

EAGLE BANCORP/MT
Form 10-K
September 21, 2009

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To Our Stockholders, Customers, and Friends:

The Board of Directors, management, and staff of Eagle Bancorp and its wholly owned subsidiary, American Federal Savings Bank, are pleased to present our annual report for our fiscal year ended June 30, 2009.

Throughout the year there has been extensive media coverage of the significant challenges facing the banking industry and the extraordinary measures taken by the Federal Reserve Bank and the U.S. Treasury Department to stabilize the financial markets. The coverage at times has been confusing, with the large national banks and Wall Street investment firms experiencing much of the problem as well as garnering much attention from the government. Community banks such as American Federal have at times been lumped in with the larger banks by the media coverage, yet have not been major contributors to the banking industry's problems. Still, credit quality problems and the housing related slowdown continue to be significant areas of concern in parts of the country. However, I am pleased to report that the Company has performed well notwithstanding these national developments. Montana in general, and our local markets specifically, have avoided much of the economic downturn experienced in other parts of the country. Our credit quality remains excellent, with low loan delinquency rates compared to institutions in other, more distressed markets.

The Company's performance marks another successful year, with an increase in net income of \$278,000, or 13.2% over the previous year. Basic earnings per share also increased from \$1.97 to \$2.23. Three main factors should be taken into consideration when reviewing this year's results.

Short-term interest rates continued to decline over the past year, with long-term interest rates also declining. Interest rates on mortgages fell significantly in early 2009, which sparked a significant increase in mortgage refinance activity. This in turn led to two reasons for the strong performance by the Company. First, the decline in short-term interest rates allowed the Company to lower its interest expense, leading to an increase in its net interest income of over 24% (before provision for loan losses). Secondly, the decline in mortgage rates, and corresponding increase in mortgage refinance activity, led to an increase in gain on sale of loans of \$1.415 million over the previous year.

As mentioned in last year's letter, the Company adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, at the beginning of the 2008 fiscal year to account for its holdings of FNMA and FHLMC preferred stock. Changes in market value of these securities flow through the income statement. In September 2008, the federal government placed FNMA and FHLMC into conservatorship and eliminated the dividends on the preferred stock, which caused a dramatic reduction in the market value of the stock. The Company wrote down the value of the stock by \$1.296 million during the year, leaving only a small residual value (\$25,000). FNMA and FHLMC will be restructured in the future but it is unlikely that any significant recovery will be made of the value of the preferred stock.

The Company increased its loan loss provision by \$257,000 during the year, after taking \$175,000 of its reserve back into income in the previous year. While the Company's level of non-performing loans is lower than its peers, we have experienced a small increase in loan delinquencies. Delinquencies still remain relatively low, however the other quantitative and qualitative factors considered by management led to the decision to increase the provision. For example, national and state unemployment numbers have increased during the year and home sale activity has slowed. Also, the Company's level of non-performing loans as a percentage of assets

increased slightly, from 0.01% to 0.43%. Our continued conservative underwriting and strong local economies will serve us well during the coming year.

Growth in assets slowed to 3.50% (compared to last year's growth of 14.39%), with loans receivable decreasing slightly. The slower asset growth coupled with our strong earnings increased our core capital ratio from 9.16% to 9.59%. Deposit growth was stronger than in recent years, with an increase of 4.67%. The funding side of our business continues to be a challenge, with this year's success attributable to our increased marketing efforts and expanded deposit product line. We have many sources of additional liquidity available to us and have used these to manage our interest costs and to manage our balance sheet.

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Our plan for the coming year includes continuing to manage the growth in our balance sheet by funding growth in the loan portfolio with modest deposit growth and maturities and repayments from our investment portfolio. We continue to place an emphasis on growing the Company's commercial and commercial real estate loan portfolios.

Our retail branch operations continue to grow and improve. We are pleased to announce that our new full service branch in the Skyway Mall in Helena opened in January and has been a very active location. Also, construction is nearly complete on our new Oak Street location in Bozeman, with the opening expected next month (October). We will maintain our current location on North 7th Avenue as a drive-up only facility. The remodel of our Townsend office was also completed this year and we have seen an increase in activity at our drive-up ATM there as well.

We sincerely appreciate the continuing trust and loyalty of our constituencies *Stockholders, Customers, Employees and Communities*. We will work to earn your continued confidence as we thank you for the privilege of serving you!

Very Sincerely,

Peter J. Johnson
President/CEO

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2009

or

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

For the transition period from _____ to _____

Commission file number 0-29687

Eagle Bancorp

(Exact name of registrant as specified in its charter)

United States

81-0531318

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State or other jurisdiction of
incorporation or organization

(I.R.S.
Employer
Identification
No.)

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

59601
(Zip Code)

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

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

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
|---------------------|---|

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

Common stock, par value \$0.01 per share

(Title of Class)

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Note. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 1,074,507 shares outstanding as of August 31, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement involving the election of directors, which is expected to be filed within 120 days after the end of the registrant's fiscal year, are incorporated by reference in Part III of this Report.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

General

Eagle Bancorp (Eagle or the Company), a federally chartered stock holding company holds 100% of the Stock of American Federal Savings Bank (American Federal or the Bank). Its charter was approved on April 4, 2000, when it became the mid-tier stock holding company for the Bank, a federally chartered stock savings bank headquartered in Helena, Montana. Eagle Bancorp's principal business is to hold the capital stock of American Federal. Upon the reorganization and conversion to stock form of American Federal Savings Bank, Eagle Bancorp issued 575,079 shares of its common stock, par value \$.01 per share (the Common Stock) to the public at a price of \$8 per share. That represented approximately 47% of the issued and outstanding shares of the Common Stock. The remaining 648,493 shares of the Common Stock are held by Eagle Financial MHC, Eagle Bancorp's mutual holding company.

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

Business Strategy

Since our founding in Helena in 1922, we have operated in the southcentral portion of Montana. Since the advent of NOW accounts and low and no cost checking or other transaction accounts, we have sought to operate in a fashion similar to a commercial bank by offering these kinds of deposits and changing our emphasis on home mortgage lending by broadening and diversifying the kind of loans we offer. As a result of these efforts, we provide full retail banking services, including one- to four-family residential mortgage loans, home equity loans, lines of credit, consumer loans, commercial real estate loans and commercial loans for businesses as well as certificates of deposit, checking accounts, NOW accounts, savings accounts and money market accounts.

We attract deposits from the general public and use these deposits primarily to originate loans and to purchase investment securities. The principal sources of funds for lending and investing activities are deposits, Federal Home Loan Bank advances and other borrowings, the repayment, sale and maturity of loans and sale and maturity of securities. The principal sources of income are interest on loans and investments. The principal expense is interest paid on deposits and Federal Home Loan Bank advances and other borrowings.

Market Area

From our headquarters in Helena, Montana, we operate five full service retail banking offices, including our main office, and one satellite branch. Our satellite branch is located in Helena and our other full service branches are located in Helena Skyway (opened 2009), Bozeman (opened 1980), Butte (opened 1979) and Townsend (opened 1979), Montana. A seventh branch will be opening in Bozeman approximately during the second quarter of fiscal year 2010.

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Montana is one of the largest states in terms of land mass but ranks as one of the least populated states. As of the 2000 census it had a population of 902,000. 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.

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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 945,000 people, there are 59 credit unions in Montana as well as two federally chartered thrift institutions, and 77 commercial banks 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.

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 the 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.

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

| At June 30, | | | | |
|--|-------------------|------------------|-------------------|------------------|
| 2009 | | 2008 | | |
| (Dollars in thousands) | | | | |
| | Amount | Percent of Total | Amount | Percent of Total |
| First mortgage loans: | | | | |
| Residential mortgage (1-4 family) ⁽¹⁾ | \$ 79,216 | 47.26% | \$ 86,751 | 51.53% |
| Commercial real estate | 36,713 | 21.90% | 28,197 | 16.75% |
| Real estate construction | 4,642 | 2.77% | 7,317 | 4.35% |
| Total first mortgage loans | 120,571 | 71.93% | 122,265 | 72.62% |
| Other loans: | | | | |
| Home equity | 28,676 | 17.11% | 28,034 | 16.65% |
| Consumer | 10,835 | 6.46% | 11,558 | 6.87% |
| Commercial | 7,541 | 4.50% | 6,502 | 3.86% |
| Total other loans | 47,052 | 28.07% | 46,094 | 27.38% |
| Total loans | 167,623 | 100.00% | 168,359 | 100.00% |
| Less: | | | | |
| Deferred loan fees | (99) | | (90) | |
| Allowance for loan losses | 525 | | 300 | |
| Total loans, net | \$ 167,197 | | \$ 168,149 | |

⁽¹⁾ Excludes loans held for sale.

Fee Income.

American Federal Savings Bank receives lending related fee income from a variety of sources. Its principal source of this income is from the origination and servicing of sold mortgage loans. Fees generated from mortgage loan servicing, which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing for loans held by others, were \$628,000 and \$542,000 for the years 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 \$78,000 and \$61,000 for the years ended June 30, 2009 and 2008, respectively.

Loan Maturity Schedule.

The following table sets forth the estimated maturity of the loan portfolio of the Bank 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 American Federal Savings Bank the right to declare loans immediately due and payable in the event, among other things, that the borrower sells the real property, subject to the mortgage, and the loan is not paid off. All mortgage loans are shown to be maturing based on the date of the last payment required by the loan agreement, except as noted.

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

| | Within 6 Months | 6 to 12 Months | More than 1 year to 2 years | More than 2 years to 5 years | Over 5 years | Total |
|--|--------------------|-------------------|-----------------------------------|------------------------------------|-----------------|-----------|
| (Dollars in thousands) | | | | | | |
| Residential mortgage (1-4 family) ⁽¹⁾ | \$ 206 | \$ 22 | \$ 181 | \$ 2,933 | \$ 81,406 | \$ 84,748 |
| Commercial real estate and land | 1,942 | 1,156 | 5,206 | 6,382 | 22,397 | 37,083 |

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| | Within 6 Months | 6 to 12 Months | More than 1 year to 2 years | More than 2 years to 5 years | Over 5 years | Total |
|----------------------------|--------------------|-------------------|-----------------------------------|------------------------------------|-----------------|------------|
| Real estate construction | 3,608 | 954 | | | | 4,562 |
| Home equity | 1,112 | 1,975 | 4,278 | 9,362 | 11,896 | 28,623 |
| Consumer | 1,302 | 397 | 824 | 6,153 | 2,210 | 10,886 |
| Commercial | 2,607 | 983 | 311 | 1,857 | 1,312 | 7,070 |
| Total loans ⁽¹⁾ | \$ 10,777 | \$ 5,487 | \$ 10,800 | \$ 26,687 | \$ 119,221 | \$ 172,972 |

⁽¹⁾ Includes 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) | | |
| Residential mortgage (1-4 family) | \$ 63,918 | \$ 20,602 | \$ 84,520 |
| Commercial real estate and land | 31,096 | 2,889 | 33,985 |
| Real estate construction | | | |
| Home equity | 22,434 | 3,102 | 25,536 |
| Consumer | 8,640 | 547 | 9,187 |
| Commercial | 3,030 | 450 | 3,480 |
| Total loans ⁽¹⁾ | \$ 129,118 | \$ 27,590 | \$ 156,708 |
| Percent of total | 82.39% | 17.61% | 100.00% |

⁽¹⁾ Due after June 30, 2010.

