Eagle Bancorp Montana, Inc.
Form S-1
December 17, 2009
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As filed with the Securities and Exchange Commission on December 17, 2009

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

EAGLE BANCORP MONTANA, INC. AND

AMERICAN FEDERAL SAVINGS BANK

401(K) PLAN

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**6035**	**27-1449820**

(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1400 Prospect Avenue

Helena, Montana 59601

(406) 442-3080

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant s Principal Executive Offices)

Peter J. Johnson

President and Chief Executive Officer

1400 Prospect Avenue

Helena, Montana 59601

(406) 442-3080

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Agent for Service)

Copies to:

Raymond J. Gustini, Esq. **Lloyd H. Spencer, Esq.** **Nixon Peabody LLP** **401 9th Street, N.W., Suite 900** **Washington, D.C. 20004** **(202) 585-8000**	**John J. Gorman, Esq.** **Edward A. Quint, Esq.** **Luse Gorman Pomerenk & Schick, P.C.** **5335 Wisconsin Avenue, N.W. Suite 780** **Washington, D.C. 20015** **(202) 274-2000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional shares for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

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. (Check one):

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, $0.01 par value per share	5,259,093 shares	$10.00	$52,590,930 (1)	$2,935
Participation Interests	596,700 interests			(2)

(1) Estimated solely for the purpose of calculating the registration fee.

(2) The securities of Eagle Bancorp Montana, Inc. to be purchased by the American Federal Savings Bank 401(k) Plan are included in the amount shown for common stock. However, pursuant to Rule 457(h) of the Securities Act of 1933, as amended, no separate fee is required for the participation interests. Pursuant to such rule, the amount being registered has been calculated on the basis of the number of shares of common stock that may be purchased with the current assets of such plan.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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PROSPECTUS

EAGLE BANCORP MONTANA, INC.

(Proposed Holding Company for American Federal Savings Bank)

Up to 2,760,000 Shares of Common Stock

(Subject to Increase to up to 3,174,000 Shares)

Eagle Bancorp Montana, Inc., a Delaware corporation, is offering shares of common stock for sale at $10.00 per share in connection with the conversion of Eagle Financial MHC from the mutual to the stock form of organization. The shares of common stock we are offering represent the ownership interest in Eagle Bancorp currently owned by Eagle Financial MHC. In addition, at the conclusion of the offering, existing shares of Eagle Bancorp common stock currently held by the public will be exchanged for shares of common stock of Eagle Montana. Eagle Bancorp common stock is currently traded on the Over-the-Counter Bulletin Board under the trading symbol EBMT. We intend to apply to list Eagle Montana s shares of common stock on the Nasdaq Global Market under the trading symbol EBMT.

We are offering the shares of common stock in a subscription offering. Depositors of American Federal Savings Bank with aggregate account balances of at least $50 as of the close of business on November 30, 2008 will have first priority rights to buy our shares of common stock. Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a community offering, with a preference given to Montana residents and the stockholders of Eagle Bancorp. We also may offer for sale shares of common stock not purchased in the subscription offering or community offering through a syndicated community offering managed by Stifel, Nicolaus & Company, Incorporated.

We are offering up to 2,760,000 shares of common stock and may sell up to 3,174,000 shares of common stock because of demand for the shares of common stock or changes in the market for financial institutions stock, without resoliciting purchasers. In addition to the shares we are selling in the offering, we also will simultaneously issue up to 1,813,125 shares of common stock to existing public stockholders of Eagle Bancorp in exchange for their existing shares. The number of shares to be issued in the exchange may be increased to up to 2,085,093 shares of common stock, if we sell 3,174,000 shares of common stock in the offering. We must sell a minimum of 2,040,000 shares in the offering and issue 1,340,136 shares in the exchange in order to complete the offering and the exchange of existing shares of common stock.

The minimum order is 25 shares. The offering is expected to expire at 4:00 p.m., Mountain Time, on [expiration date]. We may extend this expiration date without notice to you until [extension date]. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond [extension date], or the number of shares of common stock to be sold is increased to more than 3,174,000 shares or decreased to less than 2,040,000 shares. If the subscription and community offerings are terminated, purchasers will have their funds returned promptly, with interest. If the Office of Thrift Supervision approves an offering extension beyond [extension date] or there is a change in the offering range, we will resolicit purchasers, who will have the opportunity to maintain, change or cancel their orders for a specified period of time. Funds received prior to the completion of the offering will be held in a segregated account at American Federal Savings Bank or, at our discretion, at another federally insured depository institution, and will earn interest at American Federal Savings Bank s statement savings rate, which is currently ____%. Stifel, Nicolaus & Company, Incorporated will assist us in selling our shares of common stock on a best efforts basis in the subscription and community offerings. We may also offer shares of common stock not subscribed for in the subscription and community offerings in a syndicated offering through a syndicate of selected dealers with Stifel, Nicolaus & Company, Incorporated serving as sole book running manager. Stifel, Nicolaus & Company, Incorporated is not required to purchase any shares of common stock that are being offered for sale.

OFFERING SUMMARY

Price: $10.00 per share

	Minimum	Midpoint	Maximum	Adjusted Maximum
Number of shares	2,040,000	2,400,000	2,760,000	3,174,000

Gross offering proceeds	$ 20,400,000	$ 24,000,000	$ 27,600,000	$ 31,740,000
Estimated offering expenses excluding selling agent commissions and expenses	$ 590,000	$ 590,000	$ 590,000	$ 590,000
Estimated selling agent commissions and expenses (1)	$ 1,056,225	$ 1,211,625	$ 1,367,025	$ 1,545,735
Net proceeds	$ 18,753,775	$ 22,198,375	$ 25,642,975	$ 29,604,263
Net proceeds per share	$ 9.19	$ 9.25	$ 9.29	$ 9.33

(1) For information regarding compensation to be received by Stifel, Nicolaus & Company, Incorporated and the other syndicate members that may participate in the syndicated community offering, see Pro Forma Data on page 31 and The Conversion and Offering Marketing Arrangements on page 100.

This investment involves a degree of risk, including the possible loss of principal. Please read Risk Factors, beginning on page 14.

These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. None of the Securities and Exchange Commission, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, or any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Stifel Nicolaus

For assistance, please contact the Stock Information Center at 1-(877) ________________.

The date of this prospectus is ____________.

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FORWARD-LOOKING STATEMENTS

This prospectus 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, estim project, could, intend, target and other similar words and expressions of the future. These forward-looking statements include, but are not limite to:

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

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

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

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;

- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in our organization, compensation and benefit plans;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
- the level of future deposit premium assessments;
- the impact of the current recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of the current governmental effort to restructure the U.S. financial and regulatory system;
- the failure of assumptions underlying the establishment of reserves 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. Please see Risk Factors beginning on page 14.

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SUMMARY

The following summary explains the material aspects of the conversion, the offering and the exchange of existing shares of Eagle Bancorp common stock for new shares of Eagle Bancorp Montana, Inc. common stock. It may not contain all of the information that is important to you. For additional information before making an investment decision, you should read this prospectus carefully, including the consolidated financial statements, the notes to the consolidated financial statements, and the section entitled Risk Factors.

The Companies

Eagle Bancorp Montana, Inc.

Eagle Bancorp Montana, Inc., or Eagle Montana, is a newly-formed Delaware corporation that was incorporated in December 2009 to be the successor corporation to Eagle Bancorp upon completion of the conversion. Eagle Montana will own all of the outstanding shares of common stock of American Federal Savings Bank upon completion of the conversion.

Eagle Montana s executive offices are located at 1400 Prospect Avenue, Helena, Montana 59601. Our telephone number at this address is (406) 442-3080.

Eagle Financial MHC

Eagle Financial MHC is the federally-chartered mutual holding company that was created on April 4, 2000 upon the conversion of American Federal Savings Bank to a federal stock savings bank. Eagle Financial MHC s principal business activity is the ownership of 648,493 shares of common stock of Eagle Bancorp, or 60.4% of the outstanding shares as of September 30, 2009. The remaining 426,014 shares of Eagle Bancorp common stock outstanding as of September 30, 2009 were held by the public. After the completion of the conversion, Eagle Financial MHC will cease to exist.

Eagle Bancorp

Eagle Bancorp is a federally-chartered stock holding company that owns all of the outstanding common stock of American Federal Savings Bank. Eagle Bancorp s charter was approved on April 4, 2000, when it became the mid-tier stock holding company of American Federal Savings Bank. At September 30, 2009, Eagle Bancorp had consolidated assets of $300.7 million, deposits of $195.1 million and shareholders equity of $30.4 million. After the completion of the conversion, Eagle Bancorp will cease to exist, and will be succeeded by Eagle Montana, a new Delaware corporation, which will own 100% of the capital shares of American Federal Savings Bank. As of September 30, 2009, Eagle Bancorp had 1,074,507 shares of common stock outstanding, of which 648,493 shares were owned by Eagle Financial MHC and the remaining shares were held by the public.

American Federal Savings Bank

American Federal Savings Bank is a federally-chartered savings bank headquartered in Helena, Montana. It was originally founded in 1922 as a Montana-chartered building and loan association. In 1975, it adopted a federal thrift charter and, in 2000, converted from the mutual (meaning no stockholders) structure into the mutual holding company structure. American Federal Savings Bank became the wholly owned subsidiary of Eagle Bancorp, a federal corporation, in 2000.

Our Business

We are a full service retail banking institution and our operations have been profitable in each of the past five fiscal years. Our primary business lines involve gathering funds from deposits and borrowings, and investing these funds in loans and investment securities. Our principal focus is residential mortgage related lending but we have successfully diversified into commercial lending in recent years. We currently operate seven retail banking locations and seven automated teller machines in south central Montana.

Our primary lines of business are:

Retail Lending. We originate residential mortgage loans, home equity loans, and consumer loans primarily through our community banking office network. We also offer our customers the choice of submitting online mortgage loan applications and receiving pre-approvals through our website. Retail lending constituted 69.1% of our total loan portfolio as of September 30, 2009.

Commercial Lending. We continue to place an emphasis on growing our commercial business and commercial real estate loan portfolios. In addition to commercial real estate loans, we offer traditional business loans structured as unsecured lines of credit or loans secured by inventory, accounts receivable or other business assets. We seek to provide exceptional service with local decision-making and personal attention. Commercial lending constituted 27.3% of our total loan portfolio as of September 30, 2009.

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Deposit Products and Services. We offer a full range of traditional deposit products such as checking accounts, savings accounts, money market accounts, retirement accounts, and certificates of deposit. These products can have additional features such as direct deposit, ATM and check card services, overdraft protection, telephone banking and Internet banking, thereby providing our customers multiple channels to access their accounts.

Mortgage Servicing. We provide loan servicing for other institutions. These services generally consist of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing.

Market Area and Our Customer Base

We are headquartered in Helena, Montana, which is located in south central Montana. We have retail banking offices in Helena, Bozeman, Butte and Townsend, Montana. Montana has a total population of approximately 967,440 and total households of approximately 359,000. The median household income in Montana was $40,864 as of September 30, 2009, compared to the nationwide median income level of $54,719 according to estimates from SNL Securities. Helena is Montana s state capital and 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.

Our Competitive Strengths

We believe that our growth and success have largely been due to the following strengths that have given us a competitive advantage in our markets:

Maintaining a strong and experienced management team, and attracting and retaining dedicated and qualified personnel to support the growth of our franchise. Achieving our strategic objectives requires an experienced and dedicated management team, which we have developed and maintained over the years. Our management team has been an integral part of the continued growth and success of American Federal Savings Bank, including its transition to being a fully public company.

Creating value for our stockholders. As a publicly traded mutual holding company, we have strived to create value for our stockholders while meeting the needs of our banking customers. During each of the last five fiscal years since 2005, we have been profitable. Common stock purchased in our initial offering in 2000 has appreciated 264% in value as of November 30, 2009. We will continue to focus on enhancing shareholder value as we transition to a fully converted stock holding company.

Attracting and retaining core deposits. Our core deposits to total deposits ratio enables us to maintain a relatively low cost and stable funding source for our loans and other assets. Our core deposits include checking, NOW accounts, statement savings accounts, money market accounts, IRA accounts and business checking. Based on our historical experience, core deposits are longer term funding sources and unlikely to decline significantly as interest rates change. At September 30, 2009, core deposits represented 67.07% of total deposits. Excluding IRA funds, core deposits were 55.05%. We had no brokered funds as of September 30, 2009.

Maintaining strong asset quality. We have maintained superior asset quality by focusing on lower risk loan products, operating in economically diverse and growing markets, and applying conservative underwriting standards. As of September 30, 2009, our ratio of non-performing assets to total assets was 0.52%, as compared to average ratios of 2.72% for all Montana banks and 8.33% for all Nasdaq-listed banks and thrifts based in the region (including Montana, Idaho, Washington, Oregon, Wyoming, Utah, and Colorado).By maintaining strong asset quality, we are able to minimize the reversal or non-accrual of interest on our loans, reduce our exposure to loan charge-offs or material additions to our loan loss reserve, manage costs related to asset recovery and keep our management team focused on serving our customers and growing our business.

Operating in a relatively healthy economic climate. The Montana market in which we operate has not experienced significant increases in unemployment rates or loan foreclosures similar to those that have adversely impacted banks in many regions of the country. In Montana, unemployment as of October 31, 2009, based on information released by the United States Bureau of Labor Statistics, was 6.4% versus 10.2% for the nation. Furthermore, the primary markets we serve in south central Montana (consisting of Lewis and Clark, Silver Bow and Gallatin counties) have also experienced favorable growth in population and average household incomes. According to estimates from SNL Securities, from 2000 to 2009 the total population in our primary markets increased 16.7% from approximately 158,000 to 185,000, and the average household income increased 25.0% from $35,292 to $44,095. The relatively low rate of unemployment and solid growth rates are important indicators of the economic health of our market and have enabled us to dedicate capital resources to growth and revenue enhancement as opposed to resolution of troubled assets.

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Our Business Strategy

Our strategy is to continue our profitability through building a diversified loan portfolio and positioning American Federal Savings 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 by emphasizing our recent growth in commercial real estate and commercial business loans as a complement to our traditional single family residential real estate lending;
- 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.

A full description of our products and services begins on page 51 under the heading Business of Eagle Bancorp and American Federal Savings Bank.

These strategies are intended to guide our investment of the net proceeds of the offering. We intend to continue to pursue our business strategy after the offering, subject to changes necessitated by future market conditions and other factors. See Management s Discussion and Analysis of Financial Condition and Results of Operations Our Business Strategy, for a further discussion of our business strategy.

Our Current Organizational Structure

Eagle Bancorp, a federally-chartered stock holding company, holds 100% of the stock of American Federal Savings Bank, a federally-chartered savings bank. In 2000, Eagle Bancorp became the mid-tier stock holding company of American Federal Savings Bank and conducted an initial public offering by selling a minority of its common stock to the public. The majority of the outstanding shares of common stock of Eagle Bancorp are owned by Eagle Financial MHC, which is a federally-chartered mutual (meaning no stockholders) holding company.

Pursuant to the terms of Eagle Financial MHC s plan of conversion and reorganization, Eagle Financial MHC will convert from the mutual holding company to the stock holding company corporate structure. As part of the conversion, we are offering for sale in a subscription offering, and possibly in a community and/or a syndicated community offering, shares of common stock that represent the majority ownership interest in Eagle Bancorp that is currently held by Eagle Financial MHC. Upon the completion of the offering, Eagle Bancorp and Eagle Financial MHC will cease to exist, and we will complete the transition from partial to full public stock ownership. Upon completion of the conversion, existing public stockholders of Eagle Bancorp will receive shares of common stock of Eagle Montana in exchange for their shares of Eagle Bancorp common stock in order to maintain the public stockholders existing percentage ownership in our organization (excluding any new shares purchased by them in the offering and their receipt of cash in lieu of fractional exchange shares).

The following diagram shows our current organizational structure:

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Our Organizational Structure Following the Conversion

After the conversion and offering are completed, we will be organized as a fully public stock holding company, as follows:

Reasons for the Conversion and the Offering

Our primary reasons for converting to the stock holding company structure and raising additional capital through the offering are:

- to support internal growth through lending in the communities we serve;
- to improve our capital position during a period of significant economic uncertainty, especially for the financial services industry (as of September 30, 2009, American Federal Savings Bank was considered well capitalized for regulatory purposes and is not subject to any directive or recommendation from the Office of Thrift Supervision or the Federal Deposit Insurance Corporation to raise capital);
- to finance, where opportunities are presented, the acquisition of financial institutions, branches of financial institutions or other financial service companies primarily in, or adjacent to, south central Montana, although we do not currently have any understandings or agreements regarding any specific acquisition transaction;
- to enhance existing products and services, and support the development of new products and services by investing, for example, in technology to support growth and enhanced customer service;
- to improve the liquidity of our shares of common stock and stockholder returns through higher earnings and more flexible capital management strategies; and
- to use the additional capital for other general corporate purposes.

Terms of the Offering

Pursuant to Eagle Financial MHC s plan of conversion and reorganization, our organization will convert to a fully public stock holding company structure. In connection with the conversion, we are offering between 2,040,000 and 2,760,000 shares of common stock to eligible depositors and borrowers of American Federal Savings Bank, to our tax-qualified employee benefit plans, including our employee stock ownership plan and 401(k) plan and, to the extent shares remain available, to natural persons residing in the State of Montana, to our existing public stockholders and to the general public. The number of shares of common stock to be sold may be increased to up to 3,174,000 as a result of demand for our shares, or changes in the market for financial institution stocks. Unless the number of shares of common stock to be offered is increased to more than 3,174,000 shares or decreased to fewer than 2,040,000 shares, or the offering is extended beyond [extension date], purchasers will not have the opportunity to modify or cancel their stock orders once submitted. If the number of shares of common stock to be sold is increased to more than 3,174,000 shares or decreased to fewer than 2,040,000 shares, or if the offering is extended beyond [extension date], purchasers will have the opportunity to maintain, cancel or change their orders for shares of common stock during a designated resolicitation period. If you do not provide us with written indication of your intent, your stock order will be canceled, your funds will be returned to you with interest calculated at American Federal Savings Bank s statement savings rate and any deposit account withdrawal authorizations will be canceled.

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The purchase price of each share of common stock to be offered for sale in the offering is $10.00. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Stifel, Nicolaus & Company, Incorporated, our conversion advisor and marketing agent in the offering, will use its best efforts to assist us in selling shares of our common stock. Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any shares of common stock in the offering.

We are also offering for sale to the general public in a syndicated offering through a syndicate of selected dealers shares of our common stock not purchased in the subscription offering or the community offering. We may begin the syndicated community offering at any time following the commencement of the subscription offering. Stifel, Nicolaus & Company, Incorporated is acting as sole book-running manager and D.A. Davidson & Co. is acting as co-manager for the syndicated community offering, which is also being conducted on a best efforts basis. Neither Stifel, Nicolaus & Company, Incorporated, D.A. Davidson & Co. nor any other member of the syndicate is required to purchase any shares in the syndicated community offering. Alternatively, we may sell remaining shares in an underwritten public offering, which would be conducted on a firm commitment basis.

How We Determined the Offering Range, the Exchange Ratio and the $10.00 Per Share Stock Price

The offering range and exchange ratio are based on an independent appraisal of the estimated market value of Eagle Montana, assuming the conversion, the exchange and the offering are completed. Feldman Financial Advisors, Inc., an appraisal firm experienced in appraisals of financial institutions, has estimated that, as of December 3, 2009, this estimated pro forma market value ranged from $33.8 million to $45.7 million, with a midpoint of $39.8 million. Based on this valuation, the 60.4% ownership interest of Eagle Financial MHC being sold in the offering and the $10.00 per share price, the number of shares of common stock being offered for sale by Eagle Montana will range from 2,040,000 shares to 2,760,000 shares. The $10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. The exchange ratio will range from 3.1458 shares at the minimum of the offering range to 4.2560 shares at the maximum of the offering range in order to approximately preserve the existing percentage ownership of public stockholders of Eagle Bancorp (excluding any new shares purchased by them in the offering and their receipt of cash in lieu of fractional exchange shares). If market conditions warrant or there is excess demand for the shares, the appraisal can be increased by 15%. At this adjusted maximum of the offering range, the pro forma market value is $52.6 million, the number of shares of common stock offered for sale will be 3,174,000 and the exchange ratio will be 4.8944 shares.

The independent appraisal is based in part on Eagle Bancorp s financial condition and results of operations, the pro forma impact of the additional capital raised by the sale of shares of common stock in the offering, and an analysis of a peer group of 10 publicly traded savings bank and thrift holding companies that Feldman Financial Advisors, Inc. considered comparable to Eagle Bancorp.

The appraisal peer group consists of the following companies. Total assets are as of September 30, 2009.

Company Name and Ticker Symbol		Exchange	Headquarters	Total Assets (in thousands)
Elmira Savings Bank, FSB	ESBK	NASDAQ	Elmira, NY	$ 505,896
Home Bancorp, Inc.	HBCP	NASDAQ	Lafayette, LA	$ 533,410
Home Federal Bancorp, Inc.	HOME	NASDAQ	Nampa, ID	$ 827,899
Liberty Bancorp, Inc.	LBCP	NASDAQ	Liberty, MO	$ 384,243
Louisiana Bancorp, Inc.	LABC	NASDAQ	Metairie, LA	$ 332,237
LSB Corporation	LSBX	NASDAQ	North Andover, MA	$ 806,953
Rome Bancorp, Inc.	ROME	NASDAQ	Rome, NY	$ 338,035
Teche Holding Company	TSH	NYSE Amex	New Iberia, LA	$ 765,071
TF Financial Corporation	THRD	NASDAQ	Newtown, PA	$ 711,849
WVS Financial Corp.	WVFC	NASDAQ	Pittsburgh, PA	$ 369,989

The independent appraisal does not indicate actual market value. Do not assume or expect that the estimated valuation as indicated above means that, after the offering, the shares of our common stock will trade at or above the $10.00 purchase price.

The following table presents a summary of selected pricing ratios for the peer group companies, Eagle Montana (on a pro forma basis) and Eagle Bancorp (on a historical basis). The pricing ratios are based on earnings and other information as of and for the twelve months ended September 30, 2009 and stock price information as of December 3, 2009, as reflected in Feldman Financial Advisors, Inc. s appraisal report, dated December 3, 2009. Compared to the average pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a premium of 1.4% on a price-to-book value basis, a discount of 5.2% on a price-to-tangible book value basis, and a discount of 6.4% on a price-to-core earnings basis.

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Our board of directors, in reviewing and approving the independent appraisal, considered the range of price-to-core earnings multiples, the range of price-to-book value and price-to-tangible book value ratios at the different ranges of shares of common stock to be sold in the offering, and did not consider one valuation approach to be more important than the other. Instead, in approving the independent appraisal, the board of directors concluded that these ranges represented the appropriate balance of the three approaches to establishing our estimated valuation range, and the number of shares of common stock to be sold, in comparison to the peer group institutions. Specifically, in approving the independent appraisal, the board of directors believed that we would not be able to sell our shares at a price-to-book value and price-to-tangible book value that was in line with the peer group without unreasonably exceeding the peer group on a price-to-core earnings basis. The estimated appraised value and the resulting discounts took into consideration the potential financial impact of the offering as well as the trading price of Eagle Bancorp common stock, which increased from $29.15 per share on December 1, 2009, the closing price on the last trading day immediately preceding the announcement of the conversion, to $30.75 per share, the closing price on December 3, 2009, the effective date of the independent appraisal.

	Price-to-core earnings multiple (1)	Price-to-book value ratio	Price-to-tangible book value ratio
Eagle Montana (on a pro forma basis, assuming completion of the conversion)			
Minimum	9.8x	72.31%	72.31%
Midpoint	11.6x	79.94%	79.94%
Maximum	13.5x	86.66%	86.66%
Maximum, as adjusted	15.6x	93.55%	93.55%
Valuation of peer group companies, as of December 3, 2009			
Averages	14.4x	85.48%	91.38%
Medians	13.3x	88.71%	94.00%

(1) Information derived from the Feldman Financial Advisors, Inc. appraisal report and are based upon estimated core earnings for the twelve months ended September 30, 2009. These ratios are different than the Pro Forma Data.

Feldman Financial Advisors, Inc. will update the independent appraisal prior to the completion of the conversion. If the estimated appraised value, including offering shares and exchange shares, changes to either below $33.8 million or above $52.6 million, we will resolicit persons who submitted stock orders. See The Conversion and Offering Stock Pricing and Number of Shares to be Issued.

The Exchange of Existing Shares of Eagle Bancorp Common Stock

At the conclusion of the conversion, shares held by existing public stockholders of Eagle Bancorp will be canceled and exchanged for shares of common stock of Eagle Montana. The number of shares of common stock received will be based on an exchange ratio determined as of the conclusion of the conversion and offering, which will depend upon our final appraised value. The number of shares received will not be based on the market price of Eagle Bancorp outstanding shares at that time. Instead, the exchange ratio will ensure that existing public stockholders of Eagle Bancorp will retain the same approximate percentage ownership of our organization after the offering, exclusive of their purchase of any additional shares of common stock in the offering and their receipt of cash in lieu of fractional exchange shares.

The following table shows how the exchange ratio will adjust, based on the valuation of Eagle Montana and the number of shares of common stock issued in the offering. The table also shows the number of whole shares of Eagle Montana common stock a hypothetical owner of Eagle Bancorp common stock would receive in exchange for 100 shares of Eagle Bancorp common stock owned at the completion of the conversion, depending on the number of shares of common stock sold in the offering.

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	New Shares to be Sold in This Offering		New Shares to be Exchanged for Existing Shares of Eagle Bancorp		Total Shares of Common Stock to be Outstanding After the Offering	Exchange Ratio	Equivalent Per Share Current Market Price (1)	New Shares That Would be Received for Existing 100 Shares
	Amount	Percent	Amount	Percent				
Minimum	2,040,000	60.4%	1,340,136	39.6%	3,380,136	3.1458	$ 31.45	314
Midpoint	2,400,000	60.4%	1,576,630	39.6%	3,976,630	3.7009	37.00	370
Maximum	2,760,000	60.4%	1,813,125	39.6%	4,573,125	4.2560	42.56	425
Adjusted Maximum	3,174,000	60.4%	2,085,093	39.6%	5,259,093	4.8944	48.94	489

(1) Represents the value of shares of Eagle Montana common stock received in the conversion by a holder of one share of Eagle Bancorp at the exchange ratio, assuming the market price of $10.00 per share.

No fractional shares of Eagle Montana common stock will be issued to any public stockholder of Eagle Bancorp. For each fractional share that would otherwise be issued, Eagle Montana will pay in cash an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be entitled by the $10.00 per share purchase price of the common stock in the offering.

How We Intend to Use the Proceeds From the Offering

Assuming we sell 2,400,000 shares of common stock in the stock offering, and we have net proceeds of $22.2 million, we intend to distribute the net proceeds as follows:

- $11.1 million (50.0% of the net proceeds) will be invested in American Federal Savings Bank;

- $1.9 million (8.7% of the net proceeds) will be loaned to our employee stock ownership plan to fund its purchase of our shares of common stock; and

- $9.2 million (41.3% of the net proceeds) will be retained by us.

We may use the funds that we retain for investments, to pay cash dividends, to repurchase shares of common stock and for other general corporate purposes. American Federal Savings Bank, whose capital will be increased by $11.1 million, may use the proceeds it receives to support increased lending and other products and services. The net proceeds retained also may be used for future business expansion through acquisitions of banks, thrifts and other financial services companies, and acquiring branch offices. We have no current arrangements or agreements with respect to any such acquisitions. Initially, a substantial portion of the net proceeds will be invested in short-term investments and mortgage-backed securities consistent with our investment policy.

Please see How We Intend to Use the Proceeds from the Offering for more information on the proposed use of the proceeds from the offering.

Our Dividend Policy

It is our current intention to maintain dividends after the conversion at current equivalent levels. As of September 30, 2009, Eagle Bancorp paid a quarterly cash dividend of $0.26 per share, which equals $1.04 per share on an annualized basis. After the conversion and subject to the authority of the board of directors to do so, we intend to continue to pay cash dividends on a quarterly basis. Eagle Montana expects the annual dividends following our conversion to equal $0.33, $0.28, $0.24 and $0.21 per share at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, which represents an annual dividend yield of 3.3%, 2.8%, 2.4% and 2.1%, at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, based upon a price of $10.00 per share. The amount of dividends that we intend to pay after the conversion will preserve the dividend amount that Eagle Bancorp stockholders currently receive, as adjusted to reflect the exchange ratio. However, the dividend rate and the continued payment of dividends following our conversion and the completion of this offering will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced or eliminated in the future.

See Selected Consolidated Financial and Other Data of Eagle Bancorp and Subsidiaries and Market for the Common Stock for information regarding our historical dividend payments.

Purchases and Ownership by our Officers and Directors

We expect our directors, executive officers and their associates, to purchase approximately 71,800 shares of common stock in the offering. The purchase price paid by them will be the same $10.00 per share price paid by all other persons who purchase shares of common stock in the offering. After the conversion, as a result of purchases in the offering and the shares they will receive in exchange for shares of Eagle Bancorp that they currently own, our directors and executive officers, together with their associates, are expected to own approximately 303,807 shares and 385,688 shares of common stock, or 8.99% and 8.43% of our total outstanding shares of common stock at the minimum and the maximum of the offering range, respectively.

Benefits to Management and Potential Dilution to Stockholders Resulting from the Conversion

Employee Stock Ownership Plan. Our tax-qualified employee stock ownership plan expects to purchase up to 8% of the shares of common stock we sell in the offering, or 253,920 shares of common stock, assuming we sell the maximum as adjusted number of the shares proposed to be sold. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 8% of the shares of common stock sold in the offering. We reserve the right to purchase shares of common stock in the open market following the offering in order to fund all or a portion of the employee stock ownership plan. Assuming the employee stock ownership plan purchases 192,000 shares in the offering, the midpoint of the offering range, we will recognize additional compensation expense of approximately $184,000 annually (or approximately $112,240 after tax) over a 12-year period, assuming the loan to the employee stock ownership plan has a 12-year term and the shares of common stock have a fair market value of $10.00 per share for the full 12-year period. If, in the future, the shares of common stock have a fair market value greater or less than $10.00, the compensation expense will increase or decrease accordingly.

Stock-Based Incentive Plan. We also intend to implement a new stock-based incentive plan no earlier than six months after completion of the conversion. Stockholder approval of this plan will be required. If adopted within 12 months following the completion of the conversion, the stock-based incentive plan will reserve a number of shares up to 4% of the shares of common stock sold in the offering, or up to 126,960 shares of common stock at the maximum as adjusted of the offering range (reduced by amounts purchased in the stock offering by our 401(k) plan using its purchase priority in the stock offering), for awards of restricted stock to key employees and directors, at no cost to the recipients, subject to adjustment as may be required by Office of Thrift Supervision regulations or policy to reflect restricted stock awards previously made by Eagle Bancorp or American Federal Savings Bank. If the shares of common stock awarded under the stock-based incentive plan come from authorized but unissued shares of common stock, stockholders would experience dilution of up to approximately 2.4% in their ownership interest in Eagle Montana. If adopted within 12 months following the completion of the conversion, the stock-based incentive plan will also reserve a number of shares up to 10% of the shares of common stock sold in the offering, or up to 317,400 shares of common stock at the maximum as adjusted of the offering range, for issuance pursuant to grants of stock options to key employees and directors. If the shares of common stock issued upon the exercise of options come from authorized but unissued shares of common stock, stockholders would experience dilution of up to 5.7% in their ownership interest in Eagle Montana. Restricted stock awards and stock option grants made under this plan would be subject to vesting over a period of not less than five years. If the stock-based incentive plan is adopted more than one year after the completion of the conversion, awards of restricted stock or grants of stock options under the plan may exceed the percentages set forth above of the shares sold in the offering and have a shorter vesting period. For a description of our current stock benefit plans, see Management Executive Compensation Long-Term Stock-Based Compensation.

The following table summarizes the number of shares of common stock and the aggregate dollar value of grants that are expected under the new stock-based incentive plan as a result of the conversion. The table also shows the dilution to stockholders if all such shares are issued from authorized but unissued shares, instead of shares purchased in the open market. A portion of the stock grants shown in the table below may be made to non-management employees.

	Number of Shares to be Granted or Purchased (1)				Value of Grants (2)	
	At Minimum of Offering Range	At Maximum as adjusted of Offering Range	As a Percentage of Common Stock to be Sold in the Offering	Dilution Resulting From Issuance of Shares for Stock Benefit Plans (3)	At Minimum of Offering Range	At Maximum as adjusted of Offering Range
			(Dollars in thousands)			
Employee stock ownership plan	163,200	253,920	8.00%	%	$ 1,632	$ 2,539
Restricted stock awards	81,600	126,960	4.00%	2.36%	816	1,270
Stock options	204,000	317,400	10.00%	5.69%	406	632

Total	448,800	698,280	22.00%	7.79%	$ 2,854	$ 4,441

(footnotes on following page)

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(1) The table assumes that the stock-based incentive plan awards a number of options and restricted stock equal to 10% and 4% of the shares of common stock sold in the offering, respectively, as if the plan is implemented within one year after the completion of the conversion and offering. If the stock-based incentive plan is implemented more than one year following the completion of the conversion and offering, grants of options and restricted stock may exceed these percentage limitations.

(2) The actual value of restricted stock awards will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value for stock awards is assumed to be the same as the offering price of $10.00 per share. The fair value of stock options has been estimated at $1.99 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option exercise price of $10.00; an expected option life of 10 years; a dividend yield of 3.3%; an interest rate of 3.31%; and a volatility rate of 22.35% based on an index of publicly traded thrift institutions. The actual value of option grants will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately adopted.

(3) Represents the dilution of stock ownership interest. No dilution is reflected for the employee stock ownership plan because such shares are assumed to be purchased in the offering.

We may fund our plans through open market purchases, as opposed to new issuances of common stock. Office of Thrift Supervision regulations do not permit us to repurchase our shares during the first year following the completion of this offering except to fund the grants of restricted stock under the stock-based incentive plan or under extraordinary circumstances. The Office of Thrift Supervision has previously advised that the exercise of outstanding options and cancellation of treasury shares in the conversion will not constitute an extraordinary circumstance or a compelling business purpose for satisfying this test.

The following table presents the total value of all shares that would be available for award and issuance under the new stock-based incentive plan, assuming the shares are awarded when the market price of our common stock ranges from $8.00 per share to $14.00 per share.

Share Price	81,600 Shares Awarded at Minimum of Range	96,000 Shares Awarded at Midpoint of Range	110,400 Shares Awarded at Maximum of Range	126,960 Shares Awarded at Maximum, As Adjusted, of Range
	(Dollars in thousands, except per share amounts)			
$ 8.00	$ 653	$ 768	$ 883	$ 1,016
10.00	816	960	1,104	1,270
12.00	979	1,152	1,325	1,524
14.00	1,142	1,344	1,546	1,777

The grant-date fair value of the options granted under the new stock-based incentive plan will be based in part on the price of shares of common stock of Eagle Montana at the time the options are granted. The value will also depend on the various assumptions used in the option pricing model ultimately adopted. The following table presents the total estimated value of the options to be available for grant under the stock-based incentive plan, assuming the market price and exercise price for the stock options are equal and the range of market prices for the shares is $8.00 per share to $14.00 per share.

Exercise Price	Grant-Date Fair Value Per Option	204,000 Options at Minimum of Range	240,000 Options at Midpoint of Range	276,000 Options at Maximum of Range	317,400 Options at Maximum, As Adjusted, of Range
	(Dollars in thousands, except per share and per option amounts)				
$ 8.00	$ 1.59	$ 324	$ 382	$ 439	$ 505
10.00	1.99	406	478	549	632
12.00	2.39	488	574	660	759
14.00	2.78	567	667	767	882

The tables presented above are provided for informational purposes only. Our shares of common stock may trade below $10.00 per share. Before you make an investment decision, we urge you to read this entire prospectus carefully, including, but not limited to, the section entitled Risk Factors beginning on page 14.

Limits on How Much Common Stock You May Purchase

The minimum number of shares of common stock that may be purchased in the offering is 25.

The maximum number of shares of common stock that may be purchased by a person is $250,000 (25,000 shares). If any of the following persons purchase shares of common stock, their purchases, in all categories of the offering combined, when aggregated with your purchases, cannot exceed $500,000 (50,000 shares) of common stock:

your spouse or relatives of you or your spouse living in your house;

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- companies, trusts or other entities in which you are a trustee, have a controlling beneficial interest or hold a senior position; or
- other persons who may be your associates or persons acting in concert with you.

Unless we determine otherwise, persons and persons exercising subscription rights through a single qualifying deposit account held jointly will be subject to the overall purchase limitation of $500,000 (50,000 shares) in all categories of the offering combined.

Subject to Office of Thrift Supervision approval, we may increase or decrease the purchase limitations at any time. In the event the maximum purchase limitation is increased to 5% of the shares sold in the offering, such limitation may be further increased to 9.99%, provided that orders for Eagle Montana common stock exceeding 5% of the shares sold in the offering shall not exceed in the aggregate 10% of the total shares sold in the offering.

See the detailed description of purchase limitations and definitions of acting in concert and associate in The Conversion and Offering Limitations on Common Stock Purchases.

Steps We May Take if We Do Not Receive Orders for the Minimum Number of Shares

If we do not receive orders for at least 2,040,000 shares of common stock in the subscription, community and/or syndicated community offering, we may take several steps in order to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

- increase the purchase limitations; and/or
- seek regulatory approval to extend the offering beyond [extension date], provided that any such extension will require us to resolicit subscriptions received in the offering.

Alternatively, we may terminate the offering, return funds with interest and cancel deposit account withdrawal authorizations.

Conditions to Completion of the Conversion

The Office of Thrift Supervision has conditionally approved the plan of conversion and reorganization; however, such approval does not constitute a recommendation or endorsement of the plan of conversion and reorganization by that agency.

We cannot complete the conversion unless:

- The plan of conversion and reorganization is approved by at least *a majority of votes eligible* to be cast by members of Eagle Financial MHC as of [voting record date] (comprised of American Federal Savings Bank depositors as of [voting record date] and borrowers as of April 4, 2000 whose borrowings remain outstanding as of [voting record date]);
- The plan of conversion and reorganization is approved by a vote of at least *two-thirds of the outstanding shares* of common stock of Eagle Bancorp as of [voting record date], including shares held by Eagle Financial MHC (because Eagle Financial MHC owns 60.4% of the outstanding shares of Eagle Bancorp common stock, we expect that Eagle Financial MHC and our directors and executive officers will control the outcome of this vote.);
- The plan of conversion and reorganization is approved by a vote of at least *a majority of the outstanding shares* of common stock of Eagle Bancorp as of [voting record date], excluding those shares held by Eagle Financial MHC;

We sell at least the minimum number of shares of common stock offered; and

We receive the final approval of the Office of Thrift Supervision to complete the conversion; however, such approval does not constitute a recommendation or endorsement of the plan of conversion and reorganization by that agency.

Eagle Financial MHC intends to vote its ownership interest in favor of the plan of conversion and reorganization. At [stockholder record date], Eagle Financial MHC owned 60.4% of the outstanding shares of common stock of Eagle Bancorp. The directors and executive officers of Eagle Bancorp and their affiliates owned ________ shares of Eagle Bancorp, or ______% of the outstanding shares of common stock as of [stockholder record date]. They have indicated their intention to vote those shares in favor of the plan of conversion and reorganization.

Market for Common Stock

Publicly held shares of Eagle Bancorp s common stock currently trade on the Over-the-Counter Bulletin Board, or OTCBB, under the symbol EBMT. Upon completion of the conversion and offering, the shares of common stock of Eagle Bancorp will be cancelled and will cease trading. It is currently expected that Eagle Montana common stock will then commence trading on the Nasdaq Global Market. We intend to apply to list Eagle Montana s shares of common stock on the Nasdaq Global

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Market under the trading symbol EBMT. However, for the first 20 trading days, shares of Eagle Montana common stock will trade under the symbol EBMTD and thereafter, our trading symbol will be EBMT. In order to list our common stock on the Nasdaq Global Market, we are required to have at least three broker-dealers who will make a market in our common stock. Eagle Bancorp currently has nine registered market makers. Persons purchasing shares of common stock in the offering may not be able to sell their shares at or above the $10.00 price per share.

Tax Consequences

As a general matter, implementing the plan of conversion and reorganization will not result in a taxable transaction for federal or state income tax purposes to Eagle Financial MHC, Eagle Bancorp, American Federal Savings Bank, Eagle Montana, persons eligible to subscribe in the subscription offering, or existing stockholders of Eagle Bancorp. Existing stockholders of Eagle Bancorp who receive cash in lieu of fractional share interests in shares of Eagle Montana common stock will recognize a gain or loss equal to the difference between the cash received and the tax basis of the fractional share.

Persons Who May Order Shares of Common Stock in the Offering

Subscription rights to purchase shares of common stock in a subscription offering have been granted in the following descending order of priority:

(i) First, to depositors with accounts at American Federal Savings Bank with aggregate balances of at least $50.00 at the close of business on November 30, 2008.

(ii) Second, to our tax-qualified employee benefit plans, including our employee stock ownership plan and 401(k) plan, which will receive nontransferable subscription rights to purchase in the aggregate up to 10% of the shares of common stock sold in the offering.

(iii) Third, to depositors with accounts at American Federal Savings Bank with aggregate balances of at least $50.00 at the close of business on [supplemental date].

(iv) Fourth, to depositors of American Federal Savings Bank at the close of business on [voting record date] and to borrowers of American Federal Savings Bank as of April 4, 2000 whose borrowings remain outstanding as of [voting record date].

Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a community offering, with a preference given first to natural persons residing in the State of Montana, and then to Eagle Bancorp public stockholders as of [stockholder record date]. The community offering, if held, may begin concurrently with, during or promptly after the subscription offering, as we may determine at any time. We have the right to accept or reject, in our sole discretion, orders received in the community offering or syndicated community offering. Any determination to accept or reject purchase orders in the community offering and the syndicated community offering will be based on the facts and circumstances available to management at the time of the determination.

We may also offer any shares of our common stock not purchased in the subscription offering or community offering for sale to the general public in a syndicated community offering through a syndicate of selected dealers. We may begin the syndicated community offering at any time following the commencement of the subscription offering. Stifel, Nicolaus & Company, Incorporated will act as sole book-running manager and D.A. Davidson & Co. will act as co-manager for the syndicated community offering, which will be conducted on a best efforts basis. The syndicated community offering will terminate no later than 45 days after the expiration of the subscription offering, unless extended by us with approval of the Office of Thrift Supervision. Neither Stifel, Nicolaus & Company, Incorporated, D.A. Davidson & Co. nor any other member of the syndicate is required to purchase any shares in the syndicated community offering. Alternatively, we may sell any remaining shares in an underwritten public offering, which would be conducted on a firm commitment basis. See The Conversion and Offering Syndicated Community Offering.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. Shares will be allocated first to categories in the subscription offering in accordance with Eagle Financial MHC s plan of conversion and reorganization. A detailed description of share allocation procedures can be found in the section of this prospectus entitled The Conversion and Offering.

How You May Purchase Shares of Common Stock

In the subscription offering and community offerings, you may pay for your shares only by:

(i) personal check, bank check or money order made payable directly to Eagle Bancorp Montana, Inc.; or

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(ii) authorizing us to withdraw funds from the types of American Federal Savings Bank deposit accounts designated on the stock order form.

American Federal Savings Bank is not permitted to lend funds to anyone for the purpose of purchasing shares of common stock in the offering. Additionally, you may not use a American Federal Savings Bank line of credit check or any type of third party check or wire transfer to pay for shares of common stock. Please do not submit cash.

You may purchase shares of common stock in the offering by delivering to the Stock Information Center a signed and completed original stock order form, together with full payment payable to Eagle Bancorp Montana, Inc. or authorization to withdraw funds from one or more of your American Federal Savings Bank deposit accounts, provided that we *receive* the stock order form before 4:00 p.m., Mountain Time, on [expiration date], which is the end of the offering period. Checks and money orders will be immediately deposited in a segregated account with American Federal Savings Bank or another insured depository institution upon receipt. We will pay interest calculated at American Federal Savings Bank s statement savings rate from the date funds are processed until completion or termination of the conversion at which time interest checks will be mailed to subscribers. On your stock order form, you may not authorize direct withdrawal from a American Federal Savings Bank individual retirement account. If you wish to use funds in an individual retirement account to purchase shares of our common stock, please see Using Individual Retirement Account Funds to Purchase Shares below. You may not designate a withdrawal from American Federal Savings Bank accounts with check-writing privileges. Please provide a check instead.

Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty. If a withdrawal results in a certificate of deposit account with a balance less than the applicable minimum balance requirement, the certificate of deposit will be canceled at the time of withdrawal without penalty and the remaining balance will earn interest at the current statement savings rate subsequent to the withdrawal. All funds authorized for withdrawal from deposit accounts at American Federal Savings Bank must be available in the accounts at the time the stock order is received. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you during the offering period. Funds will not be withdrawn from an account until the completion of the offering and will earn interest within the account at the applicable deposit account rate until that time.

We are not required to accept copies or facsimiles of stock order forms. By signing the stock order form, you are acknowledging both receipt of this prospectus and that the shares of common stock are not deposits or savings accounts that are federally insured or otherwise guaranteed by American Federal Savings Bank, Eagle Montana or the federal or state governments.

Submitting Your Order in the Subscription and Community Offerings

You may submit your stock order form and payment by mail using the order reply envelope provided, by overnight courier to the indicated address on the stock order form, or by delivery to our Stock Information Center, which is located at [stock information center address]. Stock order forms may not be delivered to American Federal Savings Bank offices.

Deadline for Orders of Common Stock in the Subscription or Community Offerings

If you wish to purchase shares of common stock, a properly completed and signed original stock order form, together with full payment for the shares of common stock, must be received (not postmarked) by the Stock Information Center no later than 4:00 p.m., Mountain Time, on [expiration date].

Once submitted, your order is irrevocable unless the offering is terminated or extended beyond [extension date] or the number of shares to be issued increases to more than 3,174,000 shares or decreases to less than 2,040,000 shares. We may extend the [expiration date] expiration date, without notice to you, until [extension date]. If the offering is extended beyond [extension date] or if the offering range is increased or decreased, we will be required to resolicit purchasers before proceeding with the offering. In either of these cases, purchasers will have the right to maintain, change or cancel their orders. If we do not receive a written response from a purchaser regarding any resolicitation, the purchaser s order will be canceled and all funds received will be returned promptly with interest, and deposit account withdrawal authorizations will be canceled. No extension may last longer than 90 days. All extensions, in the aggregate, may not last beyond [final expiration date].

Although we will make reasonable attempts to provide this prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 4:00 p.m., Mountain Time, on [expiration date], whether or not we have been able to locate each person entitled to subscription rights.

TO ENSURE THAT EACH PERSON RECEIVES A PROSPECTUS AT LEAST 48 HOURS PRIOR TO THE EXPIRATION DATE OF THE OFFERING IN ACCORDANCE WITH FEDERAL LAW, NO PROSPECTUS WILL BE MAILED ANY LATER THAN FIVE DAYS PRIOR TO THE OFFERING EXPIRATION DATE OR HAND-DELIVERED ANY LATER THAN TWO DAYS PRIOR

TO THE OFFERING EXPIRATION DATE.

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Using Individual Retirement Account Funds to Purchase Shares

You may be able to subscribe for shares of common stock using funds in your individual retirement account. However, shares of common stock must be held in a self-directed retirement account, such as those offered by a brokerage firm. By regulation, American Federal Savings Bank s individual retirement accounts are not self-directed, so they cannot be invested in our common stock. If you wish to use some or all of the funds in your American Federal Savings Bank individual retirement account, the applicable funds must be transferred to a self-directed account maintained by an independent trustee or custodian, such as another bank or a brokerage firm. If you do not have such an account, you will need to establish one before placing your stock order. An annual administrative fee may be payable to the independent trustee or custodian. Because individual circumstances differ and processing of retirement fund orders takes additional time, we recommend that you contact our Stock Information Center promptly, preferably at least two weeks before the [expiration date] offering deadline, for assistance with purchases using funds in your individual retirement account or other retirement account held at American Federal Savings Bank or elsewhere. Whether you may use such funds for the purchase of shares in the offering may depend on timing constraints and, possibly, limitations imposed by the institution where the funds are held.

Delivery of Stock Certificates

Certificates representing shares of common stock sold in the subscription and community offerings will be mailed by regular mail to the persons entitled thereto at the certificate registration address noted by them on the stock order form, as soon as practicable following consummation of the offering. **It is possible that, until certificates for the common stock are delivered, purchasers may not be able to sell the shares of common stock that they ordered, even though the common stock will have begun trading.**

If you are currently a stockholder of Eagle Bancorp, see The Conversion and Offering Exchange of Existing Stockholders Stock Certificates.

You May Not Sell or Transfer Your Subscription Rights

Office of Thrift Supervision regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to state that you are purchasing the common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights. We intend to take legal action, including reporting persons to federal agencies, against anyone who we believe has sold or transferred his or her subscription rights. We will not accept your order if we have reason to believe that you have sold or transferred your subscription rights. On the stock order form, you may not add the names of others for joint stock registration who do not have subscription rights or who qualify only in a lower subscription offering priority than you do. You may add only those who were eligible to purchase shares of common stock in the subscription offering at your date of eligibility. In addition, the stock order form requires that you list all deposit accounts, giving all names on each account and the account number at the applicable eligibility date. **Failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, in the event of an oversubscription.**

How You Can Obtain Additional Information Stock Information Center

Our banking office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or offering, please call our Stock Information Center. The toll-free telephone number is 1-(877) ________. The Stock Information Center is open Monday through Friday between 10:00 a.m. and 4:00 p.m., Mountain Time. The Stock Information Center will be closed weekends and bank holidays. American Federal Savings Bank offices will not have offering materials and will not accept stock order forms or proxy cards.

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RISK FACTORS

You should consider carefully the following risk factors in evaluating an investment in the shares of common stock.

Risks Related to Our Business

While Montana has not to date experienced the significant economic and real estate related decline of many other parts of the Western United States, a change in Montana s economy could adversely affect earnings.

American Federal Savings Bank operates from seven offices located in the State of Montana, and confines its lending to Montana borrowers. Montana, unlike many parts of the Western United States, has not to date experienced recession-driven economic problems such as large increases in unemployment rates, decline in real estate values and high foreclosures. We are unable to determine whether this trend suggests fundamental strength in Montana s economy or whether recession-driven effects will simply occur later.

Montana had 5.4% unemployment in January of 2009, and this rate has gradually increased during 2009. At present, however, Montana s current unemployment rate is significantly less than that of the United States as a whole. Specifically, according to data published by the United States Bureau of Labor Statistics, Montana s unemployment rate at October 31, 2009 was 6.4%, while that of the United States was 10.2% as of the same date. Montana s comparatively low unemployment rate could suggest that unemployment levels for Montana may become more severe in the future as the effects of the recession are felt in Montana. If this occurs, American Federal Savings Bank may be required to devote resources to resolving recession-driven asset quality problems at a time when banks in other parts of the country may be experiencing a recovery. Should unemployment continue to increase in Montana as it has during most of 2009, the ability of consumers to pay debts, including home mortgage and home equity loans and other consumer debt such as credit cards can adversely affect lending institutions like American Federal Savings Bank. At minimum, American Federal Savings Bank would be required to increase its loan loss provisions and dedicate more resources to workout activities during a period when banks in other geographic regions may be recovering.

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. As of September 30, 2009, our allowance for loan losses to net loans receivable was 0.37%.

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.

The United States economy is in a deep recession. 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 a severe economic recession which is expected to continue in 2010. Loan portfolio quality has deteriorated at many institutions, reflecting in part, the deteriorating U.S. economy and rising unemployment. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. The continuing real estate downturn also has resulted in reduced demand for the construction of new housing and increased delinquencies in construction, residential and commercial mortgage loans. Financial institution stock prices have declined substantially, and it is significantly more difficult for financial institutions to raise capital or borrow in the debt markets.

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The Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that noncurrent assets plus other real estate owned as a percentage of assets for FDIC insured financial institutions rose to 3.07% as of September 30, 2009, compared to 0.95% as of December 31, 2007. For the nine months ended September 30, 2009, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that annualized return on average assets was 0.10% for FDIC insured financial institutions compared to 0.81% for the year ended December 31, 2007. The Nasdaq Bank Index declined 36.5% between December 31, 2007 and September 30, 2009. At September 30, 2009, our noncurrent assets plus other real estate owned as a percentage of assets was 0.52%, and our annualized return on average assets was 1.14% for the three months ended September 30, 2009.

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 declines in the stock market in general, or stock values of financial institutions and their holding companies, could adversely affect our stock performance.

Any future Federal Deposit Insurance Corporation insurance premiums or special assessments will adversely impact our earnings.

On May 22, 2009, the Federal Deposit Insurance Corporation adopted a final rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The special assessment was payable on September 30, 2009. We recorded an expense of $128,295 during the year ended June 30, 2009, to reflect the special assessment. The final rule permits the Federal Deposit Insurance Corporation to levy up to two additional special assessments of up to five basis points each during 2009 if the Federal Deposit Insurance Corporation estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the Federal Deposit Insurance Corporation believes would adversely affect public confidence or to a level that will be close to or below zero. Any further special assessments that the Federal Deposit Insurance Corporation levies will be recorded as an expense during the appropriate period. In addition, the Federal Deposit Insurance Corporation increased the general assessment rate and, therefore, our Federal Deposit Insurance Corporation general insurance premium expense will increase compared to prior periods.

On November 12, 2009, the Federal Deposit Insurance Corporation adopted a final rule pursuant to which all insured depository institutions will be required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. This pre-payment will be due on December 30, 2009. The assessment rate for the fourth quarter of 2009 and for 2010 will be based on each institution s total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 will be equal to the modified third quarter assessment rate plus an additional three basis points. In addition, each institution s base assessment rate for each period will be calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. We will be required to make a payment of approximately $1.0 million to the Federal Deposit Insurance Corporation on December 30, 2009, and to record the payment as a prepaid expense, which will be amortized over three years.

As a savings bank, pursuant to the Home Owners Loan Act, or HOLA, American Federal Savings Bank is required to maintain a certain percentage of its total assets in HOLA-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 HOLA-qualifying 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 HOLA-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 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.

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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. At September 30, 2009, the fair value of our investment securities portfolio totaled $92.4 million.

At September 30, 2009, our interest rate risk analysis indicated that the market value of our equity would decrease by 10.74% if there was an instantaneous parallel 200 basis point increase in market 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 Office of Thrift Supervision. 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.

A federal legislative proposal has been introduced that would eliminate the Office of Thrift Supervision, the primary federal regulator of Eagle Bancorp and Eagle Montana, which may require Eagle Montana to become a bank holding company.

Legislation in the United States Congress has been proposed that would implement sweeping changes to the current bank regulatory structure. The proposal would, among other things, merge the Office of Thrift Supervision into the Office of the Comptroller of the Currency. Eagle Bancorp and Eagle Financial MHC are currently regulated by the Office of Thrift Supervision, and Eagle Montana will be regulated by the Office of Thrift Supervision following the conversion. If the Office of Thrift Supervision is eliminated, Eagle Montana may be required to become a bank holding company subject to regulation and supervision under the Bank Holding Company Act of 1956, and the supervision and regulation of the Board of Governors of the Federal Reserve System, including holding company regulatory capital requirements to which Eagle Montana is not currently subject.

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 September 30, 2009 was $2.0 million. Federal Home Loan Bank common stock is not a marketable security and can only be redeemed by the Federal Home Loan Bank.

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

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

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

Risks Related to the Offering

The future price of the shares of common stock may be less than the $10.00 purchase price per share in the offering.

If you purchase shares of common stock in the offering, you may not be able to sell them later at or above the $10.00 purchase price in the offering. In several cases, shares of common stock issued by newly converted savings institutions or mutual holding companies have traded below the initial offering price. The aggregate purchase price of the shares of common stock sold in the offering will be based on an independent appraisal. The independent appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The independent appraisal is based on certain estimates, assumptions and projections, all of which are subject to change from time to time. After our shares begin trading, the trading price of our common stock will be determined by the marketplace, and may be influenced by many factors, including prevailing interest rates, the overall performance of the economy, investor perceptions of Eagle Montana and the outlook for the financial services industry in general. Price fluctuations may be unrelated to the operating performance of particular companies.

We have broad discretion to deploy our net proceeds and our failure to effectively deploy the net proceeds may have an adverse impact on our financial performance and the value of our common stock.

Eagle Montana intends to contribute between $9.4 million and $12.8 million of the net proceeds of the offering (or $14.8 million at the adjusted maximum of the offering range) to American Federal Savings Bank. Eagle Montana may use the remaining net proceeds to invest in short-term investments, repurchase shares of common stock, pay dividends or for other general corporate purposes. Eagle Montana also expects to use a portion of the net proceeds it retains to fund a loan for the purchase of shares of common stock in the offering by the employee stock ownership plan. American Federal Savings Bank may use the net proceeds it receives to fund new loans, purchase investment securities, acquire financial institutions or financial services companies, acquire branches, or for other general corporate purposes. With the exception of the loan to the employee stock ownership plan, we have not allocated specific amounts of the net proceeds for any of these purposes, and we will have significant flexibility in determining the amount of the net proceeds we apply to different uses and the timing of such applications. We have not established a timetable for reinvesting of the net proceeds, and we cannot predict how long we will require to reinvest the net proceeds.

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Our return on equity initially will be low compared to our historical performance. A lower return on equity may negatively impact the trading price of our common stock.

Net income divided by average stockholders equity, known as return on average equity is a ratio many investors use to compare the performance of a financial institution to its peers. Our return on average equity ratios for the three months ended September 30, 2009 and for the year ended June 30, 2009 were 11.60% and 8.94%, respectively, compared to an average negative return on equity of 7.36% based on trailing twelve-month earnings for all publicly traded fully converted savings institutions as of September 30, 2009. We expect that our return on average equity will decrease as a result of the additional capital that we will raise in the offering. For example, our pro forma return on equity for the three months ended September 30, 2009 is 6.06%, assuming the sale of shares at the maximum of the offering range. Over time, we intend to use the net proceeds from the offering to increase earnings per share and book value per share, without assuming undue risk, with the goal of achieving a return on equity that is comparable to our historical performance. This goal may take a number of years to achieve, and we cannot assure you that we will be able to achieve it. Consequently, you should not expect a return on equity similar to our current return on equity in the near future. Failure to achieve a competitive return on equity may make an investment in our common stock unattractive to some investors and may cause our common stock to trade at lower prices than comparable companies with higher returns on equity.

Trading in our common stock is limited, and there is no guarantee that a liquid market for our common stock will develop.

The common stock of Eagle Bancorp has been listed on the OTCBB. The OTCBB is a significantly more limited market than the New York Stock Exchange or Nasdaq Stock Market. We intend to apply to list Eagle Montana common stock for trading on the Nasdaq Global Market under the symbol EBMT, subject to completion of the offering and compliance with certain conditions. You may have difficulty selling the shares that you buy if no active trading market develops.

The ownership interest of management and employees could enable insiders to prevent a merger that may provide stockholders a premium for their shares.

The shares of common stock that our directors and officers intend to purchase in the offering, when combined with the shares that they will receive in the exchange for their existing shares of Eagle Bancorp common stock are expected to result in management and the board controlling approximately 8.67% of our outstanding shares of common stock at the midpoint of the offering range. In addition, our employee stock ownership plan is expected to purchase 8% of the shares of common stock sold in the stock offering, and additional stock options and shares of common stock would be granted to our directors and employees if a stock-based incentive plan is adopted in the future. This would result in management and employees controlling a significant percentage of our shares of common stock. If these individuals were to act together, they could have significant influence over the outcome of any stockholder vote. This voting power may discourage a potential sale of Eagle Montana that our stockholders may desire.

The implementation of the stock-based incentive plan may dilute your ownership interest.

We intend to adopt a new stock-based incentive plan following the offering, subject to receipt of stockholder approval. This stock-based incentive plan may be funded either through open market purchases or from the issuance of authorized but unissued shares of common stock of Eagle Montana. While our intention is to fund this plan through open market purchases, stockholders would experience a 7.8% reduction in ownership interest at the adjusted maximum of the offering range in the event newly issued shares of our common stock are used to fund stock options or shares of restricted common stock under the plan in an amount equal to up to 10% and 4%, respectively, of the shares sold in the offering. In the event we adopt the plan within one year following the conversion, shares of common stock reserved for issuance pursuant to awards of restricted stock and grants of options under the stock-based incentive plan would be limited to 4% and 10%, respectively, of the total shares sold in the offering, subject to adjustment as may be required by Office of Thrift Supervision regulations or policy to reflect restricted stock previously granted by Eagle Bancorp or American Federal Savings Bank. In the event we adopt the plan more than one year following the conversion, the plan will not be subject to these limitations.

Although the implementation of the stock-based benefit plan will be subject to stockholder approval, historically, the overwhelming majority of stock-based benefit plans adopted by savings institutions and their holding companies following mutual-to-stock conversions have been approved by stockholders.

Additional expenses following the conversion from the compensation and benefit expenses associated with the implementation of the new stock-based incentive benefit plan will adversely affect our profitability.

We intend to adopt a new stock-based incentive plan after the offering, subject to stockholder approval, pursuant to which plan participants would be awarded restricted shares of our common stock (at no cost to them) and options to purchase shares of our common stock. If the stock-based incentive plan is implemented within one year of the completion of the offering, the number of shares of common stock reserved for issuance for awards of restricted stock or grants of options under such stock-based incentive plan

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may not exceed 4% and 10%, respectively, of the shares sold in the offering subject to adjustment as may be required by Office of Thrift Supervision regulations or policy to reflect restricted stock previously granted by Eagle Bancorp or American Federal Savings Bank. If we award restricted shares of common stock or grant options in excess of these amounts under a stock-based incentive plan adopted more than one year after the completion of the offering, our costs would increase further.

Following the offering, our non-interest expenses are likely to increase as we will recognize additional annual employee compensation and benefit expenses related to the shares granted to employees and executives under our stock-based incentive plan. We cannot predict the actual amount of these new stock-related compensation and benefit expenses because applicable accounting practices require that expenses be based on the fair market value of the shares of common stock at specific points in the future; however, we expect them to be material. In addition, we would recognize expense for our employee stock ownership plan when shares are committed to be released to participants accounts (i.e., as the loan used to acquire these shares is repaid), and we would recognize expense for restricted stock awards and stock options over the vesting period of awards made to recipients. The expense in the first year following the offering has been estimated to be approximately $184,000 ($112,240 after tax) at the adjusted maximum of the offering range as set forth in the pro forma financial information under Pro Forma Data, assuming the $10.00 per share purchase price as fair market value. Actual expenses, however, may be higher or lower, depending on the price of our common stock.

Various factors may make takeover attempts more difficult to achieve.

Our board of directors has no current intention to sell control of Eagle Montana. Provisions of our certificate of incorporation and bylaws, federal regulations, Delaware law and various other factors may make it more difficult for companies or persons to acquire control of Eagle Montana without the consent of our board of directors. You may want a takeover attempt to succeed because, for example, a potential acquiror could offer a premium over the then prevailing price of our common stock. The factors that may discourage takeover attempts or make them more difficult include:

Office of Thrift Supervision Regulations. Office of Thrift Supervision regulations prohibit, for three years following the completion of a conversion, the direct or indirect acquisition of more than 10% of any class of equity security of a savings institution or holding company regulated by the Office of Thrift Supervisor regulated holding company of a converted institution without the prior approval of the Office of Thrift Supervision.

Certificate of Incorporation and statutory provisions. Provisions of the certificate of incorporation and bylaws of Eagle Montana and Delaware law may make it more difficult and expensive to pursue a takeover attempt that management opposes, even if the takeover is favored by a majority of our stockholders. These provisions also would make it more difficult to remove our current board of directors or management, or to elect new directors. Specifically, under Delaware law, any person who acquires more than 15% of the common stock of Eagle Montana without the prior approval of its board of directors would be prohibited from engaging in any type of business combination with Eagle Montana for a three-year period unless such transaction is subsequently approved by the board of directors and by stockholders at an annual or special meeting of stockholders by the affirmative vote of at least $66\,^2/3\%$ of the outstanding voting stock which is not owned by such person. The certificate of incorporation of Eagle Montana contains a provision requiring that specified transactions with an interested stockholder be approved by 80% of the voting power of the then outstanding shares unless it is either approved by a majority of Eagle Montana s disinterested directors or certain price and procedural requirements are satisfied. Additional provisions include limitations on voting rights of beneficial owners of more than 10% of our common stock, the election of directors to staggered terms of three years, not permitting cumulative voting in the election of directors, not permitting stockholders to call a special meeting, and a requirement that holders of at least 80% of the outstanding shares of common stock must vote to remove directors and can only remove directors for cause. Our bylaws also contain provisions regarding the timing and content of stockholder proposals and nominations.

Federal Stock Charter of American Federal Savings Bank. The federal stock charter of American Federal Savings Bank will provide that for a period of five years from the closing of the conversion and offering, no person other than Eagle Montana may offer directly or indirectly to acquire the beneficial ownership of more than 10% of any class of equity security of American Federal Savings Bank. This provision does not apply to any tax-qualified employee benefit plan of American Federal Savings Bank or Eagle Montana or to an underwriter or member of an underwriting or selling group involving the public sale or resale of securities of Eagle Montana or any of its subsidiaries, so long as after the sale or resale, no underwriter or member of the selling group is a beneficial owner, directly or indirectly, of more than 10% of any class of equity securities of American Federal Savings Bank. In addition, during this five-year period, all shares owned over the 10% limit may not be voted on any matter submitted to stockholders for a vote.

Issuance of stock options and restricted stock. We also intend to issue stock options and shares of restricted stock to key employees and directors that will require payments to these persons in the event of a change in control of Eagle Montana. These payments may have the effect of increasing the costs of acquiring Eagle Montana, thereby discouraging future takeover attempts.

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Employment and Change in Control Agreements. We have an employment agreement with our Chief Executive Officer, Peter J. Johnson, that provides, among other things, for a payment of between one and two times his base salary in the event of Mr. Johnson s involuntary termination occurring after a change in control of American Federal Savings Bank. We intend to also enter into change in control agreements with four senior officers, Clinton Morrison, Michael Mundt, Rachel Amdahl and Robert Evans, that provide for payment of base salary for one year in the event of a change in control of American Federal Savings Bank. These payments may have the effect of increasing costs of acquiring Eagle Montana, thereby discouraging future takeovers.

You may not revoke your decision to purchase Eagle Montana common stock in the subscription offering after you send us your subscription.

Funds submitted or automatic withdrawals authorized in the connection with a purchase of shares of common stock in the subscription offering will be held by us until the completion or termination of the conversion and offering, including any extension of the expiration date. Because completion of the conversion and offering will be subject to regulatory approvals and an update of the independent appraisal prepared by Feldman Financial Advisors, Inc., among other factors, there may be one or more delays in the completion of the conversion and offering. Orders submitted in the subscription offering are irrevocable, and subscribers will have no access to subscription funds unless the offering is terminated, or extended beyond __, or the number of shares to be sold in the offering is increased to more than 3,174,000 shares or decreased to less than 2,040,000 shares.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

OF

EAGLE BANCORP AND SUBSIDIARIES

The summary financial information presented below is derived in part from the consolidated financial statements of Eagle Bancorp and Subsidiaries. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on pages F-1 and G-1. The information at June 30, 2009 and 2008 and for the years ended June 30, 2009 and 2008 is derived in part from the audited consolidated financial statements of Eagle Bancorp that appear in this prospectus. The information at June 30, 2007, 2006 and 2005 and for the years then ended is derived in part from audited consolidated financial statements that do not appear in this prospectus. The operating data for the three months ended September 30, 2009 and 2008 and the financial condition data at September 30, 2009 were not audited. However, in the opinion of management of Eagle Bancorp, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. No adjustments were made other than normal recurring entries. The results of operations for the three months ended September 30, 2009 are not necessarily indicative of the results of operations that may be expected for the entire year.

	At September 30,	At June 30,				
	2009	2009	2008	2007	2006	2005
	(In thousands)					
Balance Sheet Data:						
Total assets	$ 300,680	$ 289,709	$ 279,907	$ 244,686	$ 226,178	$ 206,414
Investment securities, available-for-sale	92,100	82,263	78,417	64,774	64,198	75,227
Investment securities, held-to-maturity	265	375	697	921	1,018	1,201
Loans receivable, net:						
Residential mortgage (one- to four-family)	76,711	79,216	86,751	81,958	75,913	56,533
Real estate construction	6,119	4,642	7,317	8,253	6,901	2,723
Home Equity	28,836	28,676	28,034	24,956	20,191	16,801
Consumer	11,074	10,835	11,558	11,438	11,820	10,909
Commercial (1)	46,005	44,254	34,699	31,987	26,509	20,347
Total loans receivable, net	168,185	167,197	168,149	158,140	140,858	106,839
Mortgage loans held for sale	3,494	5,349	7,370	1,175	918	2,148
Mortgage servicing rights, net	2,315	2,208	1,652	1,628	1,722	1,857
Deposits	195,080	187,199	178,851	179,647	174,342	172,497
FHLB advances	66,639	67,056	65,222	30,000	22,371	9,885
Subordinated debentures	5,155	5,155	5,155	5,155	5,155	
Shareholders equity	30,427	27,792	25,634	24,088	22,545	22,265

(1) Includes commercial real estate loans and commercial business loans.

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	For the Three Months Ended September 30,		For the Year Ended June 30,				
	2009	2008	2009	2008	2007	2006	2005
	(In thousands, except per share amounts)						
Operating Data:							
Total interest income	$ 3,724	$ 3,816	$ 15,348	$ 14,098	$ 12,651	$ 10,506	$ 9,043
Total interest expense	1,341	1,580	6,115	6,662	5,966	3,792	2,563
Net interest income	2,383	2,236	9,233	7,436	6,685	6,714	6,480
Provision (credit) for loan losses	135		257	(175)			
Net interest income after provision for loan losses	2,248	2,236	8,976	7,611	6,685	6,714	6,480
Noninterest income (1)	1,061	(504)	2,999	2,224	2,261	2,165	2,059
Noninterest expense	2,103	1,849	8,563	7,063	6,614	6,465	6,181
Income (loss) before income taxes	1,206	(117)	3,412	2,772	2,332	2,414	2,358
Income tax expense (benefit)	362	(17)	1,024	662	554	629	615
Net income (loss)	$ 844	$ (100)	$ 2,388	$ 2,110	$ 1,778	$ 1,785	$ 1,743
Earnings (loss) per share:							
Basic	$ 0.79	$ (0.09)	$ 2.23	$ 1.97	$ 1.66	$ 1.66	$ 1.55
Diluted	$ 0.69	$ (0.08)	$ 1.96	$ 1.74	$ 1.47	$ 1.48	$ 1.45

	At or For the Three Months Ended September 30, (2)		At or For the Year Ended June 30,				
	2009	2008	2009	2008	2007	2006	2005
Financial Ratios and Other Data:							
Return on average assets (3)	1.14%	(0.14)%	0.84%	0.83%	0.75%	0.83%	0.86%
Return on average equity (4)	11.60%	(1.59)%	8.94%	8.25%	7.41%	7.88%	7.48%
Net interest rate spread (5)	3.40%	3.26%	3.34%	2.84%	2.76%	3.21%	3.36%
Net interest margin (6)	3.58%	3.50%	3.52%	3.15%	3.06%	3.41%	3.51%
Noninterest expense to average assets	2.86%	2.67%	3.00%	2.77%	2.79%	3.01%	3.06%
Efficiency ratio	63.55%	106.76%	71.51%	71.81%	73.93%	72.81%	72.39%
Noninterest income to average assets	1.44%	(0.73)%	1.05%	0.87%	0.95%	1.01%	1.02%
Dividend payout ratio (7)	13.15%	NM	18.21%	19.67%	21.71%	20.11%	20.83%
Net interest income to noninterest expense	1.13x	1.21x	1.08x	1.05x	1.01x	1.04x	1.05x
Average interest-earning assets to average interest-bearing liabilities	1.085x	1.096x	1.078x	1.108x	1.107x	1.107x	1.112x
Nonperforming loans to net loans receivable	0.93%	0.04%	0.75%	0.02%	0.13%	0.33%	0.47%
Nonperforming assets to total assets	0.52%	0.03%	0.43%	0.01%	0.09%	0.20%	0.24%
Allowance for loan losses to net loans receivable	0.37%	0.17%	0.31%	0.18%	0.33%	0.38%	0.54%
Allowance for loan losses to nonperforming loans	39.56%	400.00%	41.90%	937.50%	244.34%	141.91%	132.03%
Average capital to average assets	9.78%	9.06%	9.09%	10.02%	10.12%	10.54%	11.55%
Capital to total assets	10.12%	8.51%	9.59%	9.16%	9.84%	9.97%	10.79%
Tangible equity to tangible assets	10.12%	8.51%	9.59%	9.16%	9.84%	9.97%	10.49%
Number of branch offices	7	5	6	5	5	5	5

(footnotes on following page)

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(1) Because of our election to apply FASB ASC 825, *Financial Instruments*, we had a negative $504,000 in noninterest income for the three months ended September 30, 2008. The loss stemmed primarily from a loss in value of Freddie Mac and Fannie Mae preferred stock investments for which the FASB ASC 825 election was applied.
(2) Ratios are annualized where appropriate.
(3) Represents net income divided by average total assets.
(4) Represents net income divided by average equity.
(5) Represents average yield on interest-earning assets less average cost of interest-bearing liabilities.
(6) Represents net interest income as a percentage of average interest-earning assets.
(7) The dividend payout ratio represents dividends declared per share divided by net income per share.

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HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the offering will be until the offering is completed, we anticipate that the aggregate net proceeds will be between $18.8 million and $25.6 million, or $29.6 million if the offering range is increased by 15%.

We intend to distribute the net proceeds from the stock offering as follows:

	Based Upon the Sale at $10.00 Per Share of							
	2,040,000 Shares		2,400,000 Shares		2,760,000 Shares		3,174,000 Shares (1)	
	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds
	(Dollars in Thousands)							
Offering proceeds	$ 20,400	100.00%	$ 24,000	100.00%	$ 27,600	100.00%	$ 31,740	100.00%
Less offering expenses	(1,646)	(8.07)	(1,802)	(7.51)	(1,957)	(7.09)	(2,136)	(6.73)
Net offering proceeds	$ 18,754	91.93%	$ 22,198	92.49%	$ 25,643	92.91%	$ 29,604	93.27%
Distribution of net proceeds:								
To American Federal Savings Bank	$ (9,377)	(45.97)%	$ (11,099)	(46.25)%	$ (12,822)	(46.45)%	$ (14,802)	(46.64)%
To fund the loan to employee stock ownership plan	(1,632)	(8.00)	(1,920)	(8.00)	(2,208)	(8.00)	(2,539)	(8.00)
Retained by Eagle Montana	$ 7,745	37.97%	$ 9,179	38.25%	$ 10,614	38.45%	$ 12,263	38.64%

(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares or changes in market or general financial conditions following the commencement of the offering.

Payments for shares of common stock made through withdrawals from existing deposit accounts will not result in the receipt of new funds for investment but will result in a reduction of American Federal Savings Bank s deposits. The net proceeds may vary because total expenses relating to the offering may be more or less than our estimates. For example, our expenses would increase if a syndicated community offering were used to sell shares of common stock not purchased in the subscription and community offerings.

Eagle Montana May Use the Proceeds it Retains From the Offering:

to fund a loan to the employee stock ownership plan to purchase shares of common stock in the offering;

to finance, where opportunities are presented, the acquisition of financial institutions or other financial service companies as opportunities arise, particularly in, or adjacent to, south central Montana, although we do not currently have any agreements or understandings regarding any specific acquisition transaction and it is impossible to determine when, if ever, such opportunities may arise;

- to pay cash dividends to stockholders;
- to repurchase shares of our common stock for, among other things, the funding of our stock-based incentive plan;
- to invest in securities; and
- for other general corporate purposes.

Initially, a substantial portion of the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following the completion of the conversion, except when extraordinary circumstances exist and with prior regulatory approval and for the funding of certain stock-based plans.

American Federal Savings Bank May Use the Net Proceeds it Receives From the Offering:

- to fund new loans, including commercial real estate, commercial and residential construction loans, commercial business loans, one- to four-family residential mortgage loans and consumer loans;

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to finance, where opportunities are presented, the acquisition of financial institutions or other financial service companies primarily in, or adjacent to, south central Montana, we do not currently have any understandings or agreements regarding any specific acquisition transaction;

to acquire branches from other financial institutions primarily in, or adjacent to, south central Montana although we do not currently have any agreements or understandings regarding any specific acquisition transaction;

to enhance existing products and services; and

for other general corporate purposes.

Initially, a substantial portion of the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities. The use of proceeds may change based on changes in interest rates, equity markets, laws and regulations affecting the financial services industry, our relative position in the financial services industry, the attractiveness of potential acquisitions, and overall market conditions. Our business strategy for the deployment of the net proceeds raised in the offering is discussed in more detail in Management s Discussion and Analysis of Financial Condition and Results of Operations Our Business Strategy.

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OUR POLICY REGARDING DIVIDENDS

As of September 30, 2009, Eagle Bancorp paid a quarterly cash dividend of $0.26 per share, which equals $1.04 per share on an annualized basis. It is our current intention to maintain dividends after the conversion at current equivalent levels. After the conversion, we intend to continue to pay cash dividends on a quarterly basis. After adjustment for the exchange ratio, we expect the annual dividends to equal $0.33, $0.28, $0.24 and $0.21 per share at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, which represents an annual dividend yield of 3.3%, 2.8%, 2.4% and 2.1% at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively, based upon a stock price of $10.00 per share. The amount of dividends that we intend to pay to our stockholders following the conversion is intended to preserve the per share dividend amount, adjusted to reflect the exchange ratio, that our stockholders currently receive on their shares of Eagle Bancorp common stock. However, the dividend rate and the continued payment of dividends will depend on a number of factors including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. We cannot assure you that we will not reduce or eliminate dividends in the future.

Under the rules of the Office of Thrift Supervision, American Federal Savings Bank will not be permitted to pay dividends on its capital stock to Eagle Montana, its sole stockholder, if American Federal Savings Bank s stockholder s equity would be reduced below the amount of the liquidation account established in connection with the conversion. In addition, American Federal Savings Bank will not be permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. See The Conversion and Offering Liquidation Rights.

Unlike American Federal Savings Bank, we are not restricted by Office of Thrift Supervision regulations on the payment of dividends to our stockholders, although the source of dividends will depend on the net proceeds retained by us and earnings and dividends from American Federal Savings Bank. However, we will be subject to state law limitations on the payment of dividends. Delaware law generally limits dividends to our capital surplus or, if there is no capital surplus, our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

Finally, pursuant to Office of Thrift Supervision regulations, during the three-year period following the conversion, we will not take any action to declare an extraordinary dividend to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

See Selected Consolidated Financial and Other Data of Eagle Bancorp and Subsidiaries and Market for the Common Stock for information regarding our historical dividend payments.

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MARKET FOR THE COMMON STOCK

Eagle Bancorp s common stock is currently traded on the Over-the-Counter Bulletin Board, or OTCBB, under the symbol EBMT. Upon completion of the offering, Eagle Bancorp s shares of common stock will be cancelled and will cease trading. We intend to apply to list Eagle Montana s shares of common stock on the Nasdaq Global Market, and it is currently expected that Eagle Montana common stock will commence trading on the Nasdaq Global Market upon completion of the offering. However, for the first 20 trading days, shares of Eagle Montana common stock will trade under the symbol EBMTD and thereafter, our trading symbol will be EBMT. In order to list our common stock on the Nasdaq Global Market, we are required to have at least three broker-dealers who will make a market in our common stock. Eagle Bancorp currently has nine registered market makers.

The development of a public market having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of our common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. You may not be able to sell your shares at or above the $10.00 price per share in the offering. Purchasers of our common stock should have a long-term investment intent and should recognize that there may be a limited trading market in our common stock.

The following table sets forth the high and low trading prices for shares of Eagle Bancorp common stock and cash dividends paid per share for the periods indicated. As of September 30, 2009, there were 426,014 shares of Eagle Bancorp common stock outstanding (excluding shares held by Eagle Financial MHC). In connection with the conversion and offering, each existing publicly held share of common stock of Eagle Bancorp will be converted into a right to receive a number of shares of Eagle Montana common stock, based upon the exchange ratio that is described in other sections of this prospectus. See The Conversion and Offering Share Exchange Ratio for Current Stockholders.

Fiscal Year Ending June 30, 2010	**High**	**Low**	**Dividend Paid Per Share**
Second quarter through December 10, 2009	$ 33.25	$ 28.50	$ 0.260
First quarter	30.00	27.50	0.260
Fiscal Year Ended June 30, 2009			
Fourth quarter	$ 28.00	$ 23.00	$ 0.255
Third quarter	23.00	21.00	0.255
Second quarter	26.00	23.00	0.255
First quarter	28.00	25.55	0.255
Fiscal Year Ended June 30, 2008			
Fourth quarter	$ 29.50	$ 25.75	$ 0.240
Third quarter	30.80	26.00	0.240
Second quarter	32.75	30.30	0.240
First quarter	33.00	30.45	0.240

On December 1, 2009, the business day immediately preceding the public announcement of the conversion, and on ________, 2010, the closing prices of Eagle Bancorp common stock as reported on the OTCBB were $29.15 per share and $______ per share, respectively. At September 30, 2009, Eagle Bancorp had approximately 500 stockholders of record. On the effective date of the conversion, all publicly held shares of Eagle Bancorp common stock, including shares of common stock held by our officers and directors, will be converted automatically into and become the right to receive a number of shares of Eagle Montana common stock determined pursuant to the exchange ratio. See The Conversion and Offering Share Exchange Ratio for Current Stockholders.

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HISTORICAL AND PRO FORMA REGULATORY CAPITAL COMPLIANCE

At September 30, 2009, American Federal Savings Bank exceeded all of the applicable regulatory capital requirements. The table below sets forth the historical equity capital and regulatory capital of American Federal Savings Bank at September 30, 2009, and the pro forma regulatory capital of American Federal Savings Bank, after giving effect to the sale of Eagle Montana s shares of common stock at a $10.00 per share purchase price. Accordingly, the table assumes the receipt by American Federal Savings Bank of at least 50% of the net proceeds. See How We Intend to Use the Proceeds from the Offering.

	American Federal Savings Bank Historical at September 30, 2009		Pro Forma at September 30, 2009 Based Upon the Sale at $10.00 Per Share							
			2,040,000 Shares		2,400,000 Shares		2,760,000 Shares		3,174,000 Shares (1)	
	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)
Equity capital	$ 28,976	9.84%	$ 35,915	11.91%	$ 37,205	12.28%	$ 38,496	12.66%	$ 39,979	13.08%
Tangible capital	$ 27,677	9.45%	$ 34,616	11.55%	$ 35,906	11.93%	$ 37,197	12.31%	$ 38,680	12.73%
Tangible capital requirement	4,391	1.50	4,495	1.50	4,515	1.50	4,534	1.50	4,556	1.50
Excess	$ 23,286	7.95%	$ 30,121	10.05%	$ 31,391	10.43%	$ 32,663	10.80%	$ 34,124	11.23%
Core capital (3)	$ 27,677	9.45%	$ 34,616	11.55%	$ 35,906	11.93%	$ 37,197	12.31%	$ 38,680	12.73%
Core capital requirement	8,782	3.00	8,991	3.00	9,029	3.00	9,068	3.00	9,112	3.00
Excess	$ 18,895	6.45%	$ 25,625	8.55%	$ 26,877	8.93%	$ 28,129	9.30%	$ 29,568	9.73%
Total risk-based capital (3)	$ 28,272	13.72%	$ 35,211	16.97%	$ 36,501	17.57%	$ 37,792	18.17%	$ 39,275	18.86%
Risk-based requirement	16,487	8.00	16,598	8.00	16,619	8.00	16,639	8.00	16,663	8.00
Excess	$ 11,785	5.72%	$ 18,613	8.97%	$ 19,882	9.57%	$ 21,153	10.17%	$ 22,612	10.85%
Reconciliation of capital infused into American Federal Savings Bank:										
Net proceeds			$ 9,377		$ 11,099		$ 12,822		$ 14,802	
Add:										
Eagle Financial MHC capital contribution			10		10		10		10	
Less:										
Common stock acquired by employee stock ownership plan			(1,632)		(1,920)		(2,208)		(2,539)	
Common stock acquired by stock-based			(816)		(960)		(1,104)		(1,270)	

incentive plan				
Pro forma increase in GAAP and regulatory capital (4)	$ 6,939	$ 8,229	$ 9,520	$ 10,003

(1) As adjusted to give effect to an increase in the number of shares of common stock that could occur due to a 15% increase in the offering range to reflect demand for the shares, or changes in market or general financial conditions following the commencement of the offering.

(2) Tangible and core capital levels are shown as a percentage of adjusted total assets. Risk-based capital levels are shown as a percentage of risk-weighted assets.

(3) Pro forma capital levels assume that we fund the stock-based incentive plans with purchases in the open market equal to 4% of the shares of common stock sold in the stock offering at a price equal to the price for which the shares of common stock are sold in the stock offering, and that the employee stock ownership plan purchases 8% of the shares of common stock sold in the stock offering with funds we lend. Pro forma GAAP and regulatory capital have been reduced by the amount required to fund both of these plans. See Management for a discussion of the stock-based incentive plan and employee stock ownership plan. We may award shares of common stock under one or more stock-based incentive plans in excess of this amount if the stock-based benefit plans are adopted more than one year following the stock offering. Accordingly, we may increase the awards beyond current regulatory restrictions and beyond the amounts reflected in this table.

(4) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 20% risk weighting.

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CAPITALIZATION

The following table presents the historical consolidated capitalization of Eagle Bancorp at September 30, 2009 and the pro forma consolidated capitalization of Eagle Montana after giving effect to the offering, based upon the assumptions set forth in the Pro Forma Data section.

	Eagle Bancorp Historical at September 30, 2009	Eagle Montana $10.00 Per Share Pro Forma 2,040,000 Shares	2,400,000 Shares	2,760,000 Shares	3,174,000 Shares (1)
		(Dollars in Thousands, except share amounts)			
Deposits (2)	$ 195,080	$ 195,070	$ 195,070	$ 195,070	$ 195,070
Borrowed funds	66,639	66,639	66,639	66,639	66,639
Subordinated debentures	5,155	5,155	5,155	5,155	5,155
Total deposits and borrowed funds	$ 266,874	$ 266,864	$ 266,864	$ 266,864	$ 266,864
Shareholders equity:					
Preferred stock, $0.01 par value, 1,000,000 shares authorized (post-conversion) (3)	$	$	$	$	$
Common stock $0.01 par value, 8,000,000 shares authorized (post-conversion); shares to be issued as reflected (3)(4)	12	34	40	46	53
Additional paid-in capital (3)	4,589	23,321	26,759	30,198	34,152
Retained earnings (5)	29,583	29,583	29,583	29,583	29,583
Accumulated other comprehensive gain	1,308	1,308	1,308	1,308	1,308
Plus:					
Eagle Financial MHC capital contribution		10	10	10	10
Less:					
Treasury stock	(5,056)	(5,056)	(5,056)	(5,056)	(5,056)
Common stock already acquired by ESOP	(9)	(9)	(9)	(9)	(9)
Common stock to be acquired by the ESOP (6)		(1,632)	(1,920)	(2,208)	(2,539)
Common stock to be acquired by the stock-based incentive plan (7)		(816)	(960)	(1,104)	(1,270)
Total shareholders equity	$ 30,427	$ 46,743	$ 49,755	$ 52,768	$ 56,232
Shares Outstanding					
Total shares outstanding	1,074,507	3,380,136	3,976,630	4,573,125	5,259,093
Exchange shares issued		1,340,136	1,576,630	1,813,125	2,085,093
Shares offered for sale		2,040,000	2,400,000	2,760,000	3,174,000
Total shareholders equity as a percentage of total assets	10.12%	14.75%	15.55%	16.34%	17.22%
Tangible equity ratio	9.45%	14.75%	15.55%	16.34%	17.22%

(1) As adjusted to give effect to an increase in the number of shares of common stock that could occur due to a 15% increase in the offering range to reflect demand for the shares, or changes in market or general financial conditions following the commencement of the offering.

(2) Does not reflect withdrawals from deposit accounts for the purchase of shares of common stock in the offering other than a deposit of $10,000 of Eagle Financial MHC held at American Federal Savings Bank. These withdrawals would reduce pro forma deposits by the amount of the withdrawals. On a pro forma basis, it also reflects a transfer to equity of $10,000 in Eagle Financial MHC deposits held at American Federal Savings Bank.

(3) Eagle Bancorp currently has 1,000,000 authorized shares of preferred stock, no par value, and 9,000,000 authorized shares of common stock, par value $0.01 per share. On a pro forma basis, Eagle Montana common stock and additional paid-in capital have been revised to reflect the number of shares of Eagle Montana common stock to be outstanding, which is 3,380,136 shares, 3,976,630 shares, 4,573,125

shares and 5,259,093 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively.

(Footnotes continued on next page)

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(continued from previous page)

(4) No effect has been given to the issuance of additional shares of Eagle Montana common stock pursuant to stock options to be granted under a stock-based incentive plan. If this plan is implemented within one year of the completion of the offering, an amount up to 10% of the shares of Eagle Montana common stock sold in the offering will be reserved for issuance upon the exercise of options. We may exceed this limit if the plan is implemented more than one year following the completion of the offering. See Management Benefits to be Considered Following Completion of the Conversion.

(5) The retained earnings of American Federal Savings Bank will be substantially restricted after the conversion. See The Conversion and Offering Liquidation Rights and Supervision and Regulation.

(6) Assumes that 8% of the shares sold in the offering will be acquired by the employee stock ownership plan financed by a loan from Eagle Montana. The loan will be repaid principally from American Federal Savings Bank s contributions to the employee stock ownership plan. Since Eagle Montana will finance the employee stock ownership plan debt, this debt will be eliminated through consolidation and no liability will be reflected on Eagle Montana s consolidated financial statements. Accordingly, the amount of shares of common stock acquired by the employee stock ownership plan is shown in this table as a reduction of total stockholders equity.

(7) Assumes at the minimum, midpoint, the maximum and the maximum as adjusted, of the offering range that a number of shares of common stock equal to 4% of the shares of common stock to be sold in the offering will be purchased by the stock-based incentive plan in open market purchases. The stock-based incentive plan will be submitted to a vote of stockholders following the completion of the offering. The funds to be used by the stock-based incentive plan to purchase the shares will be provided by Eagle Montana. The dollar amount of common stock to be purchased is based on the $10.00 per share offering price and represents unearned compensation. This amount does not reflect possible increases or decreases in the value of common stock relative to the subscription price in the offering. As Eagle Montana accrues compensation expense to reflect the vesting of shares pursuant to the stock-based incentive plan, the credit to capital will be offset by a charge to operations. Implementation of the stock-based incentive plan will require stockholder approval. If the shares to fund the plan (restricted stock awards and stock options) are assumed to come from authorized but unissued shares of Eagle Montana, the number of outstanding shares at the minimum, midpoint, maximum and the maximum, as adjusted, of the offering range would be 3,665,736, 4,312,630, 4,959,525 and 5,703,453, respectively, total shareholders equity would be $47.6 million, $50.7 million, $53.9 million and $57.5 million, respectively, and total shareholders ownership in Eagle Montana would be diluted by approximately 8.4% at the maximum of the offering range.

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PRO FORMA DATA

The following tables summarize historical data of Eagle Bancorp and pro forma data at and for the three months ended September 30, 2009 and at and for the year ended June 30, 2009. This information is based on assumptions set forth below and in the tables, and should not be used as a basis for projections of market value of the shares of common stock following the offering. Moreover, pro forma stockholders equity per share does not give effect to the liquidation account to be established in the conversion or, in the unlikely event of a liquidation of American Federal Savings Bank, to the recoverability of intangible assets or the tax effect of the recapture of the bad debt reserve. See The Conversion and Offering Liquidation Rights.

The net proceeds in the tables are based upon the following assumptions:

(i) one-third of all shares of common stock will be sold in the subscription and community offerings, including shares purchased by insiders, with the remaining shares to be sold in the syndicated community offering;

(ii) 71,800 shares of common stock will be purchased by our executive officers and directors, and their associates;

(iii) our employee stock ownership plan will purchase 8% of the shares of common stock sold in the offering with a loan from Eagle Montana. The loan will be repaid in substantially equal payments of principal and interest over a period of 12 years;

(iv) Stifel, Nicolaus & Company, Incorporated will receive a fee equal to 1.25% of all shares of common stock sold in the subscription and community offerings and a fee equal to 6% of all shares sold in the syndicated community offering. No fee will be paid with respect to shares of common stock purchased by our qualified and non-qualified employee stock benefit plans, or stock purchased by our officers, directors and employees, and their immediate families; and

(v) total expenses of the offering, including the marketing fees to be paid to Stifel, Nicolaus & Company, Incorporated, will be between $1.6 million at the minimum of the offering range and $2.1 million at the maximum of the offering range, as adjusted.

We calculated pro forma consolidated net income for the three months ended September 30, 2009 and the year ended June 30, 2009 as if the estimated net proceeds we received had been invested at the beginning of each period at an assumed interest rate of 1.34% (0.82% on an after-tax basis). The interest rate was calculated assuming that 25% of the net proceeds are placed into residential mortgage loans (half in 30-year fixed rate loans and half in 15-year fixed rate loans) with the remaining 75% of the net proceeds invested in one-year U.S. Treasury securities, all based on market interest rates prevailing as of September 30, 2009. We consider the resulting rate to reflect more accurately the pro forma reinvestment rate than an arithmetic average method in light of current market interest rates. The effect of withdrawals from deposit accounts for the purchase of shares of common stock has not been reflected. Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of common stock. No effect has been given in the pro forma stockholders equity calculations for the assumed earnings on the net proceeds.

The pro forma tables give effect to the implementation of one or more stock-based incentive plans. Subject to the receipt of stockholder approval, we have assumed that the stock-based incentive plans will acquire for restricted stock awards a number of shares of common stock equal to 4% of the shares of common stock sold in the stock offering at the same price for which they were sold in the stock offering. We assume that shares of common stock are granted under the plans in awards that vest over a five-year period.

We have also assumed that the stock-based incentive plans will grant options to acquire shares of common stock equal to 10% of the shares of common stock sold in the stock offering. In preparing the tables below, we assumed that stockholder approval was obtained, that the exercise price of the stock options and the market price of the stock at the date of grant were $10.00 per share and that the stock options had a term of 10 years and vested over five years. We applied the Black-Scholes option pricing model to estimate a grant-date fair value of $1.99 for each option. In addition to the terms of the options described above, the Black-Scholes option pricing model assumed an estimated volatility rate of 22.35% for the shares of common stock, a dividend yield of 3.3%, an expected option life of 10 years and a risk-free interest rate of 3.31%.

We may grant options and award shares of common stock under one or more stock-based incentive plans in excess of 10% and 4%, respectively, of the shares of common stock sold in the stock offering if the stock-based incentive plans are adopted more than one year following the stock offering.

As discussed under How We Intend to Use the Proceeds from the Offering, we intend to contribute at least 50% of the net proceeds from the stock offering to American Federal Savings Bank, and we will retain the remainder of the net proceeds from the stock offering. We will use a portion of the proceeds we retain for the purpose of making a loan to the employee stock ownership plan and retain the rest of the proceeds for future use.

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The pro forma table does not give effect to:

withdrawals from deposit accounts for the purpose of purchasing shares of common stock in the stock offering;

our results of operations after the stock offering; or

changes in the market price of the shares of common stock after the stock offering.

The following pro forma information may not represent the financial effects of the stock offering at the date on which the stock offering actually occurs and you should not use the table to indicate future results of operations. Pro forma stockholders equity represents the difference between the stated amount of our assets and liabilities, computed in accordance with GAAP. We did not increase or decrease stockholders equity to reflect the difference between the carrying value of loans and other assets and their market value. Pro forma stockholders equity is not intended to represent the fair market value of the shares of common stock and may be different than the amounts that would be available for distribution to stockholders if we liquidated. Per share figures have been calculated based on shares of Eagle Bancorp outstanding as of the date of this prospectus.

	At or for the Three Months Ended September 30, 2009 Based Upon the Sale at $10.00 Per Share of			
	2,040,000 Shares	2,400,000 Shares	2,760,000 Shares	3,174,000 Shares (1)
	(Dollars in Thousands, except per share amounts)			
Gross proceeds of stock offering	$ 20,400	$ 24,000	$ 27,600	$ 31,740
Market value of shares issued in the exchange	13,401	15,766	18,131	20,851
Pro forma market capitalization	$ 33,801	$ 39,766	$ 45,731	$ 52,591
Gross proceeds of offering	$ 20,400	$ 24,000	$ 27,600	$ 31,740
Less: Expenses	(1,646)	(1,802)	(1,957)	(2,136)
Estimated net proceeds	18,754	22,198	25,643	29,604
Less: Common stock purchased by employee stock ownership plan	(1,632)	(1,920)	(2,208)	(2,539)
Less: Common stock purchased by the stock-based incentive plan	(816)	(960)	(1,104)	(1,270)
Plus: Eagle Financial MHC capital contribution	10	10	10	10
Estimated net proceeds, as adjusted	$ 16,316	$ 19,328	$ 22,341	$ 25,805
For the Three Months Ended September 30, 2009				
Consolidated net income:				
Historical	$ 844	$ 844	$ 844	$ 844
Pro forma adjustments:				
Income on adjusted net proceeds	34	40	46	53
Employee stock ownership plan (2)	(21)	(24)	(28)	(32)
Shares granted under the stock-based incentive plan (3)	(25)	(29)	(34)	(39)
Options granted under the stock-based incentive plan (4)	(20)	(24)	(28)	(32)
Pro forma net income	$ 812	$ 807	$ 800	$ 795

Net income per share (5):

Historical	$ 0.26	$ 0.22	$ 0.19	$ 0.17
Pro forma adjustments:				
Income on adjusted net proceeds	0.01	0.01	0.01	0.01
Employee stock ownership plan (2)	(0.01)	(0.01)	(0.01)	(0.01)
Shares granted under the stock-based incentive plan (3)	(0.01)	(0.01)	(0.01)	(0.01)
Options granted under the stock-based incentive plan (4)	(0.01)	(0.01)	(0.01)	(0.01)
Pro forma net income per share (5) (6)	$ 0.25	$ 0.21	$ 0.18	$ 0.16
Offering price to pro forma net income per share	10.0x	11.9x	13.9x	15.6x
Number of shares used in net income per share calculations (5)	3,230,536	3,800,630	4,370,725	5,026,333

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	At or for the Three Months Ended September 30, 2009 Based Upon the Sale at $10.00 Per Share of			
	2,040,000 Shares	2,400,000 Shares	2,760,000 Shares	3,174,000 Shares (1)
	(Dollars in Thousands, except per share amounts)			
At September 30, 2009				
Shareholders equity:				
Historical	$ 30,427	$ 30,427	$ 30,427	$ 30,427
Estimated net proceeds	18,754	22,198	25,643	29,604
Eagle Financial MHC capital contribution	10	10	10	10
Less: Common stock acquired by employee stock ownership plan (2)	(1,632)	(1,920)	(2,208)	(2,539)
Less: Common stock acquired by the stock-based incentive plan (3)	(816)	(960)	(1,104)	(1,270)
Pro forma shareholders equity	$ 46,743	$ 49,755	$ 52,768	$ 56,232
Less: Intangible assets				
Pro forma tangible stockholders equity	$ 46,743	$ 49,755	$ 52,768	$ 56,232
Shareholders equity per share (7):				
Historical	$ 9.00	$ 7.65	$ 6.65	$ 5.79
Estimated net proceeds	5.55	5.58	5.61	5.63
Eagle Financial MHC capital contribution				
Less: Common stock acquired by employee stock ownership plan (2)	(0.48)	(0.48)	(0.48)	(0.48)
Less: Common stock acquired by the stock-based incentive plan (3)	(0.24)	(0.24)	(0.24)	(0.24)
Pro forma stockholders equity per share (7)	$ 13.83	$ 12.51	$ 11.54	$ 10.69
Less: Intangible assets				
Pro forma tangible stockholders equity	$ 13.83	$ 12.51	$ 11.54	$ 10.69
Offering price as percentage of pro forma shareholders equity per share	72.31%	79.93%	86.66%	93.55%
Offering price as percentage of pro forma tangible shareholders equity per share	72.31%	79.93%	86.66%	93.55%
Number of shares outstanding for pro forma shareholders equity per share calculations (8)	3,380,136	3,976,630	4,573,125	5,259,093

(1) As adjusted to give effect to an increase in the number of shares that could occur due to a 15% increase in the offering range to reflect demand for the shares, or changes in market and financial conditions following the commencement of the offering.

(2) Assumes that 8% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from Eagle Montana. American Federal Savings Bank intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. American Federal Savings Bank s total annual payments on the employee stock ownership plan debt are based upon 12 equal annual installments of principal and interest. FASB ASC 718-40 *Employee Stock Ownership Plans* (FASB ASC 718-40), requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that: (i) the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by American Federal Savings Bank, (ii) the fair value of the common stock remains equal to the $10.00 subscription price and (iii) the employee stock

ownership plan expense reflects an effective combined federal and state tax rate of 39%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 13,600, 16,000, 18,400 and 21,160 shares were committed to be released during the period at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with FASB ASC 718-40, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of net income per share calculations.

(3) Gives effect to the grant of stock awards pursuant to the stock-based incentive plan expected to be adopted by Eagle Montana following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that at the minimum, midpoint, maximum and maximum as adjusted, of the offering range this plan

acquires a number of shares of restricted common stock equal to 4% of the shares sold in the offering, either through open market purchases, from authorized but unissued shares of common stock or treasury stock of Eagle Montana. Funds used by the stock-based incentive plan to purchase the shares of common stock will be contributed by Eagle Montana. In calculating the pro forma effect of the stock-based incentive plan, it is assumed that the shares of common stock were acquired by the plan in open market purchases at the beginning of the period presented for a purchase price equal to the price for which the shares are sold in the offering, and that 100% of the amount contributed was an amortized expense (20% annually based upon a five-year vesting period) during the three months ended September 30, 2009. There can be no assurance that the actual purchase price of the shares of common stock granted under the stock-based incentive plan will be equal to the $10.00 subscription price. If shares are acquired from authorized but unissued shares of common stock or from treasury shares of Eagle Montana, our net income per share and stockholders equity per share will decrease. This will also have a dilutive effect of approximately 2.4% (at the maximum of the offering range) on the ownership interest of stockholders. The impact on pro forma net income per share and pro forma stockholders equity per share is not material. The following table shows pro forma net income per share and pro forma stockholders equity per share, assuming all the shares of common stock to fund the stock awards are obtained from authorized but unissued shares.

At or For the Three Months Ended September 30, 2009	Minimum	Midpoint	Maximum	Maximum, as Adjusted
Pro forma net income per share	$ 0.24	$ 0.21	$ 0.18	$ 0.15
Pro forma shareholders equity per share	$ 13.74	$ 12.45	$ 11.50	$ 10.68

(4) Gives effect to the granting of options pursuant to the stock-based incentive plan, which is expected to be adopted by Eagle Montana following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that options will be granted to acquire shares of common stock equal to 10% of the shares sold in the offering. In calculating the pro forma effect of the stock options, it is assumed that the exercise price of the stock options and the trading price of the stock at the date of grant were $10.00 per share, and the estimated grant-date fair value pursuant to the application of the Black-Scholes option pricing model was $1.99 for each option. The pro forma net income assumes that the options granted under the stock-based incentive plan have a value of $1.99 per option, which was determined using the Black-Scholes option pricing formula using the following assumptions: (i) the trading price on date of grant was $10.00 per share; (ii) exercise price is equal to the trading price on the date of grant; (iii) dividend yield of 3.3%; (iv) expected life of 10 years; (v) expected volatility of 22.35%; and (vi) risk-free interest rate of 3.31%. If the fair market value per share on the date of grant is different than $10.00, or if the assumptions used in the option pricing formula are different from those used in preparing this pro forma data, the value of options and the related expense recognized will be different. The aggregate grant date fair value of the stock options was amortized to expense on a straight-line basis over a five-year vesting period of the options. There can be no assurance that the actual exercise price of the stock options will be equal to the $10.00 price per share. If a portion of the shares to satisfy the exercise of options under the stock-based incentive plan is obtained from the issuance of authorized but unissued shares of common stock, our net income and stockholders equity per share will decrease. This also will have a dilutive effect of up to 5.7% on the ownership interest of persons who purchase shares of common stock in the offering.

(5) The number of shares used to calculate pro forma net income per share is equal to the estimated weighted average shares outstanding for the three months ended September 30, 2009 multiplied by the exchange ratio at the minimum, midpoint, maximum and maximum, as adjusted, and subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods in accordance with FASB ASC 718-40. See footnote 2, above.

(6) The retained earnings of American Federal Savings Bank will be substantially restricted after the conversion. See Our Policy Regarding Dividends, The Conversion and Offering Liquidation Rights and Supervision and Regulation.

(7) Per share figures include publicly held shares of Eagle Bancorp common stock that will be exchanged for shares of Eagle Montana common stock in the conversion. Stockholders equity per share calculations are based upon the sum of (i) the number of subscription shares assumed to be sold in the offering; and (ii) shares to be issued in exchange for publicly held shares.

(8) The number of shares used to calculate pro forma stockholders equity per share is equal to the total number of shares to be outstanding upon completion of the offering.

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	At or for the Year Ended June 30, 2009 Based Upon the Sale at $10.00 Per Share of			
	2,040,000 Shares	2,400,000 Shares	2,760,000 Shares	3,174,000 Shares (1)
	(Dollars in Thousands, except per share amounts)			
Gross proceeds of stock offering	$ 20,400	$ 24,000	$ 27,600	$ 31,740
Market value of shares issued in the exchange	13,401	15,766	18,131	20,851
Pro forma market capitalization	$ 33,801	$ 39,766	$ 45,731	$ 52,591
Gross proceeds of offering	$ 20,400	$ 24,000	$ 27,600	$ 31,740
Less: Expenses	(1,646)	(1,802)	(1,957)	(2,136)
Estimated net proceeds	18,754	22,198	25,643	29,604
Less: Common stock purchased by employee stock ownership plan	(1,632)	(1,920)	(2,208)	(2,539)
Less: Common stock purchased by the stock-based incentive plan	(816)	(960)	(1,104)	(1,270)
Plus: Eagle Financial MHC capital contribution	10	10	10	10
Estimated net proceeds, as adjusted	$ 16,316	$ 19,328	$ 22,341	$ 25,805
For the Twelve Months Ended June 30, 2009				
Consolidated net income:				
Historical	$ 2,388	$ 2,388	$ 2,388	$ 2,388
Pro forma adjustments:				
Income on adjusted net proceeds	133	158	183	211
Employee stock ownership plan (2)	(83)	(98)	(112)	(129)
Shares granted under the stock-based incentive plan (3)	(100)	(117)	(135)	(155)
Options granted under the stock-based incentive plan (4)	(81)	(96)	(110)	(126)
Pro forma net income	$ 2,258	$ 2,235	$ 2,214	$ 2,189
Net income per share (5):				
Historical	$ 0.74	$ 0.63	$ 0.55	$ 0.48
Pro forma adjustments:				
Income on adjusted net proceeds	0.04	0.04	0.04	0.04
Employee stock ownership plan (2)	(0.03)	(0.03)	(0.03)	(0.03)
Shares granted under the stock-based incentive plan (3)	(0.03)	(0.03)	(0.03)	(0.03)
Options granted under the stock-based incentive plan (4)	(0.03)	(0.03)	(0.03)	(0.03)
Pro forma net income per share (5) (6)	$ 0.69	$ 0.58	$ 0.50	$ 0.43
Offering price to pro forma net income per share	14.3x	16.9x	19.6x	22.7x
Number of shares used in net income per share calculations (5)	3,230,536	3,800,630	4,370,725	5,026,333
At June 30, 2009				
Shareholders equity:				
Historical	$ 27,792	$ 27,792	$ 27,792	$ 27,792
Estimated net proceeds	18,754	22,198	25,643	29,604
Eagle Financial MHC capital contribution	10	10	10	10
Less: Common stock acquired by employee stock ownership plan (2)	(1,632)	(1,920)	(2,208)	(2,539)
Less: Common stock acquired by the stock-based incentive plan (3)	(816)	(960)	(1,104)	(1,270)

Pro forma shareholders equity	$ 44,108	$ 47,120	$ 50,133	$ 53,597
Less: Intangible assets				
Pro forma tangible stockholders equity	$ 44,108	$ 47,120	$ 50,133	$ 53,597

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	At or for the Year Ended June 30, 2009 Based Upon the Sale at $10.00 Per Share of			
	2,040,000 Shares	2,400,000 Shares	2,760,000 Shares	3,174,000 Shares (1)
	(Dollars in Thousands, except per share amounts)			
Shareholders equity per share (7):				
Historical	$ 8.22	$ 6.99	$ 6.08	$ 5.28
Estimated net proceeds	5.55	5.58	5.61	5.63
Eagle Financial MHC capital contribution				
Less: Common stock acquired by employee stock ownership plan (2)	(0.48)	(0.48)	(0.48)	(0.48)
Less: Common stock acquired by the stock-based incentive plan (3)	(0.24)	(0.24)	(0.24)	(0.24)
Pro forma shareholders equity per share (7)	$ 13.05	$ 11.85	$ 10.97	$ 10.18
Less: Intangible assets				
Pro forma tangible stockholders equity	$ 13.05	$ 11.85	$ 10.97	$ 10.18
Offering price as percentage of pro forma shareholders equity per share	76.63%	84.46%	91.32%	98.23%
Offering price as percentage of pro forma tangible shareholders equity per share	76.63%	84.46%	91.32%	98.23%
Number of shares outstanding for pro forma shareholders equity per share calculations (8)	3,380,136	3,976,630	4,573,125	5,259,093

(1) As adjusted to give effect to an increase in the number of shares that could occur due to a 15% increase in the offering range to reflect demand for the shares, or changes in market and financial conditions following the commencement of the offering.

(2) Assumes that 8% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from Eagle Montana. American Federal Savings Bank intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. American Federal Savings Bank s total annual payments on the employee stock ownership plan debt are based upon 12 equal annual installments of principal and interest. FASB ASC 718-40 requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that: (i) the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by American Federal Savings Bank, (ii) the fair value of the common stock remains equal to the $10.00 subscription price and (iii) the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 39%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 13,600, 16,000, 18,400 and 21,160 shares were committed to be released during the year at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with FASB ASC 718-40, only the employee stock ownership plan shares committed to be released during the year were considered outstanding for purposes of net income per share calculations.

(3) Gives effect to the grant of stock awards pursuant to the stock-based incentive plan expected to be adopted by Eagle Montana following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that at the midpoint, maximum and maximum as adjusted, of the offering range this plan acquires a number of shares of restricted common stock equal to 4% of the shares sold in the stock offering, either through open market purchases, from authorized but unissued shares of common stock or treasury stock of Eagle Montana. Funds used by the stock-based incentive plan to purchase the shares of common stock will be contributed by Eagle Montana. In calculating the pro forma effect of the stock-based incentive plan, it is assumed that the shares of common stock were acquired by the plan in open market purchases at the beginning of the period presented for a purchase price equal to the price for which the shares are sold in the offering, and that 100% of the amount contributed was an amortized expense (20% annually based upon a five-year vesting period) during the year ended June 30, 2009. There can be no assurance that the actual purchase price of the shares of common stock granted under the stock-based incentive plan will be equal to the $10.00 subscription price. If shares are acquired from authorized but unissued shares of common stock or from treasury shares of Eagle Montana, our net income per share and

stockholders equity per share will decrease. This will also have a dilutive effect of approximately 2.4% (at the maximum of the offering range) on the ownership interest of stockholders. The impact on pro forma net income per share and pro forma stockholders equity per share is not material. The following table shows pro forma net income per share and pro forma stockholders equity per share, assuming all the shares of common stock to fund the stock awards are obtained from authorized but unissued shares.

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At or For the Year Ended Ended June 30, 2009	Minimum	Midpoint	Maximum	Maximum, as Adjusted
Pro forma net income per share	$ 0.68	$ 0.58	$ 0.50	$ 0.44
Pro forma stockholders equity per share	$ 12.98	$ 11.80	$ 10.94	$ 10.19

(4) Gives effect to the granting of options pursuant to the stock-based incentive plan, which is expected to be adopted by Eagle Montana following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that options will be granted to acquire shares of common stock equal to 10% of the shares sold in the offering. In calculating the pro forma effect of the stock options, it is assumed that the exercise price of the stock options and the trading price of the stock at the date of grant were $10.00 per share, and the estimated grant-date fair value pursuant to the application of the Black-Scholes option pricing model was $1.99 for each option. The pro forma net income assumes that the options granted under the stock-based incentive plan have a value of $1.99 per option, which was determined using the Black-Scholes option pricing formula using the following assumptions: (i) the trading price on date of grant was $10.00 per share; (ii) exercise price is equal to the trading price on the date of grant; (iii) dividend yield of 3.3%; (iv) expected life of 10 years; (v) expected volatility of 22.35%; and (vi) risk-free interest rate of 3.31%. If the fair market value per share on the date of grant is different than $10.00, or if the assumptions used in the option pricing formula are different from those used in preparing this pro forma data, the value of options and the related expense recognized will be different. The aggregate grant date fair value of the stock options was amortized to expense on a straight-line basis over a five-year vesting period of the options. There can be no assurance that the actual exercise price of the stock options will be equal to the $10.00 price per share. If a portion of the shares to satisfy the exercise of options under the stock-based incentive plan is obtained from the issuance of authorized but unissued shares of common stock, our net income and stockholders equity per share will decrease. This also will have a dilutive effect of up to 5.7% on the ownership interest of persons who purchase shares of common stock in the offering.

(5) The number of shares used to calculate pro forma net income per share is equal to the estimated weighted average shares outstanding for the year ended June 30, 2009 multiplied by the exchange ratio at the minimum, midpoint, maximum and maximum, as adjusted, and subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods in accordance with FASB ASC 718-40. See footnote 2, above.

(6) The retained earnings of American Federal Savings Bank will be substantially restricted after the conversion. See Our Policy Regarding Dividends, The Conversion and Offering Liquidation Rights and Supervision and Regulation.

(7) Per share figures include publicly held shares of Eagle Bancorp common stock that will be exchanged for shares of Eagle Montana common stock in the conversion. Stockholders equity per share calculations are based upon the sum of (i) the number of subscription shares assumed to be sold in the offering; and (ii) shares to be issued in exchange for publicly held shares. The number of subscription shares actually sold and the corresponding number of exchange shares may be more or less than the assumed amounts.

(8) The number of shares used to calculate pro forma stockholders equity per share is equal to the total number of shares to be outstanding upon completion of the offering.

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

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data. The information in this section has been derived from the audited and unaudited consolidated financial statements, which appear beginning on pages F-1 and G-1 of this prospectus. You should read the information in this section in conjunction with the business and financial information regarding Eagle Bancorp provided in this prospectus.

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 loans 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. As of September 30, 2009, commercial real estate and land loans and commercial business loans represented 22.97% and 4.29% of the total loan portfolio, 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 September 30, 2009, we had mortgage servicing rights, net of $2.315 million compared to $2.208 million as of June 30, 2009. 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. Deposit growth will be difficult to maintain due to significant competition and higher cost wholesale funding (which is usually more expensive than retail deposits) will likely be needed to supplement it. As did many financial institutions, we invested in certain securities that were impacted by the current financial crisis. As a result, some of those instruments were no longer performing, and in the first quarter of the 2008 fiscal year, we elected to apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825 *Financial Instruments* to certain preferred stock issued by Freddie Mac and Fannie Mae. FASB ASC 825 election had a significant impact on earnings in the first quarter of the 2009 fiscal year, resulting in an earnings charge for that period of $1.24 million.

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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).

Our Competitive Strengths

We believe that our growth and success have largely been due to the following strengths that have given us a competitive advantage in our markets:

Maintaining a strong and experienced management team, and attracting and retaining dedicated and qualified personnel to support the growth of our franchise. Achieving our strategic objectives requires an experienced and dedicated management team, which we have developed and maintained over the years. Our management team has been an integral part of the continued growth and success of American Federal Savings Bank, including its transition to being a fully public company.

Creating value for our stockholders. As a publicly traded mutual holding company, we have strived to create value for our stockholders while meeting the needs of our banking customers. During each of the last five fiscal years since 2005, we have been profitable. Common stock purchased in our initial offering in 2000 has appreciated 264% in value as of November 30, 2009. We will continue to focus on enhancing shareholder value as we transition to a fully converted stock holding company.

Attracting and retaining core deposits. Our core deposits to total deposits ratio enables us to maintain a relatively low cost and stable funding source for our loans and other assets. Our core deposits include checking, NOW accounts, statement savings accounts, money market accounts, IRA accounts and business checking. Based on our historical experience, core deposits are longer term funding sources and unlikely to decline significantly as interest rates change. At September 30, 2009, core deposits represented 67.07% of total deposits. Excluding IRA funds, core deposits were 55.05%. We had no brokered funds as of September 30, 2009.

Maintaining strong asset quality. ***We have maintained superior asset quality by focusing on lower risk loan products, operating in economically diverse and growing markets, and applying conservative underwriting standards. As of September 30, 2009, our ratio of non-performing assets to total assets was 0.52%, as compared to average ratios of 2.72% for all Montana banks and 8.33% for all Nasdaq-listed banks and thrifts based in the region (including Montana, Idaho, Washington, Oregon, Wyoming, Utah, and Colorado).By maintaining strong asset quality, we are able to minimize the reversal or non-accrual of interest on our loans, reduce our exposure to loan charge-offs or material additions to our loan loss reserve, manage costs related to asset recovery and keep our management team focused on serving our customers and growing our business.***

Operating in a relatively healthy economic climate. The Montana market in which we operate has not experienced significant increases in unemployment rates or loan foreclosures similar to those that have adversely impacted banks in many regions of the country. In Montana, unemployment as of October 31, 2009, based on information released by the United States Bureau of Labor Statistics, was 6.4% versus 10.2% for the nation. Furthermore, the primary markets we serve in south central Montana (consisting of Lewis and Clark, Silver Bow and Gallatin counties) have also experienced favorable growth in population and average household incomes. According to estimates from SNL Securities, from 2000 to 2009 the total population in our primary markets increased 16.7% from approximately 158,000 to 185,000, and the average household income increased 25.0% from $35,292 to $44,095. The relatively low rate of unemployment and solid growth rates are important indicators of the economic health of our market and have enabled us to dedicate capital resources to growth and revenue enhancement as opposed to resolution of troubled assets.

Our Business Strategy

Our strategy is to continue our profitability through building a diversified loan portfolio and positioning American Federal Savings 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 by emphasizing our recent growth in commercial real estate and commercial business loans as a complement to our traditional single family residential real estate lending;

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.

Expected Increase in Noninterest Expense Following the Offering

Following the completion of the conversion and offering, our noninterest expense can be expected to increase because of the increased compensation expenses associated with the purchase of shares of common stock by our employee stock ownership plan, the adoption of a new stock-based incentive plan, if approved by our stockholders, and implementation of our business plan. Assuming that 2,760,000 shares are sold in the offering (the maximum of the offering range):

(i) the employee stock ownership plan will acquire 220,800 shares of common stock with a $2.2 million loan from Eagle Montana that is expected to be repaid over 12 years, resulting in an annual expense (pre-tax) of approximately $184,000 (assuming that the shares of common stock maintain a value of $10.00 per share);

(ii) if adopted more than one year following the offering, the new stock-based incentive plan may award a number of shares of restricted stock equal to or in excess of 4% of the shares sold in the offering, or 110,400 shares, to eligible participants, and such awards will be expensed as the awards vest. Assuming all shares are awarded under the stock-based incentive plan at a price of $10.00 per share, and that the awards vest over a minimum of five years, the corresponding annual expense (pre-tax) associated with shares awarded under the stock-based incentive plan will be approximately $221,000; and

(iii) if adopted more than one year following the offering, the new stock-based incentive plan may award options to purchase a number of shares equal to or in excess of 10% of the shares sold in the offering, or 276,000 shares, to eligible participants, and such options will be expensed as the options vest. Assuming all options are awarded under the stock-based incentive plan at a price of $10.00 per share, and that the options vest over a minimum of five years and using the Black-Scholes option pricing model with the following assumptions: an exercise price and trading price on the date of grant of $10.00 and a fair value of $1.99 per option based upon a dividend yield of 3.3%, expected life of 10 years, expected volatility of 22.35% and risk-free interest rate of 3.31%. The corresponding annual expense (pre-tax) associated with options awarded under the stock-based incentive plan will be approximately $110,000.

The actual expense that will be recorded for the employee stock ownership plan will be determined by the market value of the shares of common stock as they are released to employees over the term of the loan, and whether the loan is repaid faster than its contractual term. Accordingly, increases in the stock price above $10.00 per share will increase the total employee stock ownership plan expense, and accelerated repayment of the loan will increase the employee stock ownership plan expense for those periods in which accelerated or larger loan repayments are made. Further, the actual expense of the stock-based incentive plan related to restricted stock will be determined by the fair market value of the common stock on the grant date, which may be less than or greater than $10.00 per share.

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, peer group comparisons, industry data and economic conditions.

As an integral part of their examination process, the Office of Thrift Supervision periodically reviews 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 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 Statement of 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.

Comparison of Financial Condition at September 30, 2009 and June 30, 2009

Total assets increased by $10.97 million, or 3.79%, to $300.68 million at September 30, 2009, from $289.71 million at June 30, 2009. Total liabilities increased by $8.33 million to $270.25 million at September 30, 2009, from $261.92 million at June 30, 2009. Total equity increased $2.64 million to $30.43 million at September 30, 2009, from $27.79 million at June 30, 2009.

Loans receivable increased $988,000, or 0.59%, to $168.19 million at September 30, 2009 from $167.20 million at June 30, 2009. Commercial real estate loans was the loan category with the largest increase, $2.05 million, while residential mortgage loans decreased $2.51 million. Real estate construction loans also increased $1.48 million. Most other loan categories showed modest changes. Total loan originations were $43.07 million for the three months ended September 30, 2009, with single family mortgages accounting for $29.02 million of the total. Home equity and construction loan originations totaled $4.17 million and $2.5 million, respectively, for the same period. Commercial real estate and land loan originations totaled $3.47 million. Loans held-for-sale decreased to $3.49 million at September 30, 2009, from $5.35 million at June 30, 2009.

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Deposits grew $7.88 million, or 4.21%, to $195.08 million at September 30, 2009 from $187.20 million at June 30, 2009. Growth in certificates of deposit and non-interest checking, interest-bearing checking accounts, and savings accounts contributed to the increase in deposits. Money market accounts declined slightly. Advances from the Federal Home Loan Bank of Seattle and other borrowings decreased $417,000, or 0.62%, to $66.64 million at September 30, 2009 from $67.06 million at June 30, 2009.

The increase in total equity was the result of net income of $844,000 for the three months ended September 30, 2009 and an increase in other comprehensive income of $1.89 million (mainly due to an increase in net unrealized gain on securities available-for-sale), offset by dividends paid, consisting of a $0.26 per share regular cash dividend, and treasury stock purchases.

Comparison of Financial Condition at June 30, 2009 and June 30, 2008

Total assets increased $9.80 million, or 3.50%, to $289.71 million at June 30, 2009, compared to $279.91 million at June 30, 2008. Total liabilities increased by $7.65 million, or 3.01%, to $261.92 million at June 30, 2009, from $254.27 million at June 30, 2008. The loan portfolio decreased $952,000 during the year. Total deposits increased $8.35 million. Noninterest checking increased $385,000 or 2.63%, to $15.00 million at June 30, 2009, and money market accounts increased $1.61 million, or 6.37%. Interest bearing checking and certificates of deposits increased $1.94 million, or 6.33%, and $1.87 million, or 2.22%, respectively. Much of the asset growth was funded by these increased deposits.

Loans receivable decreased $952,000, or 0.57% to $167.20 million from $168.15 million. Significant refinancing activity contributed to the lower loan balances. $131.23 million in loans were sold during fiscal year 2009, an increase of $79.16 million from fiscal year 2008 s amount of $52.07 million. Origination activity on all loan categories with the exception of real estate construction loans and home equity loans increased in the current fiscal year. Commercial real estate and land loans increased $8.51 million during the year, and residential mortgage loans decreased $7.54 million. The available-for-sale (AFS) investment portfolio increased $3.85 million, or 4.90%, to $82.26 million at June 30, 2009 from $78.42 million at June 30, 2008. The investment category with the largest increase was municipal obligations, which increased $6.70 million.

Total deposits increased $8.35 million. Of that amount, certificates of deposit increased $1.87 million, to $86.20 million at June 30, 2009 from $84.33 million at June 30, 2008. The Bank had no brokered deposits as of June 30, 2009. Interest-earning checking accounts increased $1.94 million while noninterest checking increased $385,000. Money market accounts increased $1.61 million and savings accounts increased $2.54 million. Deposit growth is expected to continue to be difficult to achieve due to fierce competition among financial institutions in our markets. Advances from the Federal Home Loan Bank and other borrowings decreased to $67.06 million at year-end 2009 from $68.22 million at year-end 2008, a decrease of $1.17 million.

Total shareholders equity was $27.79 million at June 30, 2009, an increase of $2.16 million. This increase was the result of net income for the year and a decrease in accumulated other comprehensive loss of $240,000 (mainly due to a decrease in net unrealized loss on securities available-for-sale), partially offset by the purchase of treasury stock and dividends paid during the year.

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Analysis of Net Interest Income

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.

	For the Three Months Ended September 30, 2009			2008		
	Average Daily Balance	Interest and Dividends	Yield/ Cost (3)	Average Daily Balance	Interest and Dividends	Yield/ Cost (3)
			(Dollars in thousands)			
Assets:						
Interest-earning assets:						
FHLB stock	$ 2,000		%	$ 1,781	$ 7	1.57%
Loans receivable, net	171,262	$ 2,708	6.32%	174,370	2,835	6.50%
Investment securities	84,983	1,008	4.74%	79,004	970	4.91%
Interest-bearing deposits with banks	8,123	8	0.44%	665	4	2.41%
Total interest-earning assets	266,368	3,724	5.59%	255,820	3,816	5.97%
Noninterest-earning assets	28,072			21,191		
Total assets	$ 294,440			$ 277,011		
Liabilities and Equity:						
Interest-bearing liabilities:						
Deposit accounts:						
Money market	$ 27,103	$ 41	0.61%	$ 25,692	$ 111	1.73%
Passbooks	26,979	28	0.42%	24,093	39	0.65%
Checking	34,948	22	0.25%	30,958	30	0.39%
Certificates of deposit	85,772	521	2.43%	84,415	682	3.23%
Advances from FHLB and subordinated debt	70,647	730	4.13%	68,298	718	4.21%
Total interest-bearing liabilities	245,449	1,341	2.19%	233,456	1,580	2.71%
Non-interest checking	17,291			15,160		
Other noninterest-bearing liabilities	2,889			3,291		
Total liabilities	265,629			251,907		
Total equity	28,811			25,104		
Total liabilities and equity	$ 294,440			$ 277,011		
Net interest income/interest rate spread (1)		$ 2,383	3.40%		$ 2,236	3.26%
Net interest margin (2)			3.58%			3.50%
Total interest-earning assets to interest bearing liabilities			108.52%			109.58%

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

	For the Year Ended June 30,								
	2009			2008			2007		
	Average Daily Balance	Interest and Dividends	Yield/ Cost (3)	Average Daily Balance	Interest and Dividends	Yield/ Cost (3)	Average Daily Balance	Interest and Dividends	Yield/ Cost (3)
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
FHLB stock	$ 1,891	$	0.00%	$ 1,336	$ 16	1.20%	$ 1,315	$ 7	0.53%
Loan receivable, net	177,354	11,411	6.43%	165,470	10,905	6.59%	149,818	9,731	6.50%
Investment securities	79,432	3,922	4.94%	67,837	3,105	4.58%	66,723	2,863	4.28%
Interest-bearing deposits with banks	3,271	15	0.46%	1,587	63	3.97%	922	50	5.42%
Total interest-earning assets	261,948	15,348	5.86%	236,230	14,089	5.96%	218,778	12,651	5.78%
Noninterest-earning assets	23,642			19,070			18,351		
Total assets	$ 285,590			$ 255,300			$ 237,129		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposit accounts:									
Money market	$ 26,344	$ 308	1.17%	$ 21,981	$ 420	1.91%	$ 25,648	525	2.05%
Passbooks	24,069	131	0.54%	22,965	150	0.65%	23,139	152	0.66%
Checking	32,994	114	0.35%	30,550	71	0.23%	30,789	63	0.20%
Certificates of deposit	86,666	2,608	3.01%	88,888	3,746	4.21%	83,753	3,451	4.12%
Advances from FHLB and subordinated debt	72,927	2,954	4.05%	48,867	2,266	4.64%	34,226	1,775	5.19%
Total interest-bearing liabilities	243,000	6,115	2.52%	213,251	6,653	3.12%	197,555	5,966	3.02%
Non-interest checking	14,502			14,063			13,382		
Other noninterest-bearing liabilities	2,117			2,403			2,189		
Total liabilities	259,619			229,717			213,126		
Total equity	25,971			25,583			24,003		
Total liabilities and equity	$ 285,590			$ 255,300			$ 237,129		
Net interest income/interest rate spread (1)		$ 9,233	3.34%		$ 7,436	2.84%		$ 6,685	2.76%
Net interest margin (2)			3.52%			3.15%			3.06%
Total interest-earning assets to interest bearing liabilities			107.80%			110.78%			110.74%

(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.

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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.

	Three Months Ended September 30, Increase (Decrease) 2009 vs. 2008			Year Ended June 30, Increase (Decrease) 2009 vs. 2008			2008 vs. 2007		
	Due to			Due to			Due to		
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net
					(In thousands)				
Interest earning assets:									
Loans receivable, net	$ (50)	$ (77)	$ (127)	$ 783	$ (277)	$ 506	$ 1,017	$ 157	$ 1,174
Investment securities	68	(31)	37	538	263	801	48	203	251
Interest-bearing deposits with banks	18	(13)	5	67	(115)	(48)	36	(23)	13
Other earning assets		(7)	(7)					9	9
Total interest earning assets	36	(128)	(92)	1,388	(129)	1,259	1,101	346	1,447
Interest bearing liabilities:									
Passbook, money market and checking accounts	21	(110)	(89)	96	(184)	(88)	(76)	(23)	(99)
Certificates of deposit	11	(172)	(161)	(94)	(1,044)	(1,138)	212	83	295
Borrowings	27	(15)	12	1,116	(428)	688	755	(255)	500
Total interest bearing liabilities	59	(297)	(238)	1,118	(1,656)	(538)	891	(195)	696
Change in net interest income	$ (23)	$ 169	$ 146	$ 270	$ 1,527	$ 1,797	$ 210	$ 541	$ 751

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Comparison of Operating Results for the Three Months Ended September 30, 2009 and 2008

Net Income. Our net income was $844,000 for the three months ended September 30, 2009. Because of our election to apply FASB ASC 825, we had a net loss of $100,000 for the three months ended September 30, 2008, stemming primarily from a loss in value of Freddie Mac and Fannie Mae preferred stock investments for which the FASB ASC 825 election was applied. The return to profitability in the first quarter of the 2010 fiscal year reflected our traditional core earnings and relatively small recovery in value in our holdings of Fannie Mae and Freddie Mac preferred stock of $84,000. While we continue to hold these securities, other value adjustments may occur in future periods under FASB ASC 825. Our tax provision was $379,000 higher in the current quarter. Basic earnings per share were $0.79 for the current period, compared to a loss per share of $0.09 for the previous year s period.

Net Interest Income. Net interest income increased to $2.383 million for the quarter ended September 30, 2009, from $2.236 million for the quarter ended September 30, 2008. This increase of $147,000 was the result of a decrease in interest expense of $239,000 partially offset by a decrease in interest and dividend income of $92,000.

Interest and Dividend Income. Total interest and dividend income was $3.724 million for the quarter ended September 30, 2009, compared to $3.816 million for the quarter ended September 30, 2008, representing a decrease of $92,000, or 2.41%. Interest and fees on loans decreased to $2.708 million for the three months ended September 30, 2009 from $2.837 million for the same period ended September 30, 2008. This decrease of $129,000, or 4.55%, was due to the decrease in the average balances of loans receivable for the quarter ended September 30, 2009. Average balances for loans receivable, net, for the quarter ended September 30, 2009 were $171.26 million, compared to $174.37 million for the previous year. This represents a decrease of $3.11 million, or 1.78%. The average interest rate earned on loans receivable decreased by 18 basis points, from 6.50% at September 30, 2008 to 6.32% at September 30, 2009. Interest and dividends on investment securities available-for-sale increased to $1.00 million for the quarter ended September 30, 2009 from $963,000 for the same quarter last year. Average balances on investments increased to $84.98 million for the quarter ended September 30, 2009, compared to $79.00 million for the quarter ended September 30, 2008. The average interest rate earned on investments decreased to 4.74% from 4.91%.

Interest Expense. Total interest expense decreased to $1.341 million for the quarter ended September 30, 2009, from $1.580 million for the quarter ended September 30, 2008, a decrease of $239,000, or 15.13%. Interest on deposits decreased to $611,000 for the quarter ended September 30, 2009, from $862,000 for the quarter ended September 30, 2008. The decrease of $251,000, or 29.12%, was the result of a decrease in average rates paid on deposits from 2.09% at September 30, 2008, to 1.40% at September 30, 2009. All categories of deposits showed decreases in average rates paid. Average balances in interest-bearing deposit accounts increased to $174.80 million for the quarter ended September 30, 2009, compared to $165.16 million for the same quarter in the previous year. The increase in the average balance of FHLB and other borrowings resulted in an increase in interest paid on borrowings to $655,000 in the current quarter compared to $643,000 in the previous year s quarter. The average rate paid on borrowings decreased from 4.21% for the quarter ended September 30, 2008 to 4.13% for the quarter ended September 30, 2009. The average rate paid on all liabilities decreased 52 basis points from the quarter ended September 30, 2008 to the quarter ended September 30, 2009.

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 American Federal Savings Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by American Federal Savings Bank, national and local economic conditions, and past due loans in portfolio. Our policies require the review of assets on a quarterly basis. We classify loans as well as other assets if warranted. While American Federal Savings Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. A provision of $135,000 was made for loan losses for the quarter ended September 30, 2009, and none in the quarter ended September 30, 2008, resulting in allowances of $625,000 and $300,000 as of September 30, 2009 and 2008, respectively. This is a reflection of the continued strong asset quality of American Federal Savings Bank s loan portfolio, as non-performing loan ratios continue to be below peer averages. Total classified assets increased from $1.61 million at June 30, 2009 to $1.95 million at September 30, 2009. At quarter end, American Federal Savings Bank had $158,000 in other real estate owned and $5,000 in repossessed property.

Noninterest Income. Total noninterest income increased to $1.061 million for the quarter ended September 30, 2009, from a negative $504,000 for the quarter ended September 30, 2008. As noted above, the loss for the three months ended September 30, 2008 stemmed primarily from a loss in value of Freddie Mac and Fannie Mae preferred stock investments for which the FASB ASC 825 election was applied. Income from the sale of loans increased to $440,000 from $183,000 due to $17.62 million more in mortgage loan sales in the current period versus last year s period and a relatively small recovery in value in our holdings of Fannie Mae and Freddie Mac preferred stock.

Noninterest Expense. Noninterest expense increased by $254,000 or 13.74% to $2.103 million for the quarter ended September 30, 2009, from $1.849 million for the quarter ended September 30, 2008. This increase was primarily due to an increase in FDIC insurance premiums of $58,000 and an increase in salaries and employee benefits of $53,000. Other expense categories showed minor changes.

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Income Tax Expense/Benefit. Our income tax expense was $362,000 for the quarter ended September 30, 2009, compared to a benefit of $17,000 for the quarter ended September 30, 2008. The effective tax rate for the quarter ended September 30, 2009 was 30.02% and was 14.53% for the quarter ended September 30, 2008.

Comparison of Results of Operations for the Years Ended June 30, 2009 and 2008

Net Income. Our net income was $2.388 million and $2.110 million for the years ended June 30, 2009 and 2008, respectively. This increase of $278,000, or 13.18%, was the result of an increase in net interest income of $1.797 million and an increase in net noninterest income of $775,000, offset by increases in noninterest expense of $1.50 million and the provision for loan losses of $257,000. Our tax provision was $362,000 higher in 2009. Basic earnings per share for the year ended June 30, 2009 were $2.23, compared to $1.97 for the year ended June 30, 2008. Diluted earnings per share were $1.96 and $1.74 for 2009 and 2008, respectively.

Net Interest Income. Net interest income increased to $9.233 million for the year ended June 30, 2009, from $7.436 million for the previous year. This increase of $1.797 million, or 24.17%, was the result of an increase in interest income of $1.250 million and a decrease in interest expense of $547,000. As shown in the Rate/Volume Analysis above, this increase is mainly attributable a larger average balance of loans and investments and lower rates on deposits.

Interest and Dividend Income. Total interest and dividend income was $15.348 million for the year ended June 30, 2009, compared to $14.098 million for the year ended June 30, 2008, an increase of $1.250 million, or 8.87%. Interest and fees on loans increased to $11.411 million for 2009 from $10.905 million for 2008. This increase of $506,000, or 4.64%, was due primarily to the increase in the average balances on loans receivable for the year ended June 30, 2009. The average interest rate earned on loans receivable decreased by 16 basis points, to 6.43% from 6.59%. Average balances for loans receivable, net, for the year ended June 30, 2009 were $177.35 million, compared to $165.47 million for the previous year. This represents an increase of $11.88 million, or 7.18%. Interest and dividends on investment securities available-for-sale (AFS) increased to $3.893 million for the year ended June 30, 2009 from $3.071 million for the year ended June 30, 2008, an increase of $822,000, or 26.77%. This increase was the result of higher average interest rates on the AFS portfolio during the year, along with a higher average balance. Interest earned from deposits at other banks decreased slightly for the year ended June 30, 2009 due to much lower rates. Interest and dividends on investments held-to-maturity (HTM) also experienced a slight decline.

Interest Expense. Total interest expense decreased to $6.115 million for the year ended June 30, 2009 from $6.662 million for the year ended June 30, 2008, a decrease of $547,000, or 8.2%. Interest on deposits decreased to $3.161 million for the year ended June 30, 2009 from $4.387 million for the year ended June 30, 2008. This decrease of $1.226 million, or 27.95%, was due primarily to a decrease on average rates paid. The average cost of deposits decreased 81 basis points, to 1.86% in 2009 from 2.67% in 2008. Certificates of deposit were the only category to show a decrease in average balances in 2009. An increase in the average balance of borrowings was partially offset by a decrease in the average rate paid and resulted in an increase in interest paid on borrowings to $2.954 million for the year ended June 30, 2009 from $2.266 million for the year ended June 30, 2008. The average balance of borrowings increased to $72.927 million for the year ended June 30, 2009, compared to $48.867 million for the year ended June 30, 2008 and resulted principally from an increase in FHLB borrowings. The average rate paid on borrowings decreased to 4.05% in 2009 from 4.64% in 2008.

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 American Federal Savings Bank to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by American Federal Savings Bank, and past due loans in portfolio. Our policies require the review of assets on a quarterly basis. We classify 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. A provision to increase the allowance for loan losses by $257,000 was made for the year ended June 30, 2009 while an adjustment of $175,000 was made to reduce the allowance for loan loss for the year ended June 30, 2008, resulting in allowances of $525,000 and $300,000 as of June 30, 2009 and 2008, respectively. Total classified assets increased to $1.614 million at June 30, 2009 from $106,000 at June 30, 2008. Total non-performing loans as a percentage of the total loan portfolio is 0.75% at June 30, 2009, up from 0.02% at June 30, 2008. As of June 30, 2009, we had no real estate owned.

Noninterest Income. Total noninterest income increased to $2.999 million for the year ended June 30, 2009, from $2.224 million for the year ended June 30, 2008, an increase of $775,000 or 34.85%. This increase was primarily due to an increase in gain on sale of loans of $1.415 million offset by recognized losses of $785,000 on Freddie Mac and Fannie Mae preferred stock that is accounted for under FASB ASC 825. The preferred stock of Freddie Mac and Fannie Mae currently held by us constitutes $25,000 or 0.009% of total assets as of June 30, 2009. Net gain on sale of loans increased due to significant refinance activity that occurred particularly in the third and fourth quarters of the fiscal year. Service charges on deposit accounts

increased $34,000 to $745,000 for the year ended June 30, 2009 from $711,000 for the year ended June 30, 2008. This was primarily due to an increase in overdraft protection fees. Other noninterest income increased $43,000 to $652,000, primarily due to increased fee income on electronic payments and higher fee income on loan products. The single largest item in other noninterest income is earnings from bank owned life insurance of $264,000.

Noninterest Expense. Noninterest expense increased by $1.50 million or 21.23% to $8.563 million for the year ended June 30, 2009 from $7.063 million for the year ended June 30, 2008. This increase was primarily due to increases in salaries and benefits of $446,000, federal deposit insurance premiums of $287,000, amortization of mortgage servicing rights of $285,000, and advertising expense of $101,000. The increase in salaries and benefits was due to normal pay raises and incentive pay related to mortgage originations. Federal deposit insurance increased due to the special assessment applied to institutions in June 2009 and other premium increases assessed effective January 2009. The amortization of mortgage servicing rights increased due to the increase in loan prepayments that resulted from the significant increase in refinance activity, and advertising expenses were higher due to increased promotion of deposit products. Other categories of noninterest expense showed modest changes.

Income Tax Expense. Eagle s income tax expense was $1.024 million for the year ended June 30, 2009, compared to $662,000 for the year ended June 30, 2008. The effective tax rate for the year ended June 30, 2009 was 30.0% as opposed to 23.9% for the year ended June 30, 2008.

Liquidity and Capital Resources

American Federal Savings Bank, is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision regulations. The Office of Thrift Supervision has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The Office of Thrift Supervision states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, American Federal Savings 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 American Federal Savings Bank in the next 90 days divided by total assets. Basic surplus with FHLB adds to basic surplus the additional borrowing capacity we have with the FHLB. We exceeded those minimum ratios as of both September 30, 2009 and June 30, 2009.

American Federal Savings Bank s primary sources of funds are deposits, repayment of loans and mortgage-backed securities, maturities of investments, funds provided from operations, and advances from the FHLB. 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. American Federal Savings Bank uses liquidity resources principally to fund existing and future loan commitments. It also uses them to fund maturing certificates of deposit, demand deposit withdrawals and to invest in other loans and investments, maintain liquidity, and meet operating expenses.

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

At September 30, 2009, our measure of sensitivity to interest rate movements, as measured by the Office of Thrift Supervision, slightly improved from the previous quarter. American Federal Savings Bank s capital ratio as measured by the Office of Thrift Supervision slightly increased from the previous quarter. American Federal Savings Bank s strong capital position mitigates its interest rate risk exposure. American Federal Savings Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of September 30, 2009, American Federal Savings Bank s regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2009, American Federal Savings Bank s tangible, core, and risk-based capital ratios amounted to 9.45%, 9.45%, and 13.72%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See Historical and Pro Forma Regulatory Capital Compliance for information with respect to our regulatory capital position as of September 30, 2009.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and notes thereto, presented elsewhere herein, 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. Unlike most industrial companies, nearly all of our assets and liabilities are monetary. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

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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 our net portfolio value (NPV) would react to interest rate changes. Given the current relatively low level of market interest rates, an NPV calculation for an interest rate decrease of greater than 100 basis points has not been prepared.

Changes in Market Interest Rates (Basis Points)	Net Portfolio Value as % of PV of Assets At September 30, 2009 Projected NPV	Board Policy Limit (if applicable)
		Must be at least:
+400	N/A	
+300	8.93%	7.00%
+200	10.74%	8.00%
+100	12.18%	9.00%
0		
-100	13.63%	10.00%

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.

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BUSINESS OF EAGLE BANCORP MONTANA, INC.

Eagle Bancorp Montana, Inc. is a Delaware corporation, organized in December 2009. Upon completion of the conversion, Eagle Montana will become the holding company of American Federal Savings Bank and will succeed to all of the business and operations of Eagle Bancorp and each of Eagle Bancorp and Eagle Financial MHC will cease to exist.

Initially following the completion of the conversion, Eagle Montana will have no significant assets other than owning 100% of the outstanding common stock of American Federal Savings Bank, the net proceeds it retains from the offering, part of which will be used to make a loan to the American Federal Savings Bank Employee Stock Ownership Plan, and its ownership of a wholly owned statutory trust subsidiary through which Eagle Bancorp has issued trust preferred securities, and will have no significant liabilities. See How We Intend to Use the Proceeds From the Offering. Eagle Montana intends to use the support staff and offices of American Federal Savings Bank and will pay American Federal Savings Bank for these services. If Eagle Montana expands or changes its business in the future, it may hire its own employees.

Eagle Montana intends to invest the net proceeds of the offering as discussed under How We Intend to Use the Proceeds From the Offering. In the future, we may pursue other business activities, including mergers and acquisitions, investment alternatives and diversification of operations. There are, however, no current understandings or agreements for these activities.

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BUSINESS OF EAGLE BANCORP AND AMERICAN FEDERAL SAVINGS BANK

Eagle Bancorp, a federally chartered stock holding company, holds 100% of the stock of American Federal Savings Bank. Its charter was approved on April 4, 2000, when it became the mid-tier stock holding company for American Federal Savings Bank, a federally chartered stock savings bank headquartered in Helena, Montana. Eagle Bancorp s principal business is its ownership of 100% of the capital stock of American Federal Savings Bank.

American Federal Savings Bank was founded in 1922 as a Montana chartered building and loan association and has conducted operations in Helena since that time. In 1975, American Federal Savings Bank adopted a federal thrift charter. American Federal Savings Bank currently has seven retail banking offices. We also have seven automated teller machines located in our market area and we participate in the CashCard® and Money Pass® ATM networks.

Market Area

From our headquarters in Helena, Montana, we operate seven retail banking offices, including our main office. Our banking offices are located in Helena, Bozeman, Butte and Townsend, Montana.

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 2008, it had a population of 967,440. Helena, where we are headquartered, is the county seat of Lewis and Clark County, which has a population of approximately 59,300 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. Helena is also Montana s state capital. 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 80,900. Bozeman is home to Montana State University and has achieved its growth 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.

Butte, Montana is approximately 64 miles southwest of Helena. Butte and the surrounding Silver-Bow County have a population of approximately 32,800. 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 2,000. Many of its residents commute to other Montana locations for work. Other employment in Townsend is primarily in agriculture and services. Townsend is approximately 32 miles southeast of Helena.

Competition

We face strong competition in our primary market area for the attraction of retail deposits and the origination of loans. Historically, Montana was a unit banking state. This means that the ability of Montana state banks to create branches was either prohibited or significantly restricted. As a result of unit banking, Montana has a significant number of independent financial institutions serving a single community in a single location. While the state s population is approximately 967,440, there are 77 commercial banks, 59 credit unions and two federally chartered thrift institutions operating in Montana as of June 30, 2009. 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. According to information reported by SNL Securities, as of June 30, 2009, we ranked 17th in the state of Montana in total deposits. As of the same date, we ranked 5th, 6th, 13th and 2nd in Lewis and Clark, Silver Bow, Gallatin and Broadwater counties, respectively.

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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 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 American Federal Savings Bank and on an unsecured basis. Commercial loans consist of business loans and lines of credit on a secured and unsecured basis.

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Loan Portfolio Composition.

The following table analyzes the composition of American Federal Savings Bank s loan portfolio by loan category at the dates indicated.

	At September 30, 2009		At June 30, 2009		2008		2007		2006		2005	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)											
Real estate loans:												
Residential mortgage (one- to four-family)	$ 76,711	45.46%	$ 79,216	47.26%	$ 86,751	51.53%	$ 81,958	51.68%	$ 75,913	53.71%	$ 56,533	52.68%
Real estate construction	6,119	3.63%	4,642	2.77%	7,317	4.35%	8,253	5.20%	6,901	4.88%	2,723	2.54%
Commercial real estate and land	38,761	22.97%	36,713	21.90%	28,197	16.75%	25,621	16.16%	18,648	13.20%	14,779	13.77%
Total real estate loans	121,591	72.06%	120,571	71.93%	122,265	72.62%	115,832	73.04%	101,462	71.79%	74,035	68.99%
Other loans:												
Home equity	28,836	17.09%	28,676	17.11%	28,034	16.65%	24,956	15.74%	20,191	14.29%	16,801	15.66%
Consumer	11,074	6.56%	10,835	6.46%	11,558	6.87%	11,438	7.21%	11,820	8.36%	10,909	10.16%
Commercial business	7,244	4.29%	7,541	4.50%	6,502	3.86%	6,366	4.01%	7,861	5.56%	5,568	5.19%
Total other loans	47,154	27.94%	47,052	28.07%	46,094	27.38%	42,760	26.96%	39,872	28.21%	33,278	31.01%
Total gross loans	168,745	100.00%	167,623	100.00%	168,359	100.00%	158,592	100.00%	141,334	100.00%	107,313	100.00%
Less:												
Deferred loan fees	(65)		(99)		(90)		(66)		(59)		(99)	
Allowance for loan losses	625		525		300		518		535		573	
Total loans, net	$ 168,185		$ 167,197		$ 168,149		$ 158,140		$ 140,858		$ 106,839	

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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 $185,000 and $140,000 for the three months ended September 30, 2009 and 2008, respectively, and $628,000 and $542,000 for the fiscal year ended June 30, 2009 and 2008, respectively. Other loan related fee income for contract collections, late charges, credit life commissions and credit card fees were $17,000 and $16,000 for the three months ended September 30, 2009 and 2008, respectively, and $78,000 and $66,000 for the fiscal year ended June 30, 2009 and 2008, respectively.

Loan Maturity Schedule.

The following table sets forth the estimated maturity of our loan portfolio at June 30, 2009. 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 us 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 in one year or less.

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through five years	Due after five years	Total
			(In thousands)			
Real estate loans:						
Residential mortgage (one- to four-family)	$ 228	$ 181	$ 1,261	$ 1,672	$ 81,406	$ 84,748
Real estate construction	4,562					4,562
Commercial real estate and land	3,098	5,206	2,553	3,829	22,397	37,083
Home equity	3,087	4,278	5,313	4,049	11,896	28,623
Consumer	1,699	824	2,830	3,323	2,210	10,886
Commercial business	3,590	311	650	1,207	1,312	7,070
Total (1)	$ 16,264	$ 10,800	$ 12,607	$ 14,080	$ 119,221	$ 172,972

(1) Includes mortgage loans held for sale.

The following table sets forth the dollar amount of all loans, at June 30, 2009, due after June 30, 2010, which have fixed interest rates and which have floating or adjustable interest rates:

	Fixed	Adjustable	Total
		(Dollars in thousands)	
Real estate loans:			
Residential mortgage (one- to four-family)	$ 63,918	$ 20,602	$ 84,520
Real estate construction			
Commercial real estate and land	31,096	2,889	33,985
Home equity	22,434	3,102	25,536
Consumer	8,640	547	9,187
Commercial business	3,030	450	3,480
Total (1)	$ 129,118	$ 27,590	$ 156,708

Percent of total	82.39%	17.61%	100.00%

(1) Includes mortgage loans held for sale.

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

	Three Months Ended September 30,		Year Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Loans originated				
Real estate loans:				
Residential mortgage (one- to four-family)	$ 29,017	$ 17,981	$ 164,657	$ 72,385
Real estate construction	2,504	1,934	4,672	15,504
Commercial real estate and land	3,466	9,042	21,500	19,375
Home equity	4,167	4,860	20,043	20,461
Consumer	2,000	1,748	8,341	7,637
Commercial business	1,913	1,143	8,789	8,243
Total loans originated	43,067	36,708	228,002	143,605
Loans purchased				
Whole loans				
Participations				
Total loans purchased				
Loans sold				
Whole loans	28,135	10,517	125,232	47,732
Participations		6,000	6,000	4,341
Total loans sold	28,135	16,517	131,232	52,073
Principal repayments and loan refinancings	15,733	15,351	99,509	75,522
Deferred loan fees decrease (increase)	34	5	(9)	(24)
Allowance for losses decrease (increase)	(100)		(225)	218
Net loan increase (decrease)	$ (867)	$ 4,845	$ (2,973)	$ 16,204
Net loans receivable at end of period (includes loans held for sale)	$ 171,679	$ 180,364	$ 172,546	$ 175,519

Residential Lending.

American Federal Savings Bank s primary lending activity consists of the origination of one- to four-family residential mortgage loans secured by property located in American Federal Savings Bank s market area. Approximately 45.46% of American Federal Savings Bank s total loan portfolio as of September 30, 2009 were comprised of such loans. American Federal Savings Bank generally originates one- to-four-family residential mortgage loans in amounts 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 American Federal Savings Bank, whether fixed rate or adjustable rate, can have a term of up to 30 years. American Federal Savings 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. American Federal Savings 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.

American Federal Savings Bank obtains a significant portion of its noninterest income from servicing loans sold. American Federal Savings 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 American Federal Savings Bank to increase fee income and maintain a relationship with the borrower. At September 30, 2009, American Federal Savings Bank had $272.30 million in residential mortgage loans and $12.33 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 American Federal Savings 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 American Federal Savings Bank. At September 30, 2009, $28.84 million or 17.1% of our total loans were home equity loans. Borrowers may use the proceeds from American Federal Savings Bank s home equity loans for many purposes, including home improvement, debt consolidation, or other purchasing needs. American Federal Savings 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 no 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 22.97% of American Federal Savings Bank s total loan portfolio, or $38.76 million at September 30, 2009. 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 American Federal Savings 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 $169,000 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 within the market area of American Federal Savings Bank and all are within the state of Montana. American Federal Savings Bank s largest single commercial real estate loan had a balance of approximately $1.65 million on September 30, 2009, and is secured by a residential lot subdivision.

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 $6.12 million or 3.63% of American Federal Savings Bank s total loan portfolio at September 30, 2009.

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 American Federal Savings Bank. As of September 30, 2009, consumer loans totaled $11.07 million or 6.56% of American Federal Savings 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 American Federal Savings Bank s market area and generally have maturities of up to seven 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 mortgage 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. Increasing its consumer loans has been a major part of American Federal Savings 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 $7.24 million, or 4.29% of American Federal Savings Bank s total loan portfolio at September 30, 2009. 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 4.29% of the total portfolio at September 30, 2009, American Federal Savings Bank intends to increase such lending by focusing on market segments which it has not previously emphasized, such as business loans to doctors, lawyers, architects and other professionals as well as to small businesses within its market area. Our management believes that this strategy provides opportunities for growth, without significant additional cost outlays for staff and infrastructure.

Commercial business loans of this nature usually involve greater credit risk than one- to four-family residential mortgage loans we originate. 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 September 30, 2009, our largest aggregation of loans to one borrower was approximately $8.47 million, consisting of two commercial real estate loans secured by detention facilities. However, 90%, or $6.49 million, of one loan was sold to the Montana Board of Investments, leaving a net balance of $1.97 million for the two loans, which was below American Federal Savings Bank s federal legal lending limit to one borrower of approximately $4.20 million. At September 30, 2009, these loans were performing in accordance with their terms. American Federal Savings Bank maintains the servicing for 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 used by us for either residential or commercial lending activities.

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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 kind of loan types where they possess expertise and their 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. Four members of the board of directors are 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 September 30, 2009, was approximately $8.79 million, $7.58 million of which was for residential mortgage loans.

Non-performing 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 the lower of the unpaid principal balance of the related loan or its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. As of September 30, 2009, American Federal Savings Bank had $158,000 of real estate owned.

Loans are reviewed on a quarterly basis and are placed on non-accrual status when they are more than 90 days delinquent. Loans may be placed on non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At September 30, 2009, we had $1.25 million ($1.24 million net of specific reserves) of loans that were non-performing and held on non-accrual status.

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Delinquent Loans.

The following table provides information regarding American Federal Savings Bank s loans that are delinquent 30 to 89 days and accruing at the dates indicated:

	At September 30,	At June 30,				
	2009	2009	2008	2007	2006	2005
		(In thousands)				
Loans delinquent for 30 to 89 days and accruing:						
Real estate loans:						
Residential mortgage (one- to four-family)	$ 940	$ 492	$ 285	$ 426	$ 342	$ 143
Real estate construction		220				
Commercial real estate and land	468	969	306	130	133	349
Home equity	150	248	209	130	46	93
Consumer	106	184	46	115	64	140
Commercial business	131	19	52	188	138	6
Total delinquent loans	$ 1,795	$ 2,132	$ 898	$ 989	$ 723	$ 731

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Non-Performing Assets.

The following table sets forth information regarding American Federal Savings Bank s non-performing assets as of the dates indicated. As of September 30, 2009 American Federal Savings Bank had no loans considered to be a troubled debt restructuring within the meaning of FASB ASC 310 *Receivables*.

	At September 30, 2009	At June 30, 2009	2008	2007	2006	2005
			(Dollars in thousands)			
Non-accrual loans						
Real estate loans:						
Residential mortgage (one- to four-family)	$ 38	$ 265	$ 32	$	$ 80	$ 98
Real estate construction						
Commercial real estate and land	948	527				87
Home equity						
Consumer	76	26		21	5	
Commercial business	177	184			260	249
Accruing loans delinquent 90 days or more	171	251		191	114	67
Total nonperforming loans	1,410	1,253	32	212	459	501
Real estate owned	158					
Total nonperforming assets	$ 1,568	$ 1,253	$ 32	$ 212	$ 459	$ 501
Total nonperforming loans to net loans	0.93%	0.75%	0.02%	0.13%	0.33%	0.47%
Total nonperforming loans to total assets	0.52%	0.43%	0.01%	0.09%	0.20%	0.24%
Total nonperforming assets to total assets	0.52%	0.43%	0.01%	0.09%	0.20%	0.24%

The nonperforming loan amounts and percentages presented above are shown and calculated gross of any related specific loan allowances. During the year ended June 30, 2009, American Federal Savings Bank had one foreclosure resulting in a loss of $3,000. There were no foreclosures during the three months ended September 30, 2009. During the three months ended September 30, 2009 and the year ended June 30, 2009, the amount of interest recorded on loans previously accounted for on a non-accrual basis was immaterial.

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, a reserve equal 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 is monitored more closely. The following table reflects our classified assets as of the dates indicated.

	At September 30,	At June 30,	
	2009	2009	2008
		(In thousands)	
Substandard assets	$ 1,910	$ 1,602	$ 68
Doubtful assets	7		
Loss assets		12	38
Total classified assets	$ 1,917	$ 1,614	$ 106

Allowance for Loan Losses and Real Estate Owned.

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

This portion of the allowance is particularly subjective 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, management of American Federal Savings Bank evaluates the need to establish reserves 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 $625,000 in allowances for loan losses at September 30, 2009.

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.

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

	Three Months Ended September 30,		Year Ended June 30,				
	2009	2008	2009	2008	2007	2006	2005
	(Dollars in thousands)						
Balance at beginning of period	$ 525	$ 300	$ 300	$ 518	$ 535	$ 573	$ 628
Provision for loan losses	135		257	(175)			
Reclassification to repossessed property reserve		(3)				(15)	(15)
Loans charged-off:							
Real estate loans							
Home equity	(28)						
Consumer	(8)		(47)	(54)	(29)	(48)	(50)
Commercial business loans							
Recoveries:							
Real estate loans							
Home equity							
Consumer	1	3	15	11	12	25	10
Commercial business loans							
Net (charge-offs) recoveries	(35)		(32)	(43)	(17)	(23)	(40)
Balance at end of period	$ 625	$ 300	$ 525	$ 300	$ 518	$ 535	$ 573
Allowance for loan losses to total loans	0.37%	0.17%	0.31%	0.18%	0.33%	0.38%	0.53%
Allowance for loan losses to total nonperforming loans	39.56%	400.00%	41.90%	937.50%	244.34%	141.91%	132.03%
Net charge-offs to average loans outstanding during the period	0.02%	(0.002)%	(0.02)%	(0.03)%	(0.01)%	(0.02)%	(0.05)%

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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.

	At September 30, 2009		At June 30, 2009		2008		2007		2006		2005	
	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans
	(Dollars in thousands)											
Real estate loans:												
Residential mortgage (one- to four-family)	$ 187	45.46%	$ 190	47.26%	$ 133	51.53%	$ 189	51.68%	$ 60	53.71%	$ 51	52.68%
Real estate construction	15	3.63%	10	2.77%	10	4.35%	13	5.20%	3	4.88%	3	13.77%
Commercial real estate and land	198	22.97%	158	21.90%	34	16.75%	27	16.16%	8	13.20%	19	2.53%
Total real estate loans	400	72.06%	358	71.93%	177	72.62%	229	73.04%	71	71.79%	73	68.99%
Home equity	70	17.09%	67	17.11%	62	16.65%	48	15.74%	37	14.29%	8	15.66%
Consumer	118	6.56%	68	6.46%	51	6.87%	141	7.21%	245	8.36%	327	10.17%
Commercial business	37	4.29%	32	4.50%	10	3.86%	100	4.01%	182	5.56%	165	5.20%
Total other loans	225	27.94%	167	28.07%	123	27.38%	289	26.96%	464	28.21%	500	31.01%
Total	$ 625	100.00%	$ 525	100.00%	$ 300	100.00%	$ 518	100.00%	$ 535	100.00%	$ 573	100.00%

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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.

American Federal Savings Bank 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 American Federal Savings Bank s loan origination and other activities. American Federal Savings Bank maintains an investment securities portfolio and a mortgage-backed securities portfolio as part of its investment portfolio.

Investment Policies.

The investment policy of American Federal Savings Bank, 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 Savings Bank 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, American Federal Savings Bank does not hold any securities for purposes of trading. The policy permits investments in high credit quality instruments with diversified cash flows while permitting us to maximize total return within the guidelines set forth in our interest rate risk and liquidity management policies. Permitted investments include but are not limited to U.S. government obligations, government agency or government-sponsored enterprise 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 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 insure 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. Management must demonstrate the business advantage of such investments.

We do not participate in hedging programs, interest rate swaps, or other activities involving 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. Further, American Federal Savings Bank does not invest in securities which are not initially rated investment grade.

The Board, through its asset liability committee, has charged the President and CEO to implement 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 September 30, 2009, our investment securities included U.S. government and agency obligations, Small Business Administration pools, municipal securities, mortgage-backed securities, collateralized mortgage obligations and corporate obligations, all with varying characteristics as to rate, maturity and call provisions. Investment securities held-to-maturity represented 0.28% of American Federal Savings Bank s total investment portfolio. Securities available-for-sale totaled 96.52% of American Federal Savings Bank s total investment portfolio, while Freddie Mac and Fannie Mae preferred securities totaled 0.11%. The remainder is comprised of interest-bearing deposits in banks and stock in the Federal Home Loan Bank of Seattle.

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The following table sets forth the carrying value of American Federal Savings Bank s investment securities portfolio at the dates indicated.

	At September 30, 2009		At June 30, 2009		2008		2007	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total	Carrying Value	Percent of Total	Carrying Value	Percent of Total
	(Dollars in thousands)							
Securities available-for-sale, at fair value:								
U.S. Government and agency obligations	$ 4,930	5.17%	$ 3,882	4.57%	$ 2,232	2.70%	$ 3,643	5.41%
Corporate obligations	10,037	10.52%	9,493	11.18%	12,722	15.38%	13,623	20.22%
Municipal obligations	34,036	35.67%	28,893	34.04%	22,190	26.83%	20,728	30.77%
Collateralized mortgage obligations	35,112	36.80%	31,551	37.17%	28,224	34.17%	17,075	25.35%
Mortgage-backed securities	7,985	8.37%	8,444	9.95%	13,016	15.74%	7,872	11.68%
Common Stock					33			
Corporate preferred stock							1,833	2.72%
Total securities available for sale	92,100	96.52%	82,263	96.91%	78,417	94.82%	64,774	96.15%
Securities held-to-maturity, at book value:								
Mortgage-backed securities					22	0.03%	95	0.14%
Municipal obligations	265	0.28%	375	0.44%	675	0.82%	826	1.23%
Total securities held to maturity	265	0.28%	375	0.44%	697	0.85%	921	1.37%
Preferred stock	108	0.11%	25	0.03%	1,321	1.60%	N/A	N/A
Total securities	92,473	96.91%	82,663	97.38%	80,435	97.27%	65,695	98.00%
Federal Home Loan Bank capital stock, at cost	2,000	2.10%	2,000	2.36%	1,715	2.07%	1,315	1.95%
Interest bearing deposits	944	0.99%	224	0.26%	549	0.66%	360	0.53%
Total	$ 95,417	100.00%	$ 84,887	100.00%	$ 82,699	100.00%	$ 67,370	100.00%

The following table sets forth information regarding the carrying values, weighted average yields and maturities of American Federal Savings Bank investment securities portfolio at September 30, 2009.

	At September 30, 2009										
	One Year or Less		More than 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
	(Dollars in thousands)										
Securities available-for-sale:											
U.S. Government and agency obligations			$ 3,659	1.76%	$ 831	1.06%	$ 440	0.94%	$ 4,930	$ 7,930	1.57%
Corporate obligations			7,263	4.90%	1,053	5.45%	1,721	7.51%	10,037	10,037	5.41%
Municipal obligations			2,399	2.78%	7,532	5.59%	24,105	6.70%	34,036	34,036	6.18%
	$ 106	2.60%			3,697	3.20%	31,309	4.70%	35,112	35,112	4.54%

Collateralized mortgage obligations											
Mortgage-backed securities	194	4.29%	396	3.75%	101	5.38%	7,294	5.20%	7,985	7,985	5.11%
Total securities available for sale	300	3.69%	13,717	3.66%	13,214	4.62%	64,869	5.55%	92,100	92,100	5.13%
Securities-held to-maturity:											
Municipal obligations			265	7.33%					265	271	7.33%
Total securities held to maturity			265	7.33%					265	271	7.33%
Preferred							108		108	108	%
Total securities	300	3.69%	13,982	3.73%	13,214	4.62%	64,977	5.54%	92,473	92,479	5.13%
Interest-bearing deposits & Federal funds sold	4,155	0.59%							4,155	4,155	.0.59%
Federal Home Loan Bank capital stock							2,000				
Total	$ 4,455	0.80%	$ 13,982	3.73%	$ 13,214	4.62%	$ 66,977	5.37%	$ 96,628	$ 96,634	4.93%

Sources of Funds

General.

Deposits are the major source of our funds for lending and other investment purposes. Borrowings (principally from the Federal Home Loan Bank 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 weekly by senior management, based on a number of factors, including: projected cash flow; a current survey of a selected group of competitors rates for similar products; external data which may influence interest rates; investment opportunities and loan demand; and scheduled certificate maturities and loan and investment repayments.

Core deposits are deposits that are more stable and somewhat less sensitive to rate changes. They also represent a lower cost source of funds than rate sensitive, more volatile accounts such as certificates of deposit. We believe that our core deposits are our checking, as well as NOW accounts, statement savings accounts, money market accounts and IRA accounts. Based on our historical experience, we include IRA accounts funded by certificates of deposit as core deposits because they exhibit the principal features of core deposits in that they are stable and generally are not rate sensitive. Core deposits amounted to $130.84 million or 67.07% of American Federal Savings Bank s deposits at September 30, 2009 ($107.39 million or 55.05% 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, should they mature and be renewed at higher rates, would result in an increase in our cost of funds.

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

	At September 30, 2009			At June 30, 2009			2008			2007		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Amount	Amount	Percent of Total	Weighte Averag Amoun
					(Dollars in thousands)							
interest king	$ 18,902	9.69%		$ 15,002	8.01%		$ 14,617	8.17%		$ 13,694	7.62%	
book ngs	26,979	13.83%	0.41%	26,445	14.13%	0.41%	23,906	13.37%	0.65%	22,521	12.54%	0.6
W unt/Interest ing king	34,784	17.83%	0.25%	32,664	17.45%	0.33%	30,720	17.18%	0.38%	30,953	17.23%	0.2
ey market unts	26,730	13.70%	0.30%	26,886	14.36%	0.64%	25,275	14.12%	1.75%	23,292	12.96%	2.1
l	107,395	55.05%	0.26%	100,997	53.95%	0.38%	94,518	52.85%	0.76%	90,460	50.35%	0.7
ificates of osit unts:												
certificates	23,447	12.02%	2.85%	23,121	12.35%	2.96%	22,108	12.36%	3.15%	21,534	11.99%	3.9
kered ficates										4,411	2.46%	5.3
er ficates	64,238	32.93%	2.16%	63,081	33.70%	2.41%	62,225	34.79%	3.31%	63,242	35.20%	4.6
l certificates eposit	87,685	44.95%	2.34%	86,202	46.05%	2.56%	84,333	47.15%	3.27%	89,187	49.65%	4.5
l deposits	$ 195,080	100.00%	1.19%	$ 187,199	100.00%	1.38%	$ 178,851	100.00%	1.94%	$ 179,647	100.00%	100.0

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The following table sets forth the amounts and maturities of our certificates of deposit as of September 30, 2009, for the maturity dates indicated:

	September 30, 2010	September 30, 2011	September 30, 2012	After September 30, 2012	Total
			(Dollars in thousands)		
Under 1.01%	$ 6,550	$ 10	$	$	$ 6,560
1.01 2.00%	28,922	894			29,816
2.01 3.00%	12,768	4,660	317	1,205	18,950
3.01 4.00%	24,168	1,127	1,210	987	27,492
4.01 5.00%	2,629	458	1,536	203	4,826
5.01 6.00%		41			41
6.01 7.00%					
Total	$ 75,037	$ 7,190	$ 3,063	$ 2,395	$ 87,685

The following table shows the amount of certificates of deposit of more than $100,000 by time remaining until maturity as of September 30, 2009:

	(In thousands)
3 months or less	$ 9,166
Over 3 to 6 months	6,496
Over 6 to 12 months	6,646
Over 12 months	2,999
Total	$ 25,307

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

	Three Months Ended September 30, 2009	2008	Year Ended June 30, 2009	2008	2007
			(Dollars in thousands)		
Opening balance	$ 187,199	$ 178,851	$ 178,851	$ 179,647	$ 174,342
Deposits (Withdrawals), Net	7,276	3,436	5,265	(5,059)	1,279
Interest credited	605	808	3,083	4,263	4,026
Ending balance	$ 195,080	$ 183,095	$ 187,199	$ 178,851	$ 179,647
Net increase (decrease)	$ 7,881	$ 4,244	$ 8,348	$ (797)	$ 5,305
Percent increase	4.21%	2.37%	4.67%	(0.44)%	3.04%
Weighted average cost of deposits during the period	1.40%	2.09%	1.86%	2.67%	2.37%
Weighted average cost of deposits at the end of period	1.19%	1.89%	1.38%	1.94%	2.64%

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 Federal Home Loan Bank of Seattle and other borrowings from PNC Financial Services, Inc. to supplement our supply of lendable funds and to meet deposit withdrawal requirements.

During the fiscal year ended June 30, 2006, Eagle Bancorp 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. Eagle Bancorp has issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the 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 carry a fixed coupon of 6.02% for the first five years, at which time the coupon becomes variable, at a spread of 142 basis points over 3 month LIBOR.

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

	At or For the Three Months Ended September 30,		At or For the Year Ended June 30,		
	2009	2008	2009	2008	2007
	(Dollars in thousands)				
FHLB Advances:					
Average balance	$ 43,778	$ 40,351	$ 44,144	$ 21,964	$ 23,435
Maximum balance at any month-end	43,917	45,919	46,889	42,222	29,487
Balance at period end	43,639	45,919	44,056	42,222	16,000
Weighted average interest rate during the period	3.70%	3.72%	3.54%	4.21%	5.13%
Weighted average interest rate at period end	3.69%	3.70%	3.69%	3.57%	4.99%
Repurchase Agreements:					
Average balance	23,000	23,000	23,000	21,347	5,493
Maximum balance at any month-end	23,000	23,000	23,000	23,000	14,000
Balance at period end	23,000	23,000	23,000	23,000	14,000
Weighted average interest rate during the period	4.66%	4.66%	4.66%	4.81%	4.64%
Weighted average interest rate at period end	4.66%	4.66%	4.66%	4.66%	4.69%
Other:					
Average balance		1,081	628	401	143
Maximum balance at any month-end		2,760	3,900	3,000	3,800
Balance at period end				3,000	3,800
Weighted average interest rate during the period		2.18%	1.28%	3.79%	5.32%
Weighted average interest rate at period end		n/a	n/a	3.15%	5.32%
Total borrowings:					
Average balance	66,778	64,432	67,772	43,712	29,071
Maximum balance at any month-end	66,917	68,919	73,789	68,222	36,695
Balance at period end	66,639	68,919	67,056	68,222	33,800
Weighted average interest rate during the period	4.03%	4.03%	3.90%	4.50%	5.04%
Weighted average interest rate at period end	4.03%	4.02%	4.02%	3.94%	4.90%

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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 September 30, 2009, we had 78 full-time employees and nine part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

Legal Proceedings

American Federal Savings Bank, 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 Savings Bank. There were no lawsuits pending or known to be contemplated against Eagle Bancorp or American Federal Savings Bank at September 30, 2009.

Properties

Eagle Bancorp s business activities consist of its ownership of 100% of the common stock of American Federal Savings Bank. American Federal Savings Bank s executive office is located at 1400 Prospect Avenue in Helena, Montana. American Federal Savings Bank conducts its business through seven 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 Savings Bank s full-time employees. The following table sets forth the location of each of American Federal Savings Bank 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 September 30, 2009 (in thousands)	Square Footage
Helena Main Office	1400 Prospect Ave. Helena, MT 59601	1997	3,861	32,304
Helena Downtown Drive-up	28 Neill Ave. Helena, MT 59601	1987	344	1,391
Helena Skyway Branch	2090 Cromwell Dixon Helena, MT 59602	2009	2,444	4,643
Butte Office	3401 Harrison Ave. Butte, MT 59701	1979	536	3,890
Bozeman Office	606 North Seventh Bozeman, MT 59715	1980	460	5,886
Bozeman Branch	1455 Oak St Bozeman, MT 59715	2009	7,494	19,818
Townsend Office	416 Broadway Townsend, MT 59644	1979	232	1,973

As of September 30, 2009, the net book value of land, buildings, furniture, and equipment owned by American Federal Savings Bank, less accumulated depreciation, totaled $15.371 million.

Expense Allocation

American Federal Savings Bank has entered into an agreement with Eagle Bancorp and Eagle Financial MHC and any successor (Eagle Montana) to provide it with certain administrative support services for compensation not less than the fair market value of the services provided.

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SUPERVISION AND REGULATION

General

As a federally-chartered savings institution, American Federal Savings Bank is subject to extensive regulation, examination and supervision by the Office of Thrift Supervision as its primary federal regulator, and the FDIC, as the insurer of its deposits. American Federal Savings Bank 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. American Federal Savings Bank must file reports with the Office of Thrift Supervision and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the Office of Thrift Supervision to evaluate American Federal Savings Bank s safety and soundness and compliance with various regulatory requirements. Under certain circumstances the FDIC may also examine American Federal Savings Bank. 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 loan loss reserves for regulatory purposes. Any change in such policies, whether by the Office of Thrift Supervision, the FDIC or Congress, could have a material adverse impact on Eagle Montana and American Federal Savings Bank and their operations. Eagle Montana, as a savings and loan holding company, will be required to file certain reports with, will be subject to examination by, and otherwise comply with the rules and regulations of the Office of Thrift Supervision. Eagle Montana is also subject to the rules and regulations of the SEC under the federal securities laws. See Holding Company Regulation.

Federal Regulation of Savings Institutions

Office of Thrift Supervision. The Office of Thrift Supervision has extensive authority over the operations of savings institutions. As part of this authority, American Federal Savings Bank is required to file periodic reports with the Office of Thrift Supervision and is subject to periodic examinations by the Office of Thrift Supervision. The Office of Thrift Supervision also has extensive enforcement authority over all savings institutions and their holding companies, including American Federal Savings Bank and Eagle Montana. This enforcement authority 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 the Office of Thrift Supervision. Except under certain circumstances, public disclosure of final enforcement actions by the Office of Thrift Supervision is required.

In addition, the investment, lending and branching authority of American Federal Savings Bank also are prescribed by federal laws, which prohibit American Federal Savings Bank 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 Savings Bank is in compliance with the noted restrictions.

All savings institutions are required to pay assessments to the Office of Thrift Supervision to fund the agency s operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution s total assets, including consolidated subsidiaries. American Federal Savings Bank s Office of Thrift Supervision assessment for the fiscal year ended June 30, 2009 was $77,915.

American Federal Savings Bank 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). At September 30, 2009, American Federal Savings Bank s lending limit under this restriction was $4.2 million and, at that date, our largest aggregation of loans to one borrower was approximately $8.47 million, consisting of two commercial real estate loans secured by detention facilities. However, 90%, or $6.49 million, of that loan was sold to the Montana Board of Investments, leaving a net balance of $1.97 million for the two loans, which was below American Federal Savings Bank s federal legal lending limit to one borrower of approximately $4.2 million. At September 30, 2009, these loans were performing in accordance with their terms. American Federal Savings Bank maintains the servicing for these loans.

The Office of Thrift Supervision, as well as the other federal banking agencies, has 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.

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Federal Home Loan Bank System. American Federal Savings Bank 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 Savings Bank is required to purchase and maintain stock in the FHLB of Seattle. At September 30, 2009, American Federal Savings Bank had $2.0 million in FHLB stock, which was in compliance with this requirement. American Federal Savings Bank received $0 and $16,000 in dividends from the FHLB of Seattle for the years ended June 30, 2009 and 2008, respectively.

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 Savings Bank s FHLB stock may result in a corresponding reduction in American Federal Savings Bank 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 Super NOW checking accounts and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve System may be used to satisfy the Office of Thrift Supervision liquidity requirements.

Savings institutions have authority to borrow from the Federal Reserve System discount window . American Federal Savings Bank maintains a primary credit facility at the Federal Reserve s discount window. American Federal Savings Bank had no borrowings from the Federal Reserve s discount window as of September 30, 2009.

Insurance of Deposit Accounts. Deposit accounts at American Federal Savings Bank are insured by the Federal Deposit Insurance Corporation, generally up to a maximum of $100,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. American Federal Savings Bank s deposits, therefore, are subject to Federal Deposit Insurance Corporation deposit insurance assessments. Effective October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) temporarily (until December 31, 2013) raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor.

The Federal Deposit Insurance Corporation imposes an assessment against all depository institutions for deposit insurance. This assessment is based on the risk category of the institution and, prior to 2009, ranged from five to 43 basis points of the institution s deposits. On December 22, 2008, the Federal Deposit Insurance Corporation issued a final rule that raises the current deposit insurance assessment rates uniformly by seven basis points (to a range from 12 to 50 basis points) effective for the first quarter 2009. On February 27, 2009 the Federal Deposit Insurance Corporation issued a final rule that will alter the way the Federal Deposit Insurance Corporation calculate federal deposit insurance assessment rates beginning in the second quarter at 2009. Under the rule, the Federal Deposit Insurance Corporation first establishes an institution s initial base assessment rate. This initial base assessment rate would range, depending on the risk category of the institution, from 12 to 45 basis points. The Federal Deposit Insurance Corporation then adjusts the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustment to the initial base assessment rate are based upon an institution s levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate would range from seven to 77.5 basis points of the institution s deposits.

On May 22, 2009, the Federal Deposit Insurance Corporation adopted a final rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The special assessment was payable on September 30, 2009. We recorded an expense of $128,295 during the quarter ended June 30, 2009, to reflect the special assessment. The final rule permits the Federal Deposit Insurance Corporation s board of directors to levy up to two additional special assessments of up to five basis points each during 2009 if the Federal Deposit Insurance Corporation estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the Federal Deposit Insurance Corporation s board of directors believes would adversely affect public confidence or to a level that will be close to or below zero. The Federal Deposit Insurance Corporation has publicly announced that it is probable that it will levy an additional special assessment of up to five basis points later in 2009, the amount and timing of which are currently uncertain. Any further special assessments that the Federal Deposit Insurance Corporation levies will be recorded as an expense during the appropriate period. In addition, the Federal Deposit Insurance Corporation materially increased the general assessment rate and, therefore, our Federal Deposit Insurance Corporation general insurance premium expense will increase substantially compared to prior periods.

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On November 12, 2009, the Federal Deposit Insurance Corporation adopted a final rule pursuant to which all insured depository institutions are required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Under the rule, this pre-payment is due on December 30, 2009. Under the rule, the assessment rate for the fourth quarter of 2009 and for 2010 will be based on each institution s total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 will be equal to the modified third quarter assessment rate plus an additional 3 basis points. In addition, each institution s base assessment rate for each period will be calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. Under this new rule, we will be required to make a payment of approximately $1.0 million to the Federal Deposit Insurance Corporation on December 30, 2009, and to record the payment as a prepaid expense, which will be amortized to expense over three years.

In addition to Federal Deposit Insurance Corporation premiums, the Financing Corporation is authorized to impose and collect, with the approval of the Federal Deposit Insurance Corporation, assessments for anticipated payments, issuance cost and custodial fees on bonds issued by the Financing Corporation in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the Financing Corporation are due to mature in 2017 through 2019. For the quarter ended December 31, 2008, the annualized Financing Corporation assessment was equal to 1.14% for each $100 in domestic deposits maintained at an institution.

Temporary Liquidity Guarantee Program. In October 2008, the Federal Deposit Insurance Corporation introduced the Temporary Liquidity Guarantee Program. This program has two components. One guarantees newly issued senior unsecured debt of a participating organization, up to certain limits established for each institution, issued between October 14, 2008 and June 30, 2009. The Federal Deposit Insurance Corporation will pay the unpaid principal and interest on a Federal Deposit Insurance Corporation-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument. The guarantee will remain in effect until June 30, 2012. In return for the Federal Deposit Insurance Corporation s guarantee, participating institutions will pay the Federal Deposit Insurance Corporation a fee based on the amount and maturity of the debt. American Federal Savings Bank has opted not to participate in this component of the Temporary Liquidity Guarantee Program.

The other component of the program provides full federal deposit insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount, until June 30, 2010. An annualized 10 basis point assessment on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of $250,000 will be assessed on a quarterly basis to insured depository institutions that have not opted out of this component of the Temporary Liquidity Guarantee Program. American Federal Savings Bank has opted to participate in this component of the Temporary Liquidity Guarantee Program.

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

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

Prompt Corrective Action. The Office of Thrift Supervision is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution s degree of undercapitalization.

Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be undercapitalized. An institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be significantly undercapitalized and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be critically undercapitalized. Subject to a narrow exception, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings institution that is critically undercapitalized. Office of Thrift Supervision regulations also require that a capital restoration plan be filed with the Office of Thrift Supervision within 45 days of the date a savings institution receives notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. Significantly undercapitalized and critically undercapitalized institutions are subject to more extensive mandatory regulatory actions. The Office of Thrift Supervision also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. At September 30, 2009, American Federal Savings Bank s capital ratios met the well capitalized standards. See Historical and Pro Forma Regulatory Capital Compliance.

Limitations on Capital Distributions. Office of Thrift Supervision regulations impose various restrictions on savings 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 Savings Bank, 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 by the Office of Thrift Supervision may have its dividend authority restricted by the Office of Thrift Supervision.

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

Qualified Thrift Lender Test. All savings institutions, including American Federal Savings Bank, 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 September 30, 2009, American Federal Savings Bank maintained 68.85% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

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

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

Transactions with Affiliates. American Federal Savings Bank s authority to engage in transactions with affiliates is limited by Office of Thrift Supervision regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board s Regulation W. The term affiliates for these purposes generally means any company that controls or is under common control with an institution. Eagle Montana is an affiliate of American Federal Savings Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution s capital. Collateral in

specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) generally prohibits a company from making loans to its executive officers and directors. However, that act contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, American Federal Savings Bank s authority to extend credit to executive officers, directors and 10% stockholders of American Federal Savings Bank and its affiliates (insiders), as well as entities such persons control is limited. The law restricts both the individual and aggregate amount of loans American Federal Savings Bank may make to insiders based, in part, on American Federal Savings Bank s capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

The USA PATRIOT Act. The USA Patriot Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA Patriot Act also requires the federal banking agencies to take into consideration the effectiveness of controls designed to c