interest earned on our interest-earning assets, consisting primarily of loans, mortgage-backed securities and other investment securities, and the interest paid on interest-bearing liabilities, consisting primarily of deposits, borrowed funds, and trust-preferred securities. Net interest income is a function of our interest rate spread, which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest-bearing liabilities, as well as a function of the average balance of interest-earning assets compared to interest-bearing liabilities. Also contributing to our earnings is noninterest income, which consists primarily of service charges and fees on loan and deposit products and services, net gains and losses on sale of assets, and mortgage loan service fees. Net interest income and noninterest income are offset by provisions for loan losses, general administrative and other expenses, including salaries and employee benefits and occupancy and equipment costs, as well as by state and federal income tax expense.

American Federal Savings Bank has a strong mortgage lending focus, with the majority of its loan originations in single-family residential mortgages, which has enabled it to successfully market home equity loans, as well as a wide range of shorter term consumer loans for various personal needs (automobiles, recreational vehicles, etc.). In recent

years we have also focused on adding commercial loans to our portfolio, both real estate and non-real estate. We have made significant progress in this initiative. As of June 30, 2012, commercial real estate and land loans and commercial business loans represented 36.8% and 8.7% of the total loan portfolio, respectively, which represented increases from the 34.5% and 5.6% amounts at June 30, 2011, respectively. The purpose of this diversification is to mitigate our dependence on the mortgage market, as well as to improve our ability to manage our interest rate spread. American Federal Savings Bank's management recognizes that fee income will also enable it to be less dependent on specialized lending and it now maintains a significant loan serviced portfolio, which provides a steady source of fee income. As of June 30, 2012, we had mortgage servicing rights, net of \$2.218 million compared to \$2.142 million as of June 30, 2011. The gain on sale of loans also provides significant fee income in periods of high mortgage loan origination volumes. Fee income is also supplemented with fees generated from our deposit accounts. American Federal Savings Bank has a high percentage of non-maturity deposits, such as checking accounts and savings accounts, which allows management flexibility in managing its spread. Non-maturity deposits do not automatically reprice as interest rates rise, as do certificates of deposit.

For the past three years, management's focus has been on improving our core earnings. Core earnings can be described as income before taxes, with the exclusion of gain on sale of loans and adjustments to the market value of our loans serviced portfolio. Management believes that we will need to continue to focus on increasing net interest margin, other areas of fee income, and control operating expenses to achieve earnings growth going forward. Management's strategy of growing the loan portfolio and deposit base is expected to help achieve these goals: loans typically earn higher rates of return than investments; a larger deposit base will yield higher fee income; increasing the asset base will reduce the relative impact of fixed operating costs. The biggest challenge to management's strategy is funding the growth of our balance sheet in an efficient manner. Though deposit growth this last year was robust, it may become more difficult to maintain due to significant competition and possible reduced customer demand for deposits as customers may shift into other asset classes.

Other than in limited circumstances for certain high-credit-quality customers, we do not offer "interest only" mortgage loans on one- to four-family residential properties (where the borrower pays interest but no principal for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer "subprime loans" (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation).

The level and movement of interest rates impacts the Bank's earnings as well. For the 2012 fiscal year the short end of the yield curve was fairly static as the Federal Open Market Committee maintained the fed funds rate at a target of 0 to 25 basis points while the long end of the curve moved downward.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income." The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The single statement of comprehensive income should include the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present all the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require transition disclosures. The Company has complied with the new standard and has presented a separate statement of comprehensive income in these consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded

that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for us in fiscal 2013 and earlier adoption is permitted. The Company currently has no goodwill. However upon the successful completion of the pending acquisition of Sterling Bank's Montana branches, as noted above, management expects goodwill to be recorded and as such the Company's financials will likely be effected by this pronouncement.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current literature or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments in this update defer those changes in ASU 2011-05 that relate to the presentation of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this update. The amendments are effective during interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

Critical Accounting Policies

Certain accounting policies are important to the understanding of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances, including, but without limitation, changes in interest rates, performance of the economy, financial condition of borrowers and laws and regulations. The following are the accounting policies we believe are critical.

Allowance for Loan Losses. We recognize that losses will be experienced on loans and that the risk of loss will vary with, among other things, the type of loan, the creditworthiness of the borrower, general economic conditions and the quality of the collateral for the loan. We maintain an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance for loan losses represents management's estimate of probable losses based on all available information. The allowance for loan losses is based on management's evaluation of the collectability of the loan portfolio, including past loan loss experience, known and inherent losses, information about specific borrower situations and estimated collateral values, and current economic conditions. The loan portfolio and other credit exposures are regularly reviewed by management in its determination of the allowance for loan losses. The methodology for assessing the appropriateness of the allowance includes a review of historical losses, internal data including delinquencies among others, industry data, and economic conditions.

As an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses and may require us to make additional provisions for estimated losses based upon judgments different from those of management. In establishing the allowance for loan losses, loss factors are applied to various pools of outstanding loans. Loss factors are derived using our historical loss experience and may be adjusted for factors that affect the collectability of the portfolio as of the evaluation date. Commercial business loans that are criticized are evaluated individually to determine the required allowance for loan losses and to evaluate the potential impairment of such loans under FASB ASC 310 Receivables. Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of loans deteriorate as a result of the factors discussed previously. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations. The allowance is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results.

Valuation of Investment Securities. Substantially all of our investment securities are classified as available-for-sale and recorded at current fair value. Unrealized gains or losses, net of deferred taxes, are reported in other comprehensive income as a separate component of stockholders' equity. In general, fair value is based upon quoted

market prices of identical assets, when available. If quoted market prices are not available, fair value is based upon valuation models that use cash flow, security structure and other observable information. Where sufficient data is not available to produce a fair valuation, fair value is based on broker quotes for similar assets. Broker quotes may be adjusted to ensure that financial instruments are recorded at fair value. Adjustments may include unobservable parameters, among other things. No adjustments were made to any broker quotes received by us.

We conduct a quarterly review and evaluation of our investment securities to determine if any declines in fair value are other than temporary. In making this determination, we consider the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, the financial condition of the issuer, if applicable, and the delinquency or default rates of underlying collateral. We consider our intent to sell the investment securities and the likelihood that we will not have to sell the investment securities before recovery of their cost basis. If impairment exists, credit related impairment losses are recorded in earnings while noncredit related impairment losses are recorded in accumulated other comprehensive income.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes as prescribed in FASB ASC 740 Income Taxes. Using this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on an ongoing basis as regulatory and business factors change. A reduction in estimated future taxable income could require us to record a valuation allowance. Changes in levels of valuation allowances could result in increased income tax expense, and could negatively affect earnings.

FINANCIAL CONDITION

Introduction.

Total assets decreased \$3.79 million, or 1.15%, to \$327.30 million at June 30, 2012, from \$331.09 million at June 30, 2011. Total liabilities decreased by \$4.96 million, or 1.78%, to \$273.65 million at June 30, 2012, from \$278.61 million at June 30, 2011. The loan portfolio decreased \$11.63 million during the year. Total deposits increased \$10.80 million. Noninterest checking increased \$4.37 million or 22.95%, to \$23.43 million at June 30, 2012, and money market accounts increased \$205,000, or 0.72%. Interest bearing checking accounts increased \$5.77 million, or 14.31%, to \$46.13 million at June 30, 2012. Certificates of deposits decreased \$3.19 million, or 3.78%, to \$81.36 million at June 30, 2012.

Balance Sheet Details.

Loans receivable decreased \$11.63 million, or 6.27% to \$173.84 million from \$185.47 million. Though loan originations were relatively strong, much of the loan origination volume was in 30 and 15 year fixed rate one- to four-family residential mortgages which were primarily sold in the secondary market. We sold \$99.51 million in loans during fiscal year 2012, a decrease of \$12.93 million from \$112.44 million sold in fiscal year 2011. The amount of loans sold in fiscal year 2011 was exceptionally high, particularly in the first half of the previous fiscal year, as the Bank experienced a significant increase in refinance volume of one- to four-family residential mortgages. Origination activity in most loan categories, with the exception of one- to four-family residential mortgages, decreased in the current fiscal year. Commercial real estate and land loan originations decreased \$28.52 million during the year, and residential mortgage loan originations increased \$2.22 million. The available-for-sale investment portfolio decreased \$13.42 million, or 13.07%, to \$89.28 million at June 30, 2012 from \$102.70 million at June 30, 2011. The investment category with the largest decrease was agency CMOs, which decreased \$9.23 million. Premises and equipment decreased \$590,000, which was primarily due to depreciation expense partially offset by equipment purchases.

Total deposits increased by \$10.80 million, notwithstanding lower rates on deposits. The growth was attributable to consumers seeking additional safety and protection afforded by increased federal deposit insurance. Of that increase, certificates of deposit decreased \$3.19 million, to \$81.36 million at June 30, 2012 from \$84.55 million at June 30, 2011. The Bank had no brokered deposits as of June 30, 2012. Interest-earning checking accounts increased \$5.77 million and noninterest checking increased \$4.37 million. Money market accounts increased \$205,000 and savings accounts increased \$3.65 million. A portion of the deposit growth the Bank has experienced over the last three fiscal years has likely been the result of a flight to quality by individual investors during the financial crisis and ensuing economic downturn. As such, as the financial crisis subsides, we believe deposit growth will be more difficult to achieve on a long-term basis due to significant competition among financial institutions in our markets. Advances from the FHLB and other borrowings decreased to \$42.70 million at year-end 2012 from \$60.90 million at year-end 2011, a decrease of \$18.20 million and is largely attributable to the availability of retail funding from deposits.

Total shareholders' equity was \$53.65 million at June 30, 2012, an increase of \$1.17 million over the comparable period. This increase was due to earnings, and increases in net accumulated other comprehensive gain, offset by dividends paid and treasury stock purchases.

Analysis of Net Interest Income

The Bank's earnings have historically depended primarily upon net interest income, which is the difference between interest income earned on loans and investments and interest paid on deposits and any borrowed funds. It is the single largest component of Eagle's operating income. Net interest income is affected by (i) the difference between rates of interest earned on loans and investments and rates paid on interest-bearing deposits and borrowings (the "interest rate spread") and (ii) the relative amounts of loans and investments and interest-bearing deposits and borrowings.

The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	2012		For the twelve months ended June 30,				2011	
	Average Daily Balance	Interest and Dividends	Yield/ Cost(3)		Average Daily Balance	Interest and Dividends	Yield/ Cost(3)	
Assets:								
Interest-earning assets:								
FHLB stock	\$ 2,003	\$ -	0.00 %		\$ 2,003	\$ -	0.00 %	
Loans receivable, net	188,502	10,884	5.77 %		185,223	11,279	6.09 %	
Investment securities	97,976	3,192	3.26 %		107,010	3,659	3.42 %	
Interest-bearing deposits with banks	8,693	20	0.20 %		5,874	21	0.36 %	
Total interest-earning assets	297,174	14,096	4.74 %		300,110	14,959	4.98 %	
Noninterest-earning assets	33,987				31,505			
Total assets	\$ 331,161				\$ 331,615			
Liabilities and Equity:								
Interest-bearing liabilities:								
Deposit accounts:								
Money market	\$ 27,936	\$ 37	0.13 %		\$ 28,075	\$ 46	0.16 %	
Savings	38,344	39	0.10 %		33,850	48	0.14 %	
Checking	43,863	24	0.05 %		40,057	28	0.07 %	
Certificates of deposit	82,317	974	1.18 %		84,391	1,270	1.50 %	
Advances from FHLB & subordinated debt	58,806	2,091	3.55 %		69,163	2,694	3.90 %	
Total interest-bearing liabilities	251,266	3,165	1.26 %		255,536	4,086	1.60 %	
Non-interest checking	22,030				19,381			
Other noninterest-bearing liabilities	4,190				3,158			
Total liabilities	277,486				278,075			

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Total equity		53,675				53,540		
Total liabilities and equity	\$	331,161				\$ 331,615		
Net interest income/interest rate spread(1)		\$ 10,931	3.48	%		\$ 10,873	3.38	%
Net interest margin(2)			3.68	%			3.62	%
Total interest-earning assets to interest-bearing liabilities			118.27	%			117.44	%

(1)Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(2)Net interest margin represents income before the provision for loan losses divided by average interest-earning assets.

(3)For purposes of this table, tax exempt income is not calculated on a tax equivalent basis.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume multiplied by the old rate; (2) changes in rate, which are changes in rate multiplied by the old volume; and (3) changes not solely attributable to rate or volume, which have been allocated proportionately to the change due to volume and the change due to rate.

	For the Years Ended June 30,					
	2012 vs 2011			2011 vs 2010		
	Volume	Due to Rate	Net	Volume	Due to Rate	Net
Interest earning assets:						
Loans receivable, net	\$200	\$(595)	\$(395)	\$(323)	\$(231)	\$(554)
Investment securities	(309)	(158)	(467)	871	(770)	101
Interest-bearing deposits with banks	10	(14)	(4)	18	(6)	12
Other earning assets	-	-	-	-	-	-
Total interest earning assets	(99)	(767)	(866)	566	(1,007)	(441)
Interest-bearing liabilities:						
Savings, money market and checking accounts	9	(31)	(22)	47	(325)	(278)
Certificates of deposit	(31)	(266)	(297)	76	(798)	(722)
Borrowings & subordinated debentures	(403)	(202)	(605)	(68)	58	(10)
Total interest-bearing liabilities	(425)	(499)	(924)	55	(1,065)	(1,010)
Change in net interest income	\$326	\$(268)	\$58	\$511	\$58	\$569

Comparison of Operating Results for the Years Ended June 30, 2012 and 2011

Net Income.

Eagle's net income decreased slightly to \$2.178 million for the year ended June 30, 2012 from \$2.410 million for the year ended June 30, 2011, a decrease of \$232,000. This decrease was the result of decreases in noninterest income of \$449,000, and increases in the provision for loan losses of \$153,000 offset by increases in net interest income of \$58,000 and decreases in noninterest expense of \$48,000. Eagle's tax provision was also \$264,000 lower in 2012. Basic earnings per share for the year ended June 30, 2012 were \$0.59, compared to \$0.62 for the year ended June 30, 2011. Diluted earnings per share were \$0.56 and \$0.62 for 2012 and 2011, respectively.

Net Interest Income.

Net interest income increased to \$10.93 million for the year ended June 30, 2012, from \$10.87 million for the previous year. This increase of \$58,000, or 0.53%, was the result of a decrease in interest expense of \$921,000 and a decrease in interest income of \$863,000. As shown in the "Rate/Volume Analysis", this increase was mainly attributable to a decrease in average balances in borrowings, larger average balances of deposits and lower rates on deposits largely offset by lower rates on interest earning assets.

Interest and Dividend Income.

Total interest and dividend income was \$14.10 million for the year ended June 30, 2012, compared to \$14.96 million for the year ended June 30, 2011, a decrease of \$863,000, or 5.77%. Interest and fees on loans decreased to \$10.88 million for 2012 from \$11.28 million for 2011. The decrease of \$395,000, or 3.50%, was due to a slight increase in the average balances on loans receivable offset by the decrease in average rates, for the year ended June 30, 2012. Specifically, the average interest rate earned on loans receivable decreased by 32 basis points, to 5.77%, from 6.09% for the prior year. Average balances for loans receivable, including loans held for sale, net, for the year ended June 30, 2012 were \$188.50 million, compared to \$185.22 million for the previous year. This represents an increase of \$3.28 million, or 1.77%. Interest and dividends on investment securities available-for-sale also decreased to \$3.19 million for the year ended June 30, 2012 from \$3.65 million for the year ended June 30, 2011, a decrease of \$461,000, or 12.62%. This decrease was the result of both lower average interest rates and lower average balances on the AFS portfolio during the year. Interest earned from deposits at other banks decreased slightly for the year ended June 30, 2012 due to lower yields.

Interest Expense.

Total interest expense decreased to \$3.17 million for the year ended June 30, 2012 from \$4.09 million for the year ended June 30, 2011, a decrease of \$921,000, or 22.54%. Interest on deposits decreased to \$1.07 million for the year ended June 30, 2012 from \$1.39 million for the year ended June 30, 2011. This decrease of \$318,000, or 22.84%, was due primarily to a decrease in average rates paid. The average cost of deposits decreased 19 basis points, to 0.56% in 2012 from 0.75% in 2011. All deposit categories except certificates of deposits experienced increases in average balances in 2012. The decrease in the average balance of borrowings was augmented by a decrease in the average rate paid and resulted in a decrease in interest paid on borrowings to \$2.09 million for the year ended June 30, 2012 from \$2.69 million for the year ended June 30, 2011. The average balance of borrowings decreased by \$10.36 million to \$58.81 million for the year ended June 30, 2012, compared to \$69.16 million for the year ended June 30, 2011 and resulted from decreases in FHLB borrowings and other borrowings stemming from significant inflows of retail deposits as funding sources. The average rate paid on borrowings decreased to 3.55% in 2012 from 3.90% in 2011.

Provision for Loan Losses.

Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by the Bank to provide for probable loan losses based on prior loss experience, volume and type of lending we conduct and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While management believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. Using this methodology, a provision to increase the allowance for loan loss by \$1.10 million was made for the year ended June 30, 2012 while a provision of \$948,000 was made for the year ended June 30, 2011. This, management believes, adequately reflected a level of total allowances considered adequate. Total classified assets decreased to \$6.61 million at June 30, 2012 from \$7.71 million at June 30, 2011. Total nonperforming loans as a percentage of the total loan portfolio increased to 1.83% at June 30, 2012, from 1.57% at June 30, 2011. As of June 30, 2012, American Federal Savings Bank had \$2.66 million (\$2.36 million net of allowance for valuation losses of \$300,000) in other real estate owned, an increase over the \$1.18 million held at June 30, 2011.

Noninterest Income.

Total noninterest income decreased to \$4.17 million for the year ended June 30, 2012, from \$4.62 million for the year ended June 30, 2011, a decrease of \$449,000 or 9.71%. This decrease was primarily due to decrease in net gain on sale of loans of \$492,000 and a net decrease of \$615,000 in the value of the fair-value-hedge interest rate swap implemented in August 2010. Service charges on deposit accounts decreased \$61,000 to \$672,000 for the year ended June 30, 2012 from \$733,000 for the year ended June 30, 2011. This was primarily due to a decrease in overdraft fees. Other noninterest income increased \$191,000 to \$849,000, which primarily was from increased balances in bank owned life insurance. The single largest item in other noninterest income is earnings from bank owned life insurance of \$336,000.

Noninterest Expense.

Noninterest expense decreased by \$48,000 or 0.43% to \$11.03 million for the year ended June 30, 2012 from \$11.08 million for the year ended June 30, 2011. This decrease was primarily due to the reduction of the amortization of mortgage servicing rights of \$529,000. Both the provision for valuation loss on OREO and Federal insurance premiums decreased as well, while all other expenses increased. The increase in salaries and benefits was due to normal pay raises and a slightly larger staff. Most noninterest expense items showed modest changes with the exception of consulting fees which increased \$348,000. This increase is due to costs associated with potential acquisitions including certain expenses associated with the proposed acquisition of Sterling Bank's Montana branches.

Income Tax Expense.

Eagle's income tax expense was \$792,000 for the year ended June 30, 2012, compared to \$1.06 million for the year ended June 30, 2011. The effective tax rate was 26.67% for the year ended June 30, 2012 and 30.47% for the year ended June 30, 2011.

Liquidity and Capital Resources

Eagle's subsidiary, American Federal Savings Bank, is required to maintain minimum levels of liquid assets as defined by the Office of the Comptroller of the Currency regulations. The liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with the FHLB of Seattle. The Bank exceeded those minimum ratios as of both June 30, 2012 and June 30, 2011.

The Bank's primary sources of funds are deposits, repayment of loans and mortgage-backed securities, maturities of investments, funds provided from operations, advances from the FHLB of Seattle and other borrowings. Scheduled repayments of loans and mortgage-backed securities and maturities of investment securities are generally predictable. However, other sources of funds, such as deposit flows and loan prepayments, can be greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses liquidity resources principally to fund existing and future loan commitments. It also uses them to fund maturing certificates of deposit, demand deposit withdrawals and to invest in other loans and investments, maintain liquidity, and meet operating expenses.

Net cash provided (used) by the Company's operating activities, which is primarily comprised of cash transactions affecting net income, was (\$1.55 million) for the year ended June 30, 2012 and \$11.50 million for the year ended June 30, 2011. The change was primarily a result of an increase in the amount of loans held for sale in 2012.

Net cash provided (used) in the Company's investing activities, which is primarily comprised of cash transactions from the investment securities and mortgage-backed securities portfolios and the loan portfolio, was \$20.74 million for the year ended June 30, 2012, and (\$7.44 million) for the year ended June 30, 2011. The increase in cash provided was primarily due to loan originations being less than loan pay-off and principal payments in 2012 compared to 2011.

Net cash provided (used) by the Company's financing activities was (\$8.92 million) for the year ended June 30, 2012, and \$1.98 million for the year ended June 30, 2011. The decrease in cash was primarily a result of net decreases in FHLB advances and other borrowings, partially offset by net increases in deposits.

Liquidity may be adversely affected by unexpected deposit outflows, higher interest rates paid by competitors, and similar matters. Management monitors projected liquidity needs and determines the level desirable based in part on Eagle's commitments to make loans and management's assessment of Eagle's ability to generate funds.

At May 31, 2012 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured internally, decreased slightly from the previous quarter. The market value of the Bank's capital position has increased modestly from the previous year due to net income offset by the payment of dividends and the repurchase of Company stock. The Bank is well within the guidelines set forth by the Board of Directors for interest rate sensitivity.

As of June 30, 2012, the Bank's regulatory capital was in excess of all applicable regulatory requirements and the Bank is deemed "well capitalized" pursuant to OCC rules. At June 30, 2012, the Bank's tangible, core, and risk-based capital ratios amounted to 13.4%, 13.4%, and 21.91%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively.

Impact of Inflation and Changing Prices

Our consolidated financial statements and the accompanying notes, which are found in Item 8, have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Interest rates have a greater impact on our performance than do the general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Interest Rate Risk Analysis

In addition to the asset/liability committee, the board of directors reviews our asset and liability policies. The board of directors reviews interest rate risk and interest rate trends quarterly, as well as liquidity and capital ratio requirements.

Management administers the policies and determinations of the board of directors with respect to our asset and liability goals and strategies. Our asset and liability policy and strategies are expected to continue as described so long as competitive and regulatory conditions in the financial institution industry and market interest rates continue as they have in recent years.

The following table discloses how the Bank's economic value of equity ("EVE") would react to interest rate changes. Given the current relatively low level of market interest rates, an EVE calculation for an interest rate decrease of greater than 100 basis points has not been prepared.

Changes in Market Interest Rates (Basis Points)	Economic Value of Equity as % of PV of Assets			
	At June 30, 2012 Projected EVE		Board Policy Limit (if applicable)	
	Must be no greater than:			
+300	-2.7	%	-30.0	%
+200	-0.4	%	-20.0	%
+100	0.8	%	-10.0	%
0	0.0	%	-	
-100	-3.7	%	-10.0	%

Off-Balance Sheet Arrangements

As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, we use mandatory sell forward delivery commitments to sell whole loans to the secondary markets. These commitments are also used as a hedge against exposure to interest rate risks relating from rate locked loan origination commitments on certain mortgage loans held-for-sale.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Eagle's audited consolidated financial statements, notes thereto, and auditor's reports are found immediately following Part III of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO") of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended, as of June 30, 2012, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of June 30, 2012, our disclosure controls and procedures were effective.

Management Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management conducted an assessment of the effectiveness of our internal control over financial reporting. This assessment was based upon the criteria for effective internal control over financial reporting established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's internal control over financial reporting involves a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes the controls themselves, as well as monitoring of the controls and internal auditing practices and actions to correct deficiencies identified. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2012. Based on this assessment, management concluded that, as of June 30, 2012, the Company's internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended June 30, 2012 that have materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

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PART III

Except as provided below, the information required by Items 10, 11, 12, 13 and 14 is hereby incorporated by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

ITEM DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

10.

Information about our directors may be found under the caption “Proposal I – Election of Directors” in our Proxy Statement for the 2012 Annual Meeting of Shareholders (the “Proxy Statement”). The information in the Proxy Statement set forth under the captions of “Section 16 (a) Beneficial Ownership Reporting Compliance”, “Board Meetings and Committees”, “Structure of the Board of Directors”, “The Board’s Role in Risk Oversight”, and “Code of Ethics” is incorporated herein by reference.

Executive Officers of the Registrant

The following is a list of the names and ages of our executive officers, all positions and offices held by each person and each person’s principal occupations or employment during the past five years. There are no family relationships between any executive officers and directors.

Peter J. Johnson, President & Chief Executive Officer

Age 55

Mr. Johnson has served as President of the Bank and Eagle since July 2007 and CEO since November 2007. Prior to being named President, he had served as the Company’s Executive Vice President and Chief Financial Officer. He joined the Bank in 1981. He currently serves on the Montana Independent Bankers Association board of directors and the Federal Reserve Board’s Community Depository Institution Advisory Council. He is a past chairman of both the Helena Area Chamber of Commerce and the Diocese of Helena Finance Council. He is also a member of the Rotary Club of Helena.

Clinton J. Morrison, Senior Vice President & Chief Financial Officer

Age 42

Mr. Morrison has served as the Chief Financial Officer of the Bank and Eagle since July 2007. Prior to being named the Chief Financial Officer, he had served as the Company’s treasurer and compliance officer. He joined the Bank in 2001. Mr. Morrison maintains a certified public accountants license in the State of Montana. He currently is a member of the Montana Society of CPAs and the American Institute of CPAs. Mr. Morrison currently is a member of the Helena Downtown Kiwanis Club and previously served terms as President and Treasurer of that organization.

Michael C. Mundt, Senior Vice President & Chief Lending Officer

Age 58

Mr. Mundt has served as the Chief Lending Officer of the Bank since April 1994. Prior to being named the Chief Lending Officer, he served as Vice President of Consumer and Commercial Lending. He joined the bank in 1988. He currently serves on the Montana Bankers Association’s board of directors, and also currently serves as the immediate Past-President of the Montana Business Assistance Connection, a local economic development non-profit organization.

Robert M. Evans, Senior Vice President & Chief Information Officer

Age 64

Mr. Evans has served as the Chief Information Officer of the Bank since January 2008. Prior to being named Chief Information Officer, he served as the Bank’s Vice President of Information Services. Mr. Evans also serves as the Bank’s Security Officer. He joined the Bank in 1986.

Rachel R. Amdahl, Senior Vice President/Operations

Age 43

Mrs. Amdahl has served as Senior Vice President/Operations of the Bank since February 2006. Prior to being named the Senior Vice President/Operations, she served as Vice President/Operations since 2000. She joined the Bank in 1987. She currently serves on the Lewis and Clark County United Way board of directors. She also is a member of the Women's Leadership Network.

Code of Ethics

We have a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and our Board. Our Code of Ethics and Conflict of Interest Policy is available on our website at www.americanfederalsavingsbank.com. We will disclose on our website any amendments to or waivers from any provision of our Code of Ethics and Conflict of Interest Policy that applies to any of the directors or officers.

ITEM EXECUTIVE COMPENSATION.

11.

The information in the Proxy Statement set forth under the captions of "Directors' Compensation" and "Executive Compensation" is incorporated herein by reference.

ITEM SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND
12. RELATED STOCKHOLDER MATTERS.

The information in the Proxy Statement set forth under the captions of “Beneficial Ownership of Common Stock” is incorporated herein by reference.

ITEM CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.
13.

The information in the Proxy Statement set forth under the captions of “Transactions with Certain Related Persons” and “Board Independence” is incorporated herein by reference.

ITEM PRINCIPAL ACCOUNTING FEES AND SERVICES.
14.

The information in the Proxy Statement set forth under the captions of “Proposal III – Ratification of Appointment of Independent Auditors” is incorporated herein by reference.

ITEM EXHIBITS, FINANCIAL STATEMENT SCHEDULES.
15.

- (a) (1) The following documents are filed as part of this report: The audited Consolidated Statements of Financial Condition of Eagle Bancorp Montana, Inc. and subsidiary as of June 30, 2012 and June 30, 2011 and the related Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Stockholder Equity and Consolidated Statements of Cash Flows for the years then ended, together with the related notes and independent auditor’s reports.
- (2) Schedules omitted as they are not applicable.
- (3) Exhibits.

Exhibits 10.1 through 10.21 are management contracts or compensatory plans or arrangements.

- ** 3.1 Amended and Restated Certificate of Incorporation of Eagle Bancorp Montana, Inc.
- * 3.2 Bylaws of Eagle Bancorp Montana, Inc.
- * 4 Form of Common Stock Certificate of Eagle Bancorp Montana, Inc.
- *** 10.1 Employee Stock Ownership Plan.
- **** 10.2 Eagle Bancorp 2000 Stock Incentive Plan.
- * 10.3 Employment Contract, effective as of October 1, 2009, between Peter J. Johnson and American Federal Savings Bank.
- * 10.4 Form of Change in Control Agreement between Clinton J. Morrison and American Federal Savings Bank.
- * 10.5 Form of Change in Control Agreement between Michael C. Mundt and American Federal Savings Bank.

- * 10.6 Form of Change in Control Agreement between Robert M. Evans and American Federal Savings Bank.
- * 10.7 Form of Change in Control Agreement between Rachel R. Amdahl and American Federal Savings Bank.
- * 10.8 Amendment No. 1 to Employment Contract, effective as of January 22, 2010, between Peter J. Johnson and American Federal Savings Bank.
- * 10.9 Salary Continuation Agreement, dated April 18, 2002, between Larry A. Dreyer and American Federal Savings Bank.
- * 10.10 First Amendment to Salary Continuation Agreement, dated December 31, 2006, between Larry A. Dreyer and American Federal Savings Bank.

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- * 10.11 Salary Continuation Agreement, dated April 18, 2002, between Peter J. Johnson and American Federal Savings Bank.
- * 10.12 First Amendment to Salary Continuation Agreement, dated December 31, 2006, between Peter J. Johnson and American Federal Savings Bank.
- * 10.13 Salary Continuation Agreement, dated November 15, 2007, between Clinton J. Morrison and American Federal Savings Bank.
- * 10.14 Salary Continuation Agreement, dated April 18, 2002, between Michael C. Mundt and American Federal Savings Bank.
- * 10.15 First Amendment to Salary Continuation Agreement, dated December 31, 2006, between Michael C. Mundt and American Federal Savings Bank.
- * 10.16 Salary Continuation Agreement, dated April 18, 2002, between Robert M. Evans and American Federal Savings Bank.
- * 10.17 First Amendment to Salary Continuation Agreement, dated December 31, 2006, between Robert M. Evans and American Federal Savings Bank.
- * 10.18 Salary Continuation Agreement, dated November 16, 2006, between Rachel R. Amdahl and American Federal Savings Bank.
- * 10.19 American Federal Savings Bank Split-Dollar Plan, effective October 21, 2004.
- * 10.20 Summary of American Federal Savings Bank Bonus Plan.
- 10.21 2011 Stock Incentive Plan for Directors, Officers and Employees (incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-8 (File No. 333-182360) filed with the SEC on June 27, 2012)
- 10.22 Purchase and Assumption Agreement, dated June 29, 2012, by and among Sterling Savings Bank, Eagle Bancorp Montana, Inc. and American Federal Savings Bank (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on July 2, 2012)
- * 21.1 Subsidiaries of Registrant.
- 23.1 Consent of Davis Kinard & Co., PC
- 31.1 Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Clinton J. Morrison, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1

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

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

- * Incorporated by reference to the identically numbered exhibit of the Registration Statement on Form S-1 (File No. 333-163790) filed with the SEC on December 17, 2009.
- ** Incorporated by reference to the identically numbered exhibit of the Current Report on Form 8-K filed with the SEC on February 23, 2010.
- *** Incorporated by reference to the Registration Statement on Form SB-2 filed with the SEC on December 20, 1999.
- **** Incorporated by reference to the proxy statement for the 2000 Annual Meeting filed with the SEC on September 19, 2000.

(b) See item 15(a)(3) above.

(c) See Item 15(a)(1) and 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EAGLE BANCORP MONTANA,
INC.

/s/ Peter J. Johnson
Peter J. Johnson
President & Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Peter J. Johnson Peter J. Johnson	President & Chief Executive Officer Director (Principal Executive Officer)	9/19/2012
/s/ Clinton J. Morrison Clinton J. Morrison	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	9/19/2012
/s/ Larry A. Dreyer Larry A. Dreyer	Chairman	9/19/2012
/s/ James A. Maierle James A. Maierle	Vice Chairman	9/19/2012
/s/ Rick F. Hays Rick F. Hays	Director	9/19/2012
/s/ Lynn E. Dickey Lynn E. Dickey	Director	9/19/2012
/s/ Maureen J. Rude Maureen J. Rude	Director	9/19/2012
/s/ Thomas J. McCarvel Thomas J. McCarvel	Director	9/19/2012

AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

and

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

June 30, 2012 and 2011

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Eagle Bancorp Montana, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial condition of Eagle Bancorp Montana, Inc. and Subsidiary (Eagle) as of June 30, 2012 and 2011 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the two period ended June 30, 2012. Eagle's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eagle Bancorp Montana, Inc. and Subsidiary as of June 30, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two year period ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Abilene, Texas
July 27, 2012

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
June 30, 2012 and 2011
(Dollars in Thousands, Except for Per Share Data)

Assets	2012	2011
Cash and due from banks	\$3,534	\$2,703
Interest bearing deposits in banks	16,280	1,837
Federal funds sold	-	5,000
Cash and cash equivalents	19,814	9,540
Securities available-for-sale	89,277	102,700
FHLB stock restricted, at cost	2,003	2,003
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held for sale	10,613	1,784
Loans receivable, net of deferred loan fees and allowance for loan losses of \$1,625 in 2012 and \$1,800 in 2011	173,839	185,471
Accrued interest and dividend receivable	1,371	1,558
Mortgage servicing rights, net	2,218	2,142
Premises and equipment, net	15,561	16,151
Cash surrender value of life insurance	9,172	6,900
Real estate and other assets acquired in settlement of loans, net	2,361	1,181
Other assets	915	1,508
	\$327,299	\$331,093
Liabilities and Shareholders' Equity		
Noninterest bearing	\$23,425	\$19,052
Interest bearing	196,564	190,134
Total deposits	219,989	209,186
Accrued expenses and other liabilities	5,809	3,371
FHLB advances and other borrowings	42,696	60,896
Subordinated debentures	5,155	5,155
Total liabilities	273,649	278,608
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 8,000,000 shares authorized; 4,083,127 shares issued; 3,878,971 and 3,918,687 shares outstanding at June 30, 2012 and 2011, respectively	41	41
Capital surplus	22,112	22,110
Unallocated common stock held by ESOP	(1,556)	(1,722)
Treasury stock, at cost	(2,210)	(1,796)

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Retained earnings	32,990	31,918
Net accumulated other comprehensive gain	2,273	1,934
Total shareholders' equity	53,650	52,485
	\$327,299	\$331,093

The accompanying notes are an integral part of these consolidated financial statements.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Income
Years Ended June 30, 2012 and 2011
(Dollars in Thousands, Except for Per Share Data)

	2012	2011
Interest and dividend income		
Loans, including fees	\$10,884	\$11,279
Securities available-for-sale	3,192	3,653
Trust preferred securities	3	6
Deposits with banks	17	21
Total interest income	14,096	14,959
Interest expense		
Deposits	1,074	1,392
FHLB advances and other borrowings	1,994	2,502
Subordinated debentures	97	192
Total interest expense	3,165	4,086
Net interest income	10,931	10,873
Provision for loan losses	1,101	948
Net interest income after provision for loan losses	9,830	9,925
Noninterest income		
Service charges on deposit accounts	672	733
Net gain on sale of loans	1,695	2,187
Mortgage loan service fees	891	830
Net realized gain on sales of available for sale securities	490	19
Net (loss) gain on fair value hedge FASB ASC 815	(417)) 198
Net loss on sale of OREO	(6)) (2)
Other income	849	658
Total noninterest income	4,174	4,623
Noninterest expenses		
Salaries and employee benefits	5,072	4,948
Occupancy and equipment expense	1,380	1,346
Data processing	611	568
Advertising	568	524
Amortization of mortgage servicing rights	629	1,158
Federal insurance premiums	187	257
Postage	123	123
Legal, accounting, and examination fees	342	363
Consulting fees	528	180
Provision for valuation loss on OREO	169	201
Other expense	1,425	1,414
Total noninterest expenses	11,034	11,082

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Income before income taxes	2,970	3,466
Income tax expense	792	1,056
Net income	\$2,178	\$2,410
Basic earnings per share	\$0.59	\$0.62
Diluted earnings per share	\$0.56	\$0.62

The accompanying notes are an integral part of these consolidated financial statements.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
 Consolidated Statements of Comprehensive Income
 Years Ended June 30, 2012 and 2011
 (Dollars in Thousands, Except for Per Share Data)

	2012	2011
NET INCOME	\$2,178	\$2,410
OTHER ITEMS OF COMPREHENSIVE INCOME:		
Change in unrealized gain(loss) on investment securities available for sale, before income taxes	1,201	1,008
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(303)	(101)
Change in fair value of derivatives designated as cash flow hedges, before income taxes	193	18
Reclassification adjustment for realized gains on derivatives designated as cashflow hedges, before income tax	(18)	(341)
Total other items of comprehensive income	1,073	584
Income tax expense related to other items of comprehensive income	(734)	(174)
COMPREHENSIVE INCOME	\$2,517	\$2,820

The accompanying notes are an integral part of these consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended June 30, 2012 and 2011
(Dollars in Thousands, Except for Per Share Data)

	Preferred Stock	Common Stock	Capital Surplus	Unallocated ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Gain/(Loss)	Total
Balance at July 1, 2010	\$ -	\$ 41	\$22,104	\$ (1,889)	\$ -	\$ 30,652	\$ 1,524	\$52,432
Net income						2,410		2,410
Change in net unrealized appreciation on available for sale securities and cash flow hedges, net							410	410
Total comprehensive income								2,820
Dividends paid						(1,144)		(1,144)
Treasury stock purchased (164,440 shares @ \$10.92 average cost per share)					(1,796)			(1,796)
ESOP shares allocated or committed to be released for allocation (16,616) shares			6	167				173
Balance at June 30, 2011	\$ -	\$ 41	\$22,110	\$ (1,722)	\$ (1,796)	\$ 31,918	\$ 1,934	\$52,485
Net income						2,178		2,178
Change in net unrealized appreciation on available for sale securities and cash flow hedges, net							339	339
Total comprehensive income								2,517
Dividends paid						(1,106)		(1,106)

Treasury stock purchased (39,716 shares @ \$10.43 average cost per share)				(414)				(414)
ESOP shares allocated or committed to be released for allocation (16,616) shares		2		166				168
Balance at June 30, 2012	\$ -	\$ 41	\$22,112	\$ (1,556)	\$ (2,210)	\$ 32,990	\$ 2,273	\$53,650

The accompanying notes are an integral part of these consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011
(Dollars in Thousands, Except for Per Share Data)

	2012	2011
Cash flows from operating activities		
Net income	\$2,178	\$2,410
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for other real estate owned valuation losses	169	201
Provision for loan losses	1,101	948
Depreciation	760	739
Net amortization of securities premium & discounts	374	553
Amortization of capitalized mortgage servicing rights	629	1,158
Net gain on sale of loans held for sale	(1,695)	(2,187)
Net realized gain on sales of available-for-sale securities	(490)	(19)
Net loss on sale of foreclosed real estate	6	2
Net loss/(gain) on fair value hedge, FASB ASC 815	417	(198)
Net loss on sale/disposal of fixed assets	-	84
Appreciation in cash surrender value of life insurance, net	(272)	(209)
Net change in		
Loans held for sale	(6,958)	7,775
Accrued interest receivable	187	52
Other assets	593	(342)
Accrued expenses and other liabilities	1,454	529
Net cash (used in) provided by operating activities	(1,547)	11,496
Cash flows from investing activities		
Activity in available-for-sale securities		
Sales	9,000	5,544
Maturities, prepayments and calls	20,961	25,093
Purchases	(15,526)	(18,434)
Activity in held to maturity securities		
Maturities, prepayments and calls	-	125
Loan originations and principal collections, net	8,087	(18,810)
Purchase of bank owned life insurance	(2,000)	-
Proceeds from sale of foreclosed real estate	386	166
Additions to premises and equipment	(170)	(1,128)
Net cash provided by (used in) investing activities	20,738	(7,444)
Cash flows from financing activities		
Net increase in deposits	10,803	11,247
Net change in advances from the FHLB and other borrowings	(18,200)	(6,328)
Purchase of treasury stock, at cost	(414)	(1,796)
Dividends paid	(1,106)	(1,144)
Net cash (used in) provided by financing activities	(8,917)	1,979
Net change in cash and cash equivalents	10,274	6,031