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

| | 2009 | Ended June 30, 2008 |
|--|----------------|------------------------|
| | (In thousands) | |
| Net loans receivable at beginning of period ⁽¹⁾ : | \$ 175,519 | \$ 159,315 |
| Loans originated: | | |
| Residential mortgage (1-4 family) | 164,657 | 72,385 |
| Commercial real estate and land | 21,500 | 19,375 |
| Real estate construction | 4,672 | 15,504 |
| Home equity | 20,043 | 20,461 |
| Consumer | 8,341 | 7,637 |
| Commercial | 8,789 | 8,243 |
| Total loans originated: | 228,002 | 143,605 |
| Loans sold: | | |
| Whole loans | 125,232 | 47,732 |
| Commercial construction | 6,000 | 4,341 |

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| | Ended June 30, | |
|--|----------------|------------|
| Total loans sold | 131,232 | 52,073 |
| Principal repayments and loan refinancings | 99,509 | 75,522 |
| Deferred loan fees decrease (increase) | (9) | (24) |
| Allowance for loans decrease (increase) | (225) | 218 |
| Net loan increase (decrease) | (2,973) | 16,204 |
| Net loans receivable at end of period ⁽¹⁾ | \$ 172,546 | \$ 175,519 |

⁽¹⁾ Includes loans held for sale.

Residential Lending.

The Bank's primary lending activity consists of the origination of one-to-four-family residential mortgage loans secured by property located in the Bank's market area. Approximately 47.26% of the bank's loans as of June 30, 2009 were comprised of such loans. American Federal 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 the Bank, whether fixed rate or adjustable rate, can have a term of up to 30 years. The Bank holds substantially all of its adjustable rate and its 8, 10 and 12-year fixed rate loans in portfolio. Adjustable rate loans limit the periodic interest rate adjustment and the minimum and maximum rates that may be charged over the term of the loan. The Bank's fixed rate 15-year and 20-year loans are held in portfolio or sold in the secondary market depending on market conditions. Generally, all 30-year fixed rate loans are sold in the secondary market. The volume of loan sales is dependent on the volume, type and term of loan originations.

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The Bank obtains a significant portion of its noninterest income from servicing loans sold. The Bank offers many of the fixed rate loans it originates for sale in the secondary market on a servicing retained basis. This means that we process the borrower's payments and send them to the purchaser of the loan. This retention of servicing enables the Bank to increase fee income and maintain a relationship with the borrower. Servicing income was \$628,000 for the year ended June 30, 2009. At June 30, 2009, American Federal Savings Bank had \$258.09 million in residential mortgage loans and \$12.42 million in commercial real estate sold with servicing retained. American Federal Savings Bank does not ordinarily purchase home mortgage loans from other financial institutions.

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

Home Equity Loans.

American Federal Savings Bank also originates home equity loans. These loans are secured by the borrowers' primary residence, but are typically subject to a prior lien, which may or may not be held by the Bank. At June 30, 2009, \$28.68 million or 17.11% of our total loans were home equity loans. Borrowers may use the proceeds from the Bank's home equity loans for many purposes, including home improvement, debt consolidation, or other purchasing needs. The Bank offers fixed rate, fixed payment home equity loans as well as variable and fixed rate home equity lines of credit. Fixed rate home equity loans typically have terms of no longer than fifteen 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.

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American Federal Savings Bank originates commercial real estate mortgage loans, including both developed and undeveloped land loans, and loans on multi-family dwellings. Commercial real estate loans made up 21.90% of the Bank's total loan portfolio, or \$36.71 million at June 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 the Bank will not exceed 75% of the appraised value or the selling price of the property, whichever is less. The average loan size is approximately \$174,000 and is typically made with fixed rates of interest and five 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 the 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 \$1.46 million (net of \$5.84 million sold to the Montana Board of Investments) on June 30, 2009, and is secured by a detention facility.

Real Estate Construction Lending.

American Federal Savings Bank also lends funds for the construction of one- to-four-family homes and commercial real estate. Real estate construction loans are made both to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Real estate construction loans accounted for \$4.64 million or 2.77% of the Bank's loan portfolio at June 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 the Bank. As of June 30, 2009, consumer loans totaled \$10.84 million or 6.46% of the Bank's total loan portfolio. These loans consist primarily of auto loans, RV loans, boat loans, personal loans and credit lines and deposit account loans. Consumer loans are originated in the Bank's market area and generally have maturities of up to 7 years. For loans secured by savings accounts, American Federal Savings Bank will lend up to 90% of the account balance on single payment loans and up to 100% for monthly payment loans.

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Consumer loans have a shorter term and generally provide higher interest rates than residential loans. Consumer loans can be helpful in improving the spread between average loan yield and cost of funds and at the same time improve the matching of the maturities of rate sensitive assets and liabilities. Increasing its consumer loans has been a major part of the Bank's strategy of operating more like a commercial bank than a traditional savings bank.

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

Commercial Loans.

Commercial loans amounted to \$7.54 million, or 4.50% of the Bank's total loan portfolio at June 30, 2009. American Federal Savings Bank's commercial 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 loan portfolio amounts to only 4.50% of the total portfolio at June 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 loans of this nature usually involve greater credit risk than 1-4 family residential mortgage loans. The collateral we receive is typically related directly to the performance of the borrower's business which means that repayment of commercial loans is dependent on the successful operations and income stream of the borrower's business. Such risks can be significantly affected by economic conditions. In addition, commercial lending generally requires substantially greater oversight efforts compared to residential real estate lending.

Loans to One Borrower.

Under federal law, savings institutions have, subject to certain exemptions, lending limits to one borrower in an amount equal to the greater of \$500,000 or 15% of the institution's unimpaired capital and surplus. As of June 30, 2009, our largest aggregation of loans to one borrower was approximately \$7.31 million, consisting of one commercial real estate loan secured by a detention facility. Eighty percent, or \$5.85 million, of that loan is sold to the Montana Board of Investments, leaving the net balance of \$1.46 million, below the Bank's federal legal lending limit to one borrower of approximately \$4.14 million. At June 30, 2009, this loan was current. The Bank maintains the servicing for this loan.

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 herein. No loan consultants or loan brokers are currently used by us for either residential or commercial lending activities.

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

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

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Loan Commitments.

We generally provide commitments to fund fixed and adjustable-rate single-family mortgage loans for periods up to 60 days at a specified term and interest rate, and other loan categories for shorter time periods. The total amount of our commitments to extend credit as of June 30, 2009, was approximately \$12.44 million, \$11.23 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 notified with a past due notice. If the loan becomes 30 days delinquent, the borrower is sent a written delinquent 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 June 30, 2009, American Federal Savings Bank had no 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

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principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2009, we had \$1.00 million (\$990,000 net of specific reserves) of loans that were non-performing and held on non-accrual status.

Delinquent Loans.

The following table provides information regarding the Bank's loans that are delinquent 30 to 89 days at June 30, 2009:

| | <u>Number</u> | <u>Amount</u> | <u>Percentage of Total Delinquent Loans</u> |
|-----------------------------------|---------------|---------------|---|
| (Dollars in thousands) | | | |
| Loan type: | | | |
| Residential mortgage (1-4 family) | 5 | \$ 492 | 23.08% |
| Real estate construction | 1 | 220 | 10.32% |
| Commercial real estate and land | 7 | 969 | 45.45% |
| Home equity | 4 | 248 | 11.63% |
| Consumer | 24 | 184 | 8.63% |
| Commercial | 2 | 19 | 0.89% |
| Total | 43 | 2,132 | 100.00% |

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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 June 30, 2009 the Bank had no loans considered to be a troubled debt restructuring within the meaning of the Statement of Financial Accounting Standards No. 114.

| | <u>At June 30,</u> | |
|--|--------------------|-------------|
| | <u>2009</u> | <u>2008</u> |
| (Dollars in thousands) | | |
| Non-accrual loans | \$ 1,002 | \$ 32 |
| Accruing loans delinquent 90 days or more | 251 | |
| Real estate owned | | |
| Total | 1,253 | 32 |
| Total non-performing loans as a percentage of total loan portfolio | 0.75% | 0.02% |
| Percentage of total assets | 0.43% | 0.01% |

During the year ended June 30, 2009, the Bank had one foreclosure resulting in a loss of \$3,000. During the year ended June 30, 2009, a minimal amount of interest was recorded on loans previously accounted for on a non-accrual basis.

Classified Assets.

Management, in compliance with regulatory guidelines, conducts an internal loan review program, whereby loans are placed or classified in categories depending upon the level of risk of nonpayment or loss. These categories are special mention, substandard, doubtful or loss. When a loan is classified as substandard or doubtful, management is required to establish an allowance for loan losses in an amount that is deemed prudent. When management classifies a loan as a loss asset, 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 and each group of loans that exceeds \$500,000 is monitored more closely. The following table reflects our classified assets.

| | At June 30, | |
|--|------------------------|--------|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Residential mortgage (1-4 family): | \$ | \$ |
| Special Mention | | |
| Substandard | 392 | |
| Doubtful | | |
| Loss | | |
| Commercial Real Estate and Land: | | |
| Special Mention | | |
| Substandard | 488 | 42 |
| Doubtful | | |
| Loss | | |
| Home equity loans: | | |
| Special Mention | | |
| Substandard | 131 | |
| Doubtful | | |
| Loss | | 32 |
| Consumer loans: | | |
| Special Mention | | |
| Substandard | 40 | 26 |
| Doubtful | | |
| Loss | 12 | |
| Commercial loans: | | |
| Special Mention | | |
| Substandard | 551 | |
| Doubtful | | |
| Loss | | |
| Real estate owned/repossessed property: | | |
| Special Mention | | |
| Substandard | | |
| Doubtful | | |
| Loss | | 6 |
| Total classified loans and real estate owned | \$ 1,614 | \$ 106 |

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Allowance for Loan Losses and Real Estate Owned.

The Bank segregates its loan portfolio for loan losses into the following broad categories: residential mortgages (1-4 family), commercial real estate, real estate construction, commercial loans, home equity loans and consumer loans. The 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, the management of the 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 \$525,000 in allowances for loan losses at June 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 indicated:

| | For the Years Ended | |
|---|-------------------------------|-------------|
| | June 30, | |
| | 2009 | 2008 |
| | _____ | _____ |
| | (Dollars in thousands) | |
| Balance at beginning of period | \$ 300 | \$ 518 |
| Loans charged-off | (47) | (54) |
| Recoveries | 15 | 11 |
| Loss | (32) | (43) |
| Provision for possible loan losses | 257 | (175) |
| Balance at end of period | 525 | 300 |
| Allowance for loan losses to total loans | 0.31% | 0.18% |
| Allowance for loan losses to total non-performing loans | 41.90% | 937.50% |
| Net recoveries (charge-offs) to average loans outstanding during the period | 0.02% | 0.03% |

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.

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| | 2009 | | | 2008 | | |
|-----------------------------------|--------|--|---|--------|--|---------------------------------------|
| | Amount | Percentage of Allowance to Total Allowance | (Dollars in Thousands) Loans in Each Category to Total Loans | Amount | Percentage of Allowance to Total Allowance | Loans in Each Category to Total Loans |
| First mortgage loans: | | | | | | |
| Residential mortgage (1-4 family) | \$ 190 | 36.19% | 47.26% | \$ 133 | 44.33% | 51.53% |
| Commercial real estate | 158 | 30.10% | 21.90% | 34 | 11.33% | 16.75% |
| Real estate construction | 10 | 1.90% | 2.77% | 10 | 3.33% | 4.35% |
| Total first mortgage loans | 358 | 68.19% | 71.93% | 177 | 59.00% | 72.62% |
| Other loans: | | | | | | |
| Home equity | 67 | 12.76% | 17.11% | 62 | 20.67% | 16.65% |
| Consumer | 68 | 12.95% | 6.46% | 51 | 17.00% | 6.87% |
| Commercial | 32 | 6.10% | 4.50% | 10 | 3.32% | 3.86% |
| Total other loans | 167 | 31.81% | 28.07% | 123 | 41.00% | 27.38% |
| Total | \$ 525 | 100.00% | 100.00% | \$ 300 | 100.00% | 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.

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

Investment Policies.

The investment policy of Eagle, which is established by the board of directors, is designed to foster earnings and liquidity within prudent interest rate risk guidelines, while complementing American Federal's lending activities. The policy provides for available-for-sale (including those accounted for under SFAS 159), held-to-maturity, and trading classifications. However, Eagle does not hold any securities for purposes of trading. The policy permits investments in high credit quality instruments with diversified cash flows while permitting us to maximize total return within the guidelines set forth in our interest rate risk and liquidity management policies. Permitted investments include but are not limited to U.S. government obligations, government agency or government-sponsored agency obligations, state, county and municipal obligations, and mortgage-backed securities. Collateralized mortgage obligations, investment grade corporate debt securities, and commercial paper are also included. We also invest in Federal Home Loan Bank 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.

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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, Eagle 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 SFAS 159) or held-to-maturity to enhance total return on investments. At June 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 0.44% of Eagle's total investment portfolio. Securities available-for-sale totaled 96.91% of Eagle's total investment portfolio, while securities SFAS 159 totaled 0.03%. The remaining percentage is comprised of interest-bearing deposits in banks and stock in the Federal Home Loan Bank of Seattle (FHLB).

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The following table sets forth the carrying value of Eagle's investment securities portfolio at the dates indicated.

| | 2009 | | At June 30, 2008 | |
|---|----------------|---------------------|---------------------|---------------------|
| | Carrying Value | Percentage of Total | Carrying Value | Percentage of Total |
| (Dollars in Thousands) | | | | |
| Securities available for sale, at fair value: | | | | |
| U.S. Government and agency obligations | \$ 3,882 | 4.57% | \$ 2,232 | 2.70% |
| Corporate obligations | 9,493 | 11.18% | 12,722 | 15.38% |
| Municipal obligations | 28,893 | 34.04% | 22,190 | 26.83% |
| Collateralized mortgage obligations | 31,551 | 37.17% | 28,224 | 34.17% |
| Mortgage-backed securities | 8,444 | 9.95% | 13,016 | 15.74% |
| Common stock | | 0.00% | 33 | 0.00% |
| Corporate preferred stock | | 0.00% | | 0.00% |
| Total securities available for sale | 82,263 | 96.91% | 78,417 | 94.82% |
| Securities held to maturity, at book value: | | | | |
| Mortgage-backed securities | | 0.00% | 22 | 0.03% |
| Municipal obligations | 375 | 0.44% | 675 | 0.82% |
| Total securities held to maturity | 375 | 0.44% | 697 | 0.85% |
| Preferred stock SFAS 159 | 25 | 0.03% | 1,321 | 1.60% |
| Total securities | 82,663 | 97.38% | 80,435 | 97.27% |
| Interest-bearing deposits | 224 | 0.26% | 549 | 0.66% |
| Federal Home Loan Bank capital stock, at cost | 2,000 | 2.36% | 1,715 | 2.07% |
| Total | \$ 84,887 | 100.00% | \$ 82,699 | 100.00% |

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The following table sets forth information regarding the carrying values, weighted average yields and maturities of Eagle's investment securities portfolio at June 30, 2009.

| | At June 30, 2009 (Dollars in thousands) | | | | | | | Total Investment Securities | |
|--|--|-----------------------------------|-------------------|-----------------------------------|----------------------|-----------------------------------|------------------|-----------------------------|--------------------------|
| | One Year or Less | | One to Five Years | | More than Five Years | | Carrying Value | | Approximate Market Value |
| | Carrying Value | Annualized Weighted Average Yield | Carrying Value | Annualized Weighted Average Yield | Carrying Value | Annualized Weighted Average Yield | | | |
| Securities available for sale: | | | | | | | | | |
| U.S. Government and agency obligations | \$ | % | \$ 2,569 | 1.86% | \$ 1,313 | 1.21% | \$ 3,882 | \$ 3,882 | |
| Corporate obligations | | | 6,961 | 4.87 | 2,532 | 6.68 | 9,493 | 9,493 | |
| Municipal obligations | 100 | 4.15 | 657 | 5.33 | 28,136 | 6.21 | 28,893 | 28,893 | |
| Collateralized mortgage obligations | 251 | 3.11 | | | 31,300 | 4.80 | 31,551 | 31,551 | |
| Mortgage-backed securities | 358 | 3.78 | 456 | 3.76 | 7,630 | 5.33 | 8,444 | 8,444 | |
| Total securities available for sale | 709 | 3.59 | 10,643 | 4.12 | 70,911 | 5.42 | 82,263 | 82,263 | |
| Securities held to maturity: | | | | | | | | | |
| Municipal obligations | 110 | 6.96 | 125 | 7.64 | 140 | 7.02 | 375 | 384 | |
| Total securities held to maturity | 110 | 6.96 | 125 | 7.64 | 140 | 7.02 | 375 | 384 | |
| Preferred SFAS 159 | | | | | 25 | | 25 | 25 | |
| Total securities | 819 | 4.05 | 10,768 | 4.17 | 71,076 | 5.42 | 82,663 | 82,672 | |
| Interest-bearing deposits and | | | | | | | | | |
| Federal Funds Sold | 3,841 | 0.38 | | | | | 3,841 | 3,841 | |
| Federal Home Loan Bank capital stock | | | | | 2,000 | | 2,000 | 2,000 | |
| Total | \$ 819 | 4.05% | \$ 10,768 | 4.17% | \$ 73,076 | 5.27% | \$ 84,663 | \$ 84,672 | |

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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

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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 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 \$124.12 million or 65.21% of the Bank's deposits at June 30, 2009 (\$101.00 million or 53.95% 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, will result in an increase in our cost of funds.

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

| | At June 30, | | | | | |
|---------------------------------------|------------------------|------------------|-----------------------|------------|------------------|-----------------------|
| | 2009 | | | 2008 | | |
| | Amount | Percent of Total | Weighted Average Rate | Amount | Percent of Total | Weighted Average Rate |
| | (Dollars in thousands) | | | | | |
| Noninterest checking | \$ 15,002 | 8.01% | 0.00% | \$ 14,617 | 8.17% | 0.00% |
| Passbook savings | 26,445 | 14.13% | 0.41% | 23,906 | 13.37% | 0.65% |
| NOW account/Interest bearing checking | 32,664 | 17.45% | 0.33% | 30,720 | 17.18% | 0.38% |
| Money market accounts | 26,886 | 14.36% | 0.64% | 25,275 | 14.12% | 1.75% |
| Total | 100,997 | 53.95% | 0.38% | 94,518 | 52.85% | 0.76% |
| Certificates of deposit accounts: | | | | | | |
| IRA certificates | 23,121 | 12.35% | 2.96% | 22,108 | 12.36% | 3.15% |
| Brokered certificates | | 0.00% | 0.00% | | 0.00% | 0.00% |
| Other certificates | 63,081 | 33.70% | 2.41% | 62,225 | 34.79% | 3.31% |
| Total certificates of deposit | 86,202 | 46.05% | 2.56% | 84,333 | 47.15% | 3.27% |
| Total deposits | \$ 187,199 | 100.00% | 1.38% | \$ 178,851 | 100.00% | 1.94% |

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

| | (Dollars in thousands) | | | | |
|-------------|------------------------|---------------|---------------|---------------------|----------|
| | June 30, 2010 | June 30, 2011 | June 30, 2012 | After June 30, 2013 | Total |
| under 1.01% | \$ 2,678 | \$ | \$ | \$ | \$ 2,678 |

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| | (Dollars in thousands) | | | | |
|------------|------------------------|----------|---------|---------|----------|
| 1.01-2.00% | 24,882 | 339 | | | 25,221 |
| 2.01-3.00% | 15,069 | 3,055 | 230 | 136 | 18,490 |
| 3.01-4.00% | 26,460 | 5,899 | 1,543 | 375 | 34,277 |
| 4.01-5.00% | 2,685 | 733 | 890 | 844 | 5,152 |
| 5.01-6.00% | 343 | 41 | | | 384 |
| 6.01-7.00% | | | | | |
| Total | \$72,117 | \$10,067 | \$2,663 | \$1,355 | \$86,202 |

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

| | (Dollars in thousands) |
|---------------------|------------------------|
| 3 months or less | \$ 7,444 |
| Over 3 to 6 months | 6,831 |
| Over 6 to 12 months | 6,213 |
| Over 12 months | 3,349 |
| Total | \$ 23,837 |

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

| | Year Ended June 30, | |
|---|------------------------|------------|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Opening balance | \$ 178,851 | \$ 179,647 |
| Deposits(Withdrawals), Net | 5,265 | (5,059) |
| Interest credited | 3,083 | 4,263 |
| Ending balance | \$ 187,199 | \$ 178,851 |
| Net increase | \$ 8,348 | \$ (797) |
| Percent increase | 4.67% | 0.44% |
| Weighted average cost of deposits during the period | 1.86% | 2.67% |
| Weighted average cost of deposits at end of period | 1.38% | 1.94% |

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. (PNC) to supplement our supply of lendable funds and to meet deposit withdrawal requirements.

During the fiscal year ended June 30, 2006, Eagle 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 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

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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:

| | Ended June 30, | |
|--|----------------|-----------|
| | 2009 | 2008 |
| (Dollars in thousands) | | |
| Advances and other borrowings: | | |
| Average balance | \$ 67,772 | \$ 43,712 |
| Maximum balance at any month-end | 73,789 | 68,222 |
| Balance at period end | 67,056 | 68,222 |
| Weighted average interest rate during the period | 3.90% | 4.50% |
| Weighted average interest rate at period end | 4.02% | 3.94% |

SUBSIDIARY ACTIVITY

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

Personnel

As of June 30, 2009, we had 79 full-time employees and 7 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

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REGULATION

Set forth below is a brief description of laws which relate to the regulation of American Federal and Eagle Bancorp. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulation of American Federal Savings Bank

General.

As a federally chartered savings bank and a member of the FDIC's Deposit Insurance Fund, American Federal Savings Bank is subject to extensive regulation by the Office of Thrift Supervision and the FDIC. Lending activities and other investments must comply with federal statutory and regulatory requirements. American Federal Savings Bank is also subject to reserve requirements of the Federal Reserve System. Federal regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the Deposit Insurance Fund of the FDIC and depositors. This regulatory structure gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies regarding the classification of assets and the establishment of adequate loan loss reserves.

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The Office of Thrift Supervision regularly examines American Federal Savings Bank and provides a report on its examination findings to American Federal's board of directors. American Federal's relationship with its depositors and borrowers is also regulated by federal law, especially in such matters as the ownership of savings accounts and the form and content of American Federal's mortgage documents.

American Federal Savings Bank must file reports with the Office of Thrift Supervision and the FDIC concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into transactions such as mergers with or acquisitions of other financial institutions. Any change in such regulations, whether by the Office of Thrift Supervision, the FDIC or the United States Congress, could have a material adverse impact on Eagle and American Federal, and their operations.

Insurance of Deposit Accounts.

The deposit accounts held by American Federal Savings Bank are insured by the Deposit Insurance Fund of the FDIC to a maximum of \$100,000 as permitted by law (qualifying retirement funds are insured up to \$250,000). The FDIC insurance has been temporarily raised to \$250,000 until January 1, 2014. Insurance on deposits may be terminated by the FDIC if it finds an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the institution's primary regulator.

Regulatory Capital Requirements.

Office of Thrift Supervision (OTS) capital regulations require savings institutions to meet three capital standards. The standards for capital adequacy are tangible capital equal to 1.5% of adjusted total assets, core capital (leverage ratio) equal to at least 4% of total adjusted assets, and risk-based capital equal to 8% of total risk-weighted assets. In order to be deemed "Well Capitalized", OTS rules require a leverage ratio of at least 5%, a Tier 1 risk-based ratio of at least 6%, and a total risk-based ratio of at least 10%. American Federal's capital ratios at June 30, 2009 are set forth below.

| | Actual | | For Capital Adequacy Purposes | |
|-------------------|------------------------|-------|-------------------------------|-------|
| | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | |
| Tangible | \$ 27,079 | 9.53 | \$ 4,261 | 1.50 |
| Leverage | \$ 27,079 | 9.53 | \$ 8,522 | 3.00 |
| Tier 1 risk-based | \$ 27,079 | 13.41 | \$ 8,078 | 4.00 |
| Total risk-based | \$ 27,592 | 13.66 | \$ 16,157 | 8.00 |

Tangible capital is defined as core capital less all intangible assets, less nonqualifying mortgage servicing rights and investments. Core capital is defined as common stockholders' equity, noncumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, nonwithdrawable accounts and pledged deposits of mutual savings associations and qualifying supervisory goodwill, less nonqualifying intangible assets, mortgage servicing rights and investments.

The risk-based capital standard for savings institutions requires the maintenance of total risk-based capital of 8% of risk-weighted assets. Risk-based capital is comprised of core and supplementary capital. The components of supplementary capital include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt, intermediate-term preferred stock, and the portion of the allowance for loan losses not designated for specific loan losses. The portion of the allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, supplementary capital is limited to 100% of core capital. A savings association must calculate its risk-weighted assets by multiplying each asset and off-balance sheet item by various risk factors as determined by the Office of Thrift Supervision, which range from 0% for cash to 100% for delinquent loans, property acquired through foreclosure, commercial loans, and other assets.

Office of Thrift Supervision rules require a deduction from capital for institutions which have unacceptable levels of interest rate risk. The Office of Thrift Supervision calculates the sensitivity of an institution's net portfolio value based on data submitted by the institution in a schedule to its quarterly Thrift Financial Report and using the interest rate risk measurement model adopted by the Office of Thrift Supervision.

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The amount of the interest rate risk component, if any, is deducted from an institution's total capital in order to determine if it meets its risk-based capital requirement. Federal savings institutions with less than \$300 million in assets and a risk-based capital ratio above 12% are exempt from filing the interest rate risk schedule. However, the Office of Thrift Supervision may require any exempt institution to file such schedule on a quarterly basis and may be subject to an additional capital requirement based on its level of interest rate risk as compared to its peers.

Dividend and Other Capital Distribution Limitations.

The Office of Thrift Supervision imposes various restrictions or requirements on the ability of savings institutions to make capital distributions, including dividend payments.

Office of Thrift Supervision regulations impose limitations on all capital distributions by savings institutions, such as cash dividends, payment to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger, and other distributions charged against capital. The rule establishes three tiers of institutions based primarily on an institution's capital level. An institution that exceeds all capital requirements before and after a proposed capital distribution and has not been advised by the Office of Thrift Supervision that it is in need of more than the normal supervision has the greatest amount of flexibility for determining dividends. Such institutions can, after prior notice but without the approval of the Office of Thrift Supervision, make capital distributions during a calendar year. These distributions can be equal to the greater of 100% of its net income to date during the calendar year plus the amount that would reduce by one-half its excess capital divided by its fully phased-in capital requirements at the beginning of the calendar year. At the institution's discretion, dividends can also be 75% of its net income over the most recent four-quarter period. Any additional capital distributions require prior regulatory notice. As of June 30, 2009, American Federal Savings Bank had this level of flexibility with respect to dividends.

Qualified Thrift Lender Test.

Federal savings institutions must meet a qualified thrift lender test or they become subject to operating restrictions. The Bank anticipates that it will maintain an appropriate level of investments consisting primarily of residential mortgages, mortgage-backed securities and other mortgage-related investment, and otherwise qualify as a qualified thrift lender. The required percentage of these mortgage-related investments is 65% of portfolio assets. Portfolio assets are all assets minus intangible assets, property used by the institution in conducting its business and liquid assets equal to 10% of total assets. Compliance with the qualified thrift lender test is determined on a monthly basis in nine out of every twelve months.

Transactions With Affiliates.

Generally, federal banking law requires that transactions between a savings institution or its subsidiaries and its affiliates must be on terms as favorable to the savings institution as comparable transactions with non-affiliates. In addition, some transactions can be restricted to an aggregate percentage of the savings institution's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings institution. In addition, a savings institution may not extend credit to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of any affiliate that is not a subsidiary. The Office of Thrift Supervision has the discretion to treat subsidiaries of a savings institution as affiliates on a case-by-case basis.

Liquidity Requirements.

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision regulations. The OTS 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 bank engages.

Federal Home Loan Bank System.

We are a member of the Federal Home Loan Bank of Seattle, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by financial institutions and proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members pursuant to policies and procedures established by the board of directors of the Federal Home Loan Bank.

As a member, we are required to purchase and maintain stock in the Federal Home Loan Bank of Seattle in an amount equal to at least 1% of our aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year, or 5% of our

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outstanding advances, whichever is larger. We are in compliance with this requirement. The Federal Home Loan Bank imposes various limitations on advances such as limiting the amount of real estate related collateral to 30% of a member's capital and limiting total advances to a member. As a federal savings bank, we were mandatory members of the Federal Home Loan Bank of Seattle. Under the Gramm-Leach-Bliley Financial Modernization Act of 1999, we are now voluntary members of the Federal Home Loan Bank of Seattle. We could withdraw or significantly reduce our required stock ownership in the Federal Home Loan Bank of Seattle.

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. The Bank maintains a primary credit facility at the Federal Reserve's discount window. It had a \$0 balance as of June 30, 2009 and is secured by an agency bond.

Regulation of Eagle Bancorp

General.

Eagle Bancorp, as a federal stock corporation in a mutual holding company structure, is deemed a federal mutual holding company within the meaning of Section 10(o) of the Home Owners Loan Act (HOLA). Eagle is registered and files reports with the Office of Thrift Supervision and is subject to regulation and examination by the Office of Thrift Supervision. In addition, the Office of Thrift Supervision has enforcement authority over Eagle and any nonsavings institution subsidiary of Eagle. The Office of Thrift Supervision can restrict or prohibit activities that it determines to be a serious risk to us. This regulation is intended primarily for the protection of our depositors and not for the benefit of stockholders of Eagle.

FEDERAL TAXATION

Savings institutions are subject to the Internal Revenue Code of 1986, as amended, in the same general manner as other corporations. Prior to changes to the Internal Revenue Code in 1996, thrift institutions enjoyed a tax advantage over banks with respect to determining additions to its bad debt reserves.

The Internal Revenue Code was revised in August 1996 to equalize the taxation of thrift institutions and banks, effective for taxable years beginning after 1995. All thrift institutions are now subject to the same provisions as banks with respect to deductions for bad debt. Now only thrift institutions that are treated as small banks under the Internal Revenue Code may continue to account for bad debts under the reserve method; however, such institutions may only use the experience method for determining additions to their bad debt reserve. Thrift institutions that are not treated as small banks may no longer use the reserve method to account for their bad debts but must now use the specific charge-off method.

The revisions to the Internal Revenue Code in 1996 also provided that all thrift institutions must generally recapture any applicable excess reserves into their taxable income, over a six year period beginning in 1996; however, such recapture may be delayed up to two years if a thrift institution meets a residential-lending test. Generally, a thrift institution's applicable excess reserves equals the excess of the balance of its bad debt reserves as of the close of its taxable year beginning before January 1, 1996, over the balance of such reserves as of the close of its last taxable year beginning before January 1, 1988. These are known as pre-1988 reserves. American Federal Savings Bank had recaptured all of its remaining applicable excess reserve as of June 30, 2009.

In addition, all thrift institutions must continue to keep track of their pre-1988 reserves because this amount remains subject to recapture in the future under the Internal Revenue Code. A thrift institution such as American Federal, would generally be required to recapture into its taxable income its pre-1988 reserves in the case of excess distributions, and redemptions of American Federal's stock and in the case of a reduction in American Federal's outstanding loans when comparing loans currently outstanding to loans outstanding at the end of the base year. For taxable years after 1995, American Federal Savings Bank will continue to account for its bad debts under the reserve method. The balance of American Federal's pre-1988 reserves equaled \$915,000.

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Eagle may exclude from its income 100% of dividends received from American Federal Savings Bank as a member of the same affiliated group of corporations. A 70% dividends received deduction generally applies with respect to dividends received from corporations that are not members of such affiliated group.

American Federal's federal income tax returns for the last five tax years have not been audited by the IRS.

State Taxation

American Federal Savings Bank files Montana tax returns. For Montana tax purposes, savings institutions are presently taxed at a rate equal to 6.75% of taxable income which is calculated based on federal taxable income, subject to adjustments (including the addition of interest income on state and municipal obligations).

American Federal's state tax returns have not been audited for the past five years by the state of Montana.

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ITEM 2. DESCRIPTION OF PROPERTY.

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

| Location | Address | Opened | Value At June 30, 2009 (in thousands) | Square Footage |
|-----------------------------|---|--|---|-------------------|
| Helena Main Office | 1400 Prospect Ave. Helena, MT 59601 | 1997 | \$ 3,913 | 32,304 |
| Helena Downtown Drive-up | 28 Neill Ave. Helena, MT 59601 | 1987 | \$ 354 | 1,391 |
| Helena Skyway Branch | 2090 Cromwell Dixon Helena, MT 59602 | 2009 | \$ 2,466 | 4,643 |
| Butte Office | 3401 Harrison Ave. Butte, MT 59701 | 1979 | \$ 513 | 3,890 |
| Bozeman Office | 606 North Seventh Bozeman, MT 59715 | 1980 | \$ 471 | 5,886 |
| Bozeman Branch | 1455 Oak St Bozeman, MT 59715 | Under Construction (Expected to open Mid-October 2009) | \$ 5,823 | 19,818 |
| Townsend Office | 416 Broadway Townsend, MT 59644 | 1979 | \$ 221 | 1,973 |

As of June 30, 2009, the net book value of land, buildings, furniture, and equipment owned by American Federal, less accumulated depreciation, totaled \$13.76 million.

ITEM 3. LEGAL PROCEEDINGS.

American Federal, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which American Federal Savings Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of American Federal. There were no lawsuits pending or known to be contemplated against Eagle or American Federal at June 30, 2009.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders in the fourth quarter of the fiscal year ended June 30, 2009.

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PART II**ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUERS PURCHASES OF EQUITY SECURITIES.**

The common stock is traded on the OTC Bulletin Board under the symbol EBMT. At the close of business on June 30, 2009, there were 1,075,312 shares of common stock outstanding, held by approximately 600 shareholders of record. Eagle Financial MHC, Eagle's mutual holding company, held 648,493 shares (or 60.3%) of the outstanding common stock.

The high bid and asked prices noted below for the four quarters of fiscal 2008 and the four quarters of the current fiscal year were obtained from the OTC Bulletin Board. The quotations reflect interdealer prices without retail markup, markdown or commission, and may not represent actual transactions.

| | <u>High Bid</u> | <u>Low Bid</u> |
|---------------------|-----------------|----------------|
| Fourth quarter 2009 | \$ 28.00 | \$ 23.00 |
| Third quarter 2009 | \$ 23.00 | \$ 21.00 |
| Second quarter 2009 | \$ 26.00 | \$ 23.00 |
| First quarter 2009 | \$ 28.00 | \$ 25.55 |
| Fourth quarter 2008 | \$ 29.50 | \$ 25.75 |
| Third quarter 2008 | \$ 30.80 | \$ 26.00 |
| Second quarter 2008 | \$ 32.75 | \$ 30.30 |
| First quarter 2008 | \$ 33.00 | \$ 30.45 |

The closing price of the common stock on June 30, 2009, was \$28.00. The company had paid four quarterly dividends during the year, all in the amount of \$.255 per share. Eagle Financial MHC waived receipt of its dividends during the year.

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ISSUER PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares Purchased* | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------|---|---|---|---|
| April 2009 | None | N/A | None | 24,240 |
| May 2009 | None | N/A | None | 24,240 |
| June 2009 | None | N/A | None | 24,240 |
| Total | None | N/A | None | 24,240 |

* The Company publicly announced a stock repurchase program on January 17, 2008. The Company is authorized to acquire up to 28,750 shares of common stock with the price subject to market conditions. No expiration date was set for the repurchase program. As of August 31, 2009, 5,315 shares had been purchased.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. Eagle desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all such forward-looking statements. These forward-looking statements, which are included in Management's Discussion and Analysis, describe future plans or strategies and include Eagle's expectations of future financial results. The words believe, expect, anticipate, intend, estimate, project, and similar expressions identify forward-looking statements. Eagle's ability to predict results or the effect of future plans or strategies or qualitative or quantitative changes based on market risk is inherently uncertain. Factors which could affect actual results but are not limited to include (i) change in general market interest rates, (ii) general economic conditions, (iii) local economic conditions, (iv) legislative/regulatory changes, (v) monetary and fiscal policies of the U.S. Treasury and Federal Reserve, (vi) changes in the quality or composition of Eagle's loan and investment portfolios, (vii) demand for loan products, (viii) deposit flows, (ix) competition, and (x) demand for financial services in Eagle's markets. These factors should be considered in evaluating the forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates.

GENERAL

Eagle Bancorp's subsidiary, American Federal Savings Bank, operates as a community savings bank. It raises money by offering FDIC-insured deposit products and lending this money, primarily for the purpose of home financing. As of June 30, 2009, 35.74% of its total loans were residential mortgage loans with fixed rates and 11.52% were residential mortgage loans with adjustable rates. Total first lien mortgage loans at June 30, 2009, were \$120.57 million or 71.93% of the total loan portfolio. Other loan products include home equity loans, consumer and commercial loans. These loans totaled \$47.05 million or 28.07% of the total loan portfolio.

The consolidated financial condition and operating results of Eagle are primarily dependent on its wholly owned subsidiary, American Federal Savings Bank. All references to the Company prior to April 4, 2000, except where otherwise indicated, are to the Bank.

Analysis of Net Interest Income

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

The following table presents the average balances of and the interest and dividends earned or paid on each major class of loans and investments and interest-bearing deposits and borrowings. Nonaccruing loans are included in balances for all periods. Average balances are daily average balances. The yields and costs include fees, which are considered adjustments to yields.

| For the twelve months ended June 30, | | | | | |
|--------------------------------------|------------------------------|----------------|-----------------------------|------------------------------|----------------|
| 2009 | | | 2008 | | |
| (Dollars in thousands) | | | | | |
| Average Daily Balance | Interest and Dividends | Yield/ Rate | Average Daily Balance | Interest and Dividends | Yield/ Rate |
| | | | | | |

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For the twelve months ended June 30,

| Assets: | | | | | | |
|---|-----------|----------|---------|-----------|----------|---------|
| Interest-earning assets: | | | | | | |
| FHLB stock | \$ 1,891 | \$ | 0.00% | \$ 1,336 | \$ 16 | 1.20% |
| Loans receivable, net | 177,354 | 11,411 | 6.43 | 165,470 | 10,905 | 6.59 |
| Investment securities | 79,432 | 3,922 | 4.94 | 67,837 | 3,105 | 4.58 |
| Interest-bearing deposits with banks | 3,271 | 15 | 0.46 | 1,587 | 63 | 3.97 |
| Total interest-earning assets | 261,948 | 15,348 | 5.86 | 236,230 | 14,089 | 5.96 |
| Noninterest-earning assets | 23,642 | | | 19,070 | | |
| Total assets | \$285,590 | | | \$255,300 | | |
| Liabilities and Equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposit accounts: | | | | | | |
| Money market | \$ 26,344 | \$ 308 | 1.17 | \$ 21,981 | \$ 420 | 1.91 |
| Passbooks | 24,069 | 131 | 0.54 | 22,965 | 150 | 0.65 |
| Checking | 32,994 | 114 | 0.35 | 30,550 | 71 | 0.23 |
| Certificates of deposit | 86,666 | 2,608 | 3.01 | 88,888 | 3,746 | 4.21 |
| Advances from FHLB & subordinated debt | 72,927 | 2,954 | 4.05 | 48,867 | 2,266 | 4.64 |
| Total interest-bearing liabilities | 243,000 | 6,115 | 2.52 | 213,251 | 6,653 | 3.12 |
| Non-interest checking | 14,502 | | | 14,063 | | |
| Other noninterest-bearing liabilities | 2,117 | | | 2,403 | | |
| Total liabilities | 259,619 | | | 229,717 | | |
| Total equity | 25,971 | | | 25,583 | | |
| Total liabilities and equity | \$285,590 | | | \$255,300 | | |
| Net interest income/interest rate spread ⁽¹⁾ | | \$ 9,233 | 3.34% | | \$ 7,436 | 2.84% |
| Net interest margin ⁽²⁾ | | | 3.52% | | | 3.15% |
| Total interest-earning assets to interest-bearing liabilities | | | 107.80% | | | 110.78% |

(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.

Rate/Volume Analysis

The following table sets forth information regarding changes in interest income and interest expense for the periods indicated. For each category of our loans and investments and our interest-bearing deposits and borrowings, information is provided on changes attributable to change in volume (change in volume multiplied by the old rate). The table also provides information on change in rate (changes in rate multiplied by old volume). The combined effects of changes in rate and volume have been allocated proportionately to the change due to rate and the change due to volume.

For the Years Ended June 30,
Increase (Decrease)

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For the Years Ended June 30,
Increase (Decrease)

| | (In thousands) | | | | | |
|--|----------------|-------------|----------|--------------|-------------|----------|
| | 2009 vs 2008 | | | 2008 vs 2007 | | |
| | Volume | Due to Rate | Net | Volume | Due to Rate | Net |
| Interest earning assets: | | | | | | |
| Loans receivable, net | \$ 783 | \$ (277) | \$ 506 | \$ 1,017 | \$ 157 | \$ 1,174 |
| Investment securities | 538 | 263 | 801 | 48 | 203 | 251 |
| Interest-bearing deposits with banks | 67 | (115) | (48) | 36 | (23) | 13 |
| Other earning assets | | | | | 9 | 9 |
| Total interest earning assets | 1,388 | (129) | 1,259 | 1,101 | 346 | 1,447 |
| Interest-bearing liabilities: | | | | | | |
| Passbook, money market and checking accounts | 96 | (184) | (88) | (76) | (23) | (99) |
| Certificates of deposit | (94) | (1,044) | (1,138) | 212 | 83 | 295 |
| Borrowings | 1,116 | (428) | 688 | 755 | (255) | 500 |
| Total interest-bearing liabilities | 1,118 | (1,656) | (538) | 891 | (195) | 696 |
| Change in net interest income | \$ 270 | \$ 1,527 | \$ 1,797 | \$ 210 | \$ 541 | \$ 751 |

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.

Overview

The Company's primary activity is its ownership of its wholly owned subsidiary, American Federal Savings Bank (the Bank). The Bank is a federally chartered savings bank, engaging in typical banking activities: acquiring deposits from local markets and investing in loans and investment securities. The Bank's primary component of earnings is its net interest margin (also called spread or margin), the difference between interest income and interest expense. The net interest margin is managed through the pricing of its products and by the types of products offered and kept in portfolio, and is affected by moves in interest rates. Noninterest income in the form of fee income and gain on sale of loans adds to the Bank's income.

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

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Recently, management's focus has been on improving the Bank's core earnings. Core earnings can be described as income before taxes, with the exclusion of gain on sale of loans and adjustments to the market value of the Bank's loan serviced portfolio. Management believes that the Bank 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 bank's 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 the strategy is funding the growth of the Bank's balance sheet in an efficient manner. Deposit growth will be difficult due to fierce competition and wholesale funding (which is usually more expensive than retail deposits) will likely be needed to supplement deposit growth.

The level and movement of interest rates impacts the Bank's earnings as well. For the 2009 fiscal year the yield curve continued to steepen as the Federal Open Market Committee (FOMC) reduced the fed funds rate by a total of 175 basis points during the fiscal year, however long-term rates remained relatively unchanged.

FINANCIAL CONDITION

Introduction.

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 \$7.64 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 7.68%, and \$1.87 million, or 2.22%, respectively. Much of the asset growth was funded by these increased deposits.

Balance Sheet Details.

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 \$7.52 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.

Comparison of Operating Results for the Years Ending June 30, 2009 and 2008

Net Income.

Eagle's 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. Eagle's 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.

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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, 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 \$14.089 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, and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While management believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. A provision to increase the allowance for loan loss 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. 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, American Federal Savings Bank 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 Statement of Financial Accounting Standard (SFAS) No. 159 Fair Value Option for Financial Assets and Financial Liabilities. The preferred stock of Freddie Mac and Fannie Mae currently held by the company constitutes \$25,000 or .009 percent 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 ending June 30, 2009 from \$711,000 for the year ending 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

The company's subsidiary, American Federal Savings Bank, is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision (OTS) regulations. The OTS has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OTS states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses the previous regulatory definitions of liquidity. The Bank's average liquidity ratio average was 9.29% and 9.25% for the months ended June 30, 2009 and 2008, respectively.

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

Net cash provided by (used by) the Company's operating activities, which is primarily comprised of cash transactions affecting net income was \$5.730 million for the year ended June 30, 2009 and \$(2.997) million for the year ended June 30, 2008. The change was primarily a result of an increase in the amount of loans held for sale in 2009.

Net cash used in the Company's investing activities, which is primarily comprised of cash transactions from the investment securities and mortgage-backed securities portfolios and the loan portfolio, was \$10.218 million for the year ended June 30, 2009, and \$28.934 million for the year ended June 30, 2008. The decrease in cash used was primarily due to less investment purchases in available-for-sale securities in 2009 compared to 2008.

Net cash provided by the Company's financing activities, which is primarily cash transactions from net increases in deposits and net Federal Home Loan Bank advances and other borrowings, totaled \$6.726 million for the year ended June 30, 2009, and \$32.952 million for the year ended June 30, 2008. This decrease in cash provided was primarily due to the decrease in FHLB borrowings in 2009.

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 our commitments to make loans and management's assessment of our ability to generate funds.

At March 31, 2009 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS, decreased slightly from the previous quarter. The market value of the Bank's capital position has increased slightly from the previous year. The Bank is well within the guidelines set forth by the Board of Directors for interest rate sensitivity.

As of June 30, 2009, the Bank's regulatory capital was in excess of all applicable regulatory requirements and the Bank is deemed well capitalized pursuant to FDIC rules. At June 30, 2009, the Bank's tangible, core, and risk-based capital ratios amounted to 9.53%, 9.53%, and 13.66%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively.

IMPACT OF INFLATION AND CHANGING PRICES

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

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years for financial assets and liabilities such as derivatives measured at fair value under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, investments in securities under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, etc. SFAS 157 has been deferred until fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities such as asset retirement obligations measured at fair value at initial recognition under SFAS 143, *Accounting for Asset Retirement Obligations*, long-lived asset groups measured at fair value under SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, liabilities for exit or disposal activities measured at fair value under SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities*, etc. The Company adopted the provisions of this new accounting principle as it relates to financial assets and financial liabilities and such effects have been included in Note 18. The Company adopted SFAS No. 157 on July 1, 2007 in conjunction with its adoption of SFAS No. 159.

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS No. 159 further establishes certain additional disclosure requirements. The Company adopted SFAS No. 159 on July 1, 2007.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations – a replacement of FASB No. 141* (SFAS 141(R)). SFAS 141(R) requires (a) a company to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date; and (b) an acquirer in preacquisition periods to expense all acquisition-related costs, among various other modifications to SFAS No. 141. SFAS 141(R) requires that any adjustments to an acquired entity's deferred tax asset and liability balance that occur after the measurement period be recorded as a component of income tax expense. This accounting treatment is required for business combinations consummated before the effective date of SFAS No. 141(R) (non-prospective), otherwise SFAS 141(R) must be applied prospectively. The presentation and disclosure requirements must be applied retrospectively to provide comparability in the financial statements. Early adoption is prohibited. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The impact of this standard is dependent upon the level of future acquisitions.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires companies to provide qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. The statement also requires companies to disclose more information about the location and amounts of derivative instruments in financial statements; how derivatives and related hedges are accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*; and how the hedges affect the entity's financial position, financial performance and cash flows. SFAS 161 is effective for periods beginning after November 15, 2008. The Company will comply with the disclosure provisions of SFAS 161 to the extent it has entered into derivative transactions in the year of adoption.

On November 14, 2008, the Securities and Exchange Commission (SEC) issued its long-anticipated proposed International Financial Reporting Standards (IFRS) roadmap outlining milestones that, if achieved, could lead to mandatory transition to IFRS for U.S. domestic registrants starting in 2014. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). Under the proposed roadmap, the Company could be required through its parent company to prepare financial statements in accordance with IFRS, and the SEC will make a

determination in 2011 regarding the mandatory adoption of IFRS for U.S. domestic registrants. Management is currently assessing the impact that this potential change would have on the Company's consolidated financial statements, and will continue to monitor the development of the potential implementation of IFRS.

Application of Critical Accounting Policies

There are a number of accounting estimates performed by the Company in preparing its financial statements. Some of the estimates are developed internally, while others are obtained from independent third parties. Examples of estimates using external sources are the fair market value of investment securities, fair value of mortgage servicing rights, deferred compensation, and appraised value of foreclosed properties. It is management's assertion that the external sources have access to resources, methodologies, and markets that provide adequate assurances that no material impact would occur due to changes in assumptions. The following accounting estimates are performed internally:

Allowance for Loan and Lease Losses (ALLL).

Management applies its knowledge of current local economic and real estate market conditions, historical experience, loan portfolio composition, and the assessment of delinquent borrowers' situations, to determine the adequacy of its ALLL reserve. These factors are reviewed by the Bank's federal banking regulator and the Company's external auditors on a regular basis. The current level of the ALLL reserve is deemed to be more than adequate given the above factors, with no material impact expected due to a difference in the assumptions.

Deferred Loan Fees.

Management applies time study and statistical analysis to determine loan origination costs to be capitalized under SFAS No. 91. The analysis is reviewed by the Company's external auditors for reasonableness. No material impact is expected if different assumptions are used, as many of our loans have a short duration.

Deferred Tax Assets.

Management expects to realize the deferred tax assets due to the continued profitability of the Company.

Fair Value of Other Financial Instruments.

Management uses an internal model to determine fair value for its loan portfolio and certificates of deposit. The assumptions entail spreads over the Treasury yield curve at appropriate maturity benchmarks. Assumptions incorporating different spreads would naturally deliver varying results; however, due to short-term nature of the loan portfolio and certificates of deposit, changes in the results would be mitigated. Currently, the fair value is only presented as footnote information, and changes due to new assumptions would not, in management's opinion, affect the reader's opinion of the Company's financial condition.

Economic Life of Fixed Assets.

Management determines the useful life of its buildings, furniture, and equipment for depreciation purposes. These estimates are reviewed by the Company's external auditors for reasonableness. No material impact is expected if different assumptions were to be used.

ITEM 8. FINANCIAL STATEMENTS.

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

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of June 30, 2009, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions

regarding required disclosure. Based on that evaluation, management has concluded that as of June 30, 2009, our disclosure controls and procedures were effective.

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Management Annual Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2009. Based on this assessment, management concluded that, as of June 30, 2009, the Company's internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities and Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended June 30, 2009 that affected, or were reasonably likely to affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

Item 10. Directors, Executive Officers And Corporate Governance

Except as provided below, the information required by this Item 10 is hereby incorporated by reference to our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

Executive Officers of the Registrant

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

Peter J. Johnson, President & Chief Executive Officer

Age 51

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

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

Age 39

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

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

Age 55

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

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

Age 61

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

Rachel R. Amdahl, Senior Vice President/Operations

Age 40

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

Item 11. Executive Compensation

The information required by this Item 11 is hereby incorporated by reference to our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

Item 12. Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters

The information required by this Item 12 is hereby incorporated by reference to our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

Item 13. Certain Relationships And Related Transactions, And Director Independence

The information required by this Item 13 is hereby incorporated by reference to our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

Item 14. Principal Accounting Fees And Services

The information required by this Item 14 is hereby incorporated by reference to our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

Item 15. Exhibits

| | | |
|----|----------|---|
| A. | (1) | The following documents are filed as part of this report: The audited Consolidated Statements of Financial Condition of Eagle Bancorp and subsidiary as of June 30, 2009 and June 30, 2008 and the related Consolidated Statements of Income, Consolidated Statements of Changes in Stockholder Equity and Consolidated Statements of Cash Flows for the years then ended, together with the related notes and independent auditor's reports. |
| | (2) | Schedules omitted as they are not applicable. |
| B. | Exhibits | |
| | * | 2.1 Amended and Restated Plan of Mutual Holding Company Reorganization and Stock Issuance |
| | * | 3.1 Charter of Eagle Bancorp |
| | * | 3.2 Bylaws of Eagle Bancorp |
| | * | 4 Form of Stock Certificate of Eagle Bancorp |
| | * | 10.1 Employee Stock Ownership Plan and Trust |
| | ** | 10.2 Stock Plan |
| | *** | 10.3 Employment Contract of Peter J. Johnson |
| | | 11 Computation of per share earnings (incorporated by reference to Note 3 to Notes To Consolidated Statements of Financial Condition dated June 30, 2009) |
| | **** | 14 Code of Ethics |
| | | 21.1 Subsidiaries of Registrant (incorporated by reference to Part I, Subsidiary Activity) |
| | | 23.1 Consent of Davis Kinard & Co, PC |
| | | 31.1 Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| | | 31.2 Certification by Clinton J. Morrison, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| | | 32.1 Certification by Peter J. Johnson, Chief Executive Officer and Clinton J. Morrison, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| | | 99 Consolidated Statements of Financial Condition |
| | * | Incorporated by reference to the identically numbered exhibit of the Registration Statement on Form SB-2 (File No. 333-93077) filed with the SEC on December 20, 1999. |
| | ** | Incorporated by reference to the proxy statement for 2000 Annual Meeting filed with the SEC on September 19, 2000. |
| | *** | Incorporated by reference to the Form 8-K filed with the SEC on November 6, 2006. |
| | **** | Incorporated by reference to the Form 10-KSB filed with the SEC on September 16, 2004. |

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant causes this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EAGLE BANCORP

/s/ Peter J. Johnson

 Peter J. Johnson
 President & Chief Executive Officer

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In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signatures</u> | <u>Title</u> | <u>Date</u> |
|---|--|-------------|
| <u>/s/ Peter J. Johnson</u> Peter J. Johnson | President & Chief Executive Officer Director (Principal Executive Officer) | 9/21/2009 |
| <u>/s/ Clinton J. Morrison</u> Clinton J. Morrison | Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | 9/21/2009 |
| <u>/s/ Larry A. Dreyer</u> Larry A. Dreyer | Chairman | 9/21/2009 |
| <u>/s/ Don O. Campbell</u> Don O. Campbell | Vice Chairman | 9/21/2009 |
| <u>/s/ Rick F. Hays</u> Rick F. Hays | Director | 9/21/2009 |
| <u>/s/ Lynn E. Dickey</u> Lynn E. Dickey | Director | 9/21/2009 |
| <u>/s/ James A. Maierle</u> James A. Maierle | Director | 9/21/2009 |
| <u>/s/ Thomas J. McCarvel</u> Thomas J. McCarvel | Director | 9/21/2009 |

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Exhibit 99 Consolidated Statements of Financial Condition

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AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
and

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
June 30, 2009 and 2008

EAGLE BANCORP AND SUBSIDIARY

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Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of
Eagle Bancorp and Subsidiary**

We have audited the accompanying consolidated statements of financial condition of **Eagle Bancorp and Subsidiary** as of June 30, 2009 and 2008 and the related consolidated statements of income, stockholders' equity and cash flows for years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the 2009 and 2008 financial statements referred to above present fairly, in all material respects, the financial position of **Eagle Bancorp and Subsidiary** as of June 30, 2009 and 2008, and the results of its operations and its cash flows for years then ended in conformity with accounting principles generally accepted in the United States of America.

Abilene, Texas
August 7, 2009

EAGLE BANCORP AND SUBSIDIARY
Consolidated Statements of Financial Condition
June 30, 2009 and 2008

(Dollars in Thousands, Except for Per Share Data)

| | 2009 | 2008 |
|---|------------|------------|
| Assets | | |
| Cash and due from banks | \$ 2,487 | \$ 3,541 |
| Interest bearing deposits in banks | 224 | 549 |
| Federal funds sold | 3,617 | |
| Cash and cash equivalents | 6,328 | 4,090 |
| Securities available-for-sale | 82,263 | 78,417 |
| Securities held-to-maturity (fair value approximates \$384 in 2009 and \$708 in 2008) | 375 | 697 |
| Preferred stock SFAS 159 | 25 | 1,321 |
| FHLB stock restricted, at cost | 2,000 | 1,715 |
| Investment in Eagle Bancorp Statutory Trust I | 155 | 155 |
| Mortgage loans held for sale | 5,349 | 7,370 |
| Loans receivable, net of deferred loan fees and allowance for loan losses of \$525 in 2009 and \$300 in 2008 | 167,197 | 168,149 |
| Accrued interest and dividend receivable | 1,399 | 1,426 |
| Mortgage servicing rights, net | 2,208 | 1,652 |
| Premises and equipment, net | 13,761 | 8,080 |
| Cash surrender value of life insurance | 6,496 | 6,285 |
| Other assets | 2,153 | 550 |
| | \$ 289,709 | \$ 279,907 |
| Liabilities and Shareholders Equity | | |
| Noninterest bearing | \$ 15,002 | \$ 14,617 |
| Interest bearing | 172,197 | 164,234 |
| Total deposits | 187,199 | 178,851 |
| Accrued expenses and other liabilities | 2,507 | 2,045 |
| Federal funds purchased | | 3,000 |
| FHLB advances and other borrowings | 67,056 | 65,222 |
| Subordinated debentures | 5,155 | 5,155 |
| Total liabilities | 261,917 | 254,273 |
| Shareholders equity | | |
| Preferred stock, no par value; 1,000,000 shares authorized, no shares issued or outstanding | | |
| Common stock, \$0.01 par value; 9,000,000 shares authorized, 1,223,572 shares issued; 1,075,312 and 1,076,072 shares outstanding in 2009 and 2008, respectively | 12 | 12 |
| Capital surplus | 4,564 | 4,487 |
| Unallocated common stock held by ESOP | (18) | (55) |
| Treasury stock, at cost | (5,034) | (5,013) |
| Retained earnings | 28,850 | 27,025 |
| Net accumulated other comprehensive loss | (582) | (822) |

| Assets | <u>2009</u> | <u>2008</u> |
|---------------------------|-------------|-------------|
| Total shareholders equity | 27,792 | 25,634 |
| | \$ 289,709 | \$ 279,907 |

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

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EAGLE BANCORP AND SUBSIDIARY
Consolidated Statements of Income
Years Ended June 30, 2009 and 2008
(Dollars in Thousands, Except for Per Share Data)

| | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| Interest and dividend income | | |
| Loans, including fees | \$ 11,411 | \$ 10,905 |
| Securities available-for-sale | 3,893 | 3,071 |
| Securities held- to-maturity | 20 | 34 |
| Trust preferred securities | 9 | 9 |
| Federal Home Loan Bank stock dividends | | 16 |
| Deposits with banks | 15 | 63 |
| Total interest income | 15,348 | 14,098 |
| Interest expense | | |
| Deposits | 3,161 | 4,387 |
| FHLB advances and other borrowings | 2,645 | 1,966 |
| Subordinated debentures | 309 | 309 |
| Total interest expense | 6,115 | 6,662 |
| Net interest income | 9,233 | 7,436 |
| Provision (credit) for loan losses | 257 | (175) |
| Net interest income after provision for loan losses | 8,976 | 7,611 |
| Noninterest income | | |
| Service charges on deposit accounts | 745 | 711 |
| Net gain on sale of loans | 2,216 | 801 |
| Mortgage loan service fees | 628 | 542 |
| Net realized gain on sales of available for sale securities | 54 | 72 |
| Net loss on preferred stock SFAS 159 | (1,296) | (511) |
| Other income | 652 | 609 |
| Total noninterest income | 2,999 | 2,224 |
| Noninterest expenses | | |
| Salaries and employee benefits | 4,411 | 3,965 |
| Occupancy and equipment expense | 900 | 818 |
| Data processing | 370 | 297 |
| Advertising | 394 | 293 |

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| | 2009 | 2008 |
|---|-----------------|-----------------|
| Amortization of mortgage servicing rights | 598 | 313 |
| Federal insurance premiums | 307 | 20 |
| Postage | 151 | 99 |
| Legal, accounting, and examination fees | 231 | 220 |
| Consulting fees | 114 | 116 |
| ATM processing | 62 | 56 |
| Other expense | 1,025 | 866 |
| Total noninterest expenses | 8,563 | 7,063 |
| Income before income taxes | 3,412 | 2,772 |
| Income tax expense | 1,024 | 662 |
| Net income | \$ 2,388 | \$ 2,110 |
| Basic earnings per share | \$ 2.23 | \$ 1.97 |
| Diluted earnings per share | \$ 1.96 | \$ 1.74 |

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

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EAGLE BANCORP AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended June 30, 2009 and 2008
(Dollars in Thousands, Except for Per Share Data)

| | Preferred Stock | Common Stock |
|---|--------------------|-----------------|
| Balance at July 1, 2007 | \$ | \$ 12 |
| Net income | | |
| Change in net unrealized depreciation on available for sale securities and cash flow hedges, net | | |
| Total comprehensive income | | |
| SFAS 159 Adjustment | | |
| Dividends paid (\$.96 per share) | | |
| Treasury stock purchased (1,250 shares @ \$33.00; 3,285 shares @ \$32.75; 1,000 shares @ \$27.25; 750 shares @ \$28.25; 2,000 shares @ \$28.25; | | |
| ESOP shares allocated or committed to be released for allocation (4,600) shares | | |
| Balance at June 30, 2008 | | 12 |
| Net income | | |
| Change in net unrealized depreciation on available for sale securities and cash flow hedges, net | | |
| Total comprehensive income | | |
| Dividends paid (\$1.02 per share) | | |
| Treasury stock purchased (760 shares @ \$27.00) | | |
| EITF No. 06-4 & 06-10 | | |
| ESOP shares allocated or committed to be released for allocation (4,600) shares | | |

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| | <u>Preferred Stock</u> | <u>Common Stock</u> |
|---------------------------------|----------------------------|-------------------------|
| Balance at June 30, 2009 | \$ | \$ 12 |

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

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| <u>Additional Paid-In</u> | <u>Unallocated ESOP Shares</u> | <u>Treasury Stock</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Loss</u> | <u>Total</u> |
|-------------------------------|--|---------------------------|------------------------------|---|--------------|
| \$ 4,387 | \$ (92) | \$ (4,759) | \$ 25,448 | \$ (908) | \$ 24,076 |
| | | | 2,110 | | 2,110 |
| | | | | 86 | 86 |
| | | | | | 2,196 |
| | | | (118) | | (118) |
| | | | (415) | | (415) |
| | | (254) | | | (254) |
| 100 | 37 | | | | 137 |
| 4,487 | (55) | (5,013) | 27,025 | (822) | 25,622 |
| | | | 2,388 | | 2,388 |
| | | | | 240 | 240 |
| | | | | | 2,628 |
| | | | (435) | | (435) |
| | | (21) | | | (21) |
| | | | (128) | | (128) |
| 77 | 37 | | | | 114 |
| \$ 4,564 | \$ (18) | \$ (5,034) | \$ 28,850 | \$ (582) | \$ 27,780 |

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

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EAGLE BANCORP AND SUBSIDIARY

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Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008
(Dollars in Thousands, Except for Per Share Data)

| | 2009 | 2008 |
|--|-----------------|-----------------|
| Cash flows from operating activities | | |
| Net income | \$ 2,388 | \$ 2,110 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | |
| Provision for mortgage servicing rights valuation losses | | |
| Provision(credit) for loan losses | 257 | (175) |
| Depreciation | 482 | 459 |
| Net amortization of securities premium & discounts | 163 | 234 |
| Amortization of capitalized mortgage servicing rights | 598 | 313 |
| Net gain on sale of loans | (2,216) | (801) |
| Net realized (gain) loss on sales of available-for-sale securities | (54) | (72) |
| Net recognized loss on preferred stock SFAS 159 | 1,296 | 511 |
| Net loss on sale of OREO | 2 | |
| Net loss on sale of fixed assets | | 3 |
| Appreciation in cash surrender value of life insurance, net | (211) | (222) |
| Net change in | | |
| Loans held for sale | 4,257 | (5,366) |
| Accrued interest receivable | 27 | (95) |
| Other assets | (1,603) | 414 |
| Accrued expenses and other liabilities | 344 | (311) |
| Net cash provided by (used in) operating activities | 5,730 | (2,998) |
| Cash flows from investing activities | | |
| Activity in available for sale securities | | |
| Sales | 5,298 | 4,852 |
| Maturities, prepayments and calls | 11,182 | 15,778 |
| Purchases | (20,114) | (36,176) |
| Activity in held to maturity securities | | |
| Maturities, prepayments and calls | 322 | 224 |
| FHLB stock purchased | (285) | (400) |
| Loan originations and principal collections, net | (471) | (10,175) |
| Purchase of bank owned life insurance | | (300) |
| Proceeds from sale of OREO | 13 | |
| Proceeds from sale of equipment | | 9 |
| Additions to premises and equipment | (6,163) | (2,746) |
| Net cash used in investing activities | (10,218) | (28,934) |
| Cash flows from financing activities | | |
| Net increase (decrease) in deposits | 8,348 | (800) |
| Net change in federal funds purchased | (3,000) | (800) |
| Net change in advances from the FHLB and other borrowings | 1,834 | 35,222 |
| Purchase of treasury stock, at cost | (21) | (254) |
| Dividends paid | (435) | (415) |
| Net cash provided by financing activities | 6,726 | 32,953 |
| Net change in cash and cash equivalents | 2,238 | 1,021 |
| Cash and cash equivalents at beginning of year | 4,090 | 3,069 |
| Cash and cash equivalents at end of year | \$ 6,328 | \$ 4,090 |

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

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

Eagle Bancorp was organized in 2000 as the majority-owned subsidiary of Eagle Financial, MHC, (the Mutual Holding Company) and the sole parent of American Federal Savings Bank (the Bank). Collectively, Eagle Bancorp and the Bank are referred to herein as the Company.

The Bank is a federally chartered savings bank subject to the regulations of the Office of Thrift Supervision (OTS). The Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured to the applicable limits by the Federal Deposit Insurance Corporation (FDIC).

The Bank is headquartered in Helena, Montana, and operates additional branches in Butte, Bozeman, and Townsend, Montana. The Bank's market area is concentrated in south central Montana, to which it primarily offers commercial, residential, and consumer loans. The Bank's principal business is accepting deposits and, together with funds generated from operations and borrowings, investing in various types of loans and securities.

Principles of Consolidation

The consolidated financial statements include the accounts of Eagle Bancorp and the Bank. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, and the valuation of foreclosed assets. In connection with the determination of the estimated losses on loans, foreclosed assets, valuation of deferred tax assets and mortgage servicing rights management obtains independent appraisals and valuations.

Significant Group Concentrations of Credit Risk

Most of the Company's business activity is with customers located within the south-central Montana area. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. At June 30, 2009 and June 30, 2008, no account balances were held with correspondent banks that were in excess of FDIC insured levels. Also, from time to time, the Company is due amounts in excess of FDIC insurance limits for checks and transit items. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Company.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions cash and due from banks, interest bearing deposits in banks, and federal funds sold all of which mature within ninety days.

The Bank is required to maintain a reserve balance with the Federal Reserve Bank. The Bank properly maintained amounts in excess of required reserves of \$50,000 as of June 30, 2009 and 2008.

Investment Securities

The Company designates debt and equity securities as held-to-maturity, available-for-sale, or trading.

Held-to-maturity Debt investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the period remaining until maturity.

Available-for-sale Investment securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, need for liquidity, and changes in the availability of and the yield of alternative investments, are classified as available-for-sale. These assets are carried at fair value. Unrealized gains and losses, net of tax, are reported as other comprehensive income. Gains and losses on the sale of available-for-sale securities are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary are recognized by write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses.

Trading No investment securities were designated as trading at June 30, 2009 and 2008.

Securities SFAS 159 Beginning fiscal year, July 1, 2007 the Company elected to account for its preferred stock under SFAS No. 159, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these assets are recognized in earnings when incurred. On July 1, 2007 a charge to retained earnings for \$118,000 was recorded in accordance with the implementation of SFAS No. 159 to record the unrealized loss (net of taxes) on preferred stock at that date.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

Federal Home Loan Bank Stock

The Company's investment in Federal Home Loan Bank (FHLB) stock is a restricted investment carried at cost (\$100 per share par value), which approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Company may request redemption at par value of any stock in

excess of the amount it is required to hold. Stock redemptions are made at the discretion of the FHLB. The Bank redeemed no FHLB shares during the years ended June 30, 2009 and 2008.

Mortgage Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value, determined in aggregate, plus the fair value of associated derivative financial instruments. Net unrealized losses, if any, are recognized in a valuation allowance by a charge to income.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in south central Montana. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans receivable that management has the intent and ability to hold until maturity are reported at the outstanding principal balance adjusted for any charge-offs, allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or unaccreted discounts on purchased loans. Loan origination fees, net of certain direct origination costs are deferred and amortized over the contractual life of the loan, as an adjustment of the yield, using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of specific, general and unallocated components. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on a market price valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

Mortgage Servicing Rights continued

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that the fair value is less than the capitalized amount for the tranches. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Cash Surrender Value of Life Insurance

Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for fair value. The adjustment to fair value increases or decreases the carrying value of the policies and is recorded as an income or expense on the consolidated statement of income. For the years ended June 30, 2009 and 2008 there were no adjustments to fair value that were outside the normal appreciation in cash surrender value.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of the Company's carrying amount or fair value less estimated selling cost at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value.

Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Premises and Equipment

Land is carried at cost. Property and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from 3 to 35 years. The costs of maintenance and repairs are expensed as incurred, while major expenditures for renewals and betterments are capitalized.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

Income Taxes

Income taxes are accounted for under the asset and liability method. Accordingly, deferred taxes are recognized for the estimated future tax effects attributable to temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in income tax expense in the period that includes the enactment date of the change. A deferred tax liability is recognized for all temporary differences that will result in future taxable income. A deferred tax asset is recognized for all temporary differences that will result in future tax deductions, subject to reduction of the asset by a valuation allowance in certain circumstances. This valuation allowance is recognized if, based on an analysis of available evidence, management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance is subject to ongoing adjustment based on changes in circumstances that affect management's judgment about the realizability of the deferred tax asset. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of 148,260 shares in 2009 and 147,500 shares in 2008.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs were approximately \$394,000 and \$293,000 for the years ended June 30, 2009 and 2008, respectively.

Employee Stock Ownership Plan

Compensation expense recognized for the Company's ESOP equals the fair value of shares that have been allocated or committed to be released for allocation to participants. Any difference between the fair value of the shares at the time and the ESOP's original acquisition cost is charged or credited to stockholders' equity (capital surplus). The cost of ESOP shares that have not yet been allocated or committed to be released is deducted from stockholders' equity.

Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net income by the weighted average number of common shares used to compute basic EPS plus the incremental amount of potential common stock determined by the treasury stock method. For purposes of computing EPS, outstanding common shares include all shares issued to the Mutual Holding Company but exclude ESOP shares that have not been allocated or committed to be released for allocation to participants.

EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

Financial Instruments

All derivative financial instruments that qualify for hedge accounting are recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments used as cash flow hedges are recognized as a component of comprehensive income. At June 30, 2009 and 2008, the Company was holding forward delivery commitments that qualify as derivative financial instruments.

The carrying value of the Company's financial instruments approximates fair value. The fair value of the Company's financial instruments is generally determined by a third party's valuation of the underlying asset.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years for financial assets and liabilities such as derivatives measured at fair value under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, investments in securities under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, etc. SFAS 157 has been deferred until fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities such as asset retirement obligations measured at fair value at initial recognition under SFAS 143, *Accounting for Asset Retirement Obligations*, long-lived asset groups measured at fair value under SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, liabilities for exit or disposal activities measured at fair value under SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities*, etc. The Company adopted the provisions of this new accounting principle as it relates to financial assets and financial liabilities and such effects have been included in Note 18. The Company adopted SFAS No. 157 on July 1, 2007 in conjunction with its adoption of SFAS No. 159.

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS No. 159 further establishes certain additional disclosure requirements. The Company adopted SFAS No. 159 on July 1, 2007.

EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

Recent Accounting Pronouncements continued

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In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations a replacement of FASB No. 141* (SFAS 141(R)). SFAS 141(R) requires (a) a company to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date; and (b) an acquirer in preacquisition periods to expense all acquisition-related costs, among various other modifications to SFAS No. 141. SFAS 141(R) requires that any adjustments to an acquired entity's deferred tax asset and liability balance that occur after the measurement period be recorded as a component of income tax expense. This accounting treatment is required for business combinations consummated before the effective date of SFAS No. 141(R) (non-prospective), otherwise SFAS 141(R) must be applied prospectively. The presentation and disclosure requirements must be applied retrospectively to provide comparability in the financial statements. Early adoption is prohibited. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The impact of this standard is dependent upon the level of future acquisitions.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires companies to provide qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. The statement also requires companies to disclose more information about the location and amounts of derivative instruments in financial statements; how derivatives and related hedges are accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*; and how the hedges affect the entity's financial position, financial performance and cash flows. SFAS 161 is effective for periods beginning after November 15, 2008. The Company will comply with the disclosure provisions of SFAS 161 to the extent it has entered into derivative transactions in the year of adoption.

On November 14, 2008, the Securities and Exchange Commission (SEC) issued its long-anticipated proposed International Financial Reporting Standards (IFRS) roadmap outlining milestones that, if achieved, could lead to mandatory transition to IFRS for U.S. domestic registrants starting in 2014. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). Under the proposed roadmap, the Company could be required through its parent company to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS for U.S. domestic registrants. Management is currently assessing the impact that this potential change would have on the Company's consolidated financial statements, and will continue to monitor the development of the potential implementation of IFRS.

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EAGLE BANCORP AND SUBSIDIARY Notes to Consolidated Financial Statements June 30, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies continued

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

NOTE 2: Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the years ended June 30:

| | 2009 | 2008 |
|---|----------|----------|
| <i>(In Thousands)</i> | | |
| Weighted average shares outstanding during the year on which basic earnings per share is calculated | 1,071 | 1,071 |
| Add: weighted average of stock held in treasury | 148 | 143 |
| Average outstanding shares on which diluted earnings per share is calculated | 1,219 | 1,214 |
| Net income applicable to common stockholders | \$ 2,338 | \$ 2,110 |
| Basic earnings per share | \$ 2.23 | \$ 1.97 |

| | 2009 | 2008 |
|----------------------------|---------|---------|
| Diluted earnings per share | \$ 1.96 | \$ 1.74 |

NOTE 3: Securities

The Company's investment policy requires that the Company purchase only high-grade investment securities. Most municipal obligations are categorized as AAA or better by a nationally recognized statistical rating organization. These ratings are achieved because the securities are backed by the full faith and credit of the municipality and also supported by third-party credit insurance policies. Mortgage backed securities and collateralized mortgage obligations are issued by government sponsored corporations, including Federal Home Loan Mortgage Corporation, Fannie Mae, and the Guaranteed National Mortgage Association. The amortized cost and estimated fair values of securities, together with unrealized gains and losses, are as follows:

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 3: Securities continued

June 30, 2009

| <i>(Dollars in Thousands)</i> | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|------------------------------|
| Available for Sale | | | | |
| U.S. Government and agency | \$ 3,893 | \$ 14 | \$ (25) | \$ 3,882 |
| Municipal obligations | 29,747 | 202 | (1,056) | 28,893 |
| Corporate obligations | 9,963 | 149 | (619) | 9,493 |
| Mortgage-backed securities | 8,287 | 162 | (5) | 8,444 |
| CMOs | 31,274 | 663 | (386) | 31,551 |
| Total securities available for sale | \$ 83,164 | \$ 1,190 | \$ (2,091) | \$ 82,263 |
| Held to Maturity | | | | |
| Municipal obligations | \$ 375 | \$ 9 | \$ | \$ 384 |
| Total securities held to maturity | \$ 375 | \$ 9 | \$ | \$ 384 |
| Securities SFAS 159 | | | | |
| Preferred stock | \$ 2,000 | \$ | \$ (1,975) | \$ 25 |
| | \$ 2,000 | \$ | \$ (1,975) | \$ 25 |

June 30, 2008

| <i>(Dollars in Thousands)</i> | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|-------------------------------|-------------------|------------------------------|-------------------------------|------------------------------|
| Available for Sale | | | | |
| U.S. Government and agency | \$ 2,242 | \$ 6 | \$ (16) | \$ 2,232 |
| Municipal obligations | 22,790 | 60 | (660) | 22,190 |
| Corporate obligations | 12,811 | 53 | (142) | 12,722 |
| Mortgage-backed securities | 13,135 | 8 | (127) | 13,016 |

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June 30, 2008

| | | | | |
|-------------------------------------|-----------|--------|------------|-----------|
| CMOs | 28,580 | 36 | (392) | 28,224 |
| Common stock | 82 | | (49) | 33 |
| Total securities available for sale | \$ 79,640 | \$ 163 | \$ (1,386) | \$ 78,417 |
| Held to Maturity | | | | |
| Municipal obligations | \$ 675 | \$ 11 | \$ | \$ 686 |
| Mortgage-backed securities | 22 | | | 22 |
| Total securities held to maturity | \$ 697 | \$ 11 | \$ | \$ 708 |
| Securities SFAS 159 | | | | |
| Preferred stock | \$ 2,000 | \$ | \$ (679) | \$ 1,321 |
| | \$ 2,000 | \$ | \$ (679) | \$ 1,321 |

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 3: Securities continued

Beginning July 1, 2007 the Company elected to account for its FHLMC and FNMA preferred stock under SFAS No. 159 Fair Value Option for Financial Assets and Financial Liabilities, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these assets are recognized in earnings when incurred. Management elected to invoke the option to carry its preferred stock at fair value to more accurately reflect the estimated realizability of the preferred stock at each financial reporting date. The market value of preferred stock was \$25,000 and \$1,321,000 at June 30, 2009 and 2008, respectively, resulting in a loss in value of \$1,296,000 and \$511,000 for the years ending June 30, 2009 and 2008, respectively, and is included in noninterest income.

The Company has not entered into any interest rate swaps, options, or futures contracts relating to investment securities.

Gross recognized gains on securities available-for-sale were \$113,000 and \$87,000 for the years ended June 30, 2009 and 2008, respectively. Gross realized losses on securities available-for-sale were \$59, and \$15,000 for the years ended June 30, 2009 and 2008, respectively.

The amortized cost and estimated fair value of securities at June 30, 2009 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

June 30, 2009

| | Held to Maturity | | Available for Sale | |
|-------------------------------|------------------|------------------------|--------------------|------------------------|
| | Amortized Cost | Estimated Market Value | Amortized Cost | Estimated Market Value |
| <i>(Dollars in Thousands)</i> | | | | |
| Due in one year or less | \$ 110 | \$ 110 | \$ 110 | \$ 110 |
| Due from one to five years | 125 | 131 | 10,414 | 10,187 |
| Due from five to ten years | 140 | 143 | 7,643 | 7,683 |
| Due after ten years | | | 25,437 | 24,289 |

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June 30, 2009

| | 375 | 384 | 43,604 | 42,269 |
|-----------------|-------|--------|-----------|-----------|
| Mortgage-backed | | | 8,287 | 8,444 |
| CMOs | | | 31,273 | 31,550 |
| Total | \$375 | \$ 384 | \$ 83,164 | \$ 82,263 |

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

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 3: Securities continued

At June 30, 2009 and 2008, securities with a carrying value of \$36,651,000 and \$33,880,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The following table discloses, as of June 30, 2009 and 2008, the Company's investment securities that have been in a continuous unrealized-loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

| | Less than 12 months | | 12 months or longer | |
|-------------------------------|------------------------|-------------------------|------------------------|-------------------------|
| | Estimated Market Value | Gross Unrealized Losses | Estimated Market Value | Gross Unrealized Losses |
| June 30, 2009 | | | | |
| <i>(Dollars in Thousands)</i> | | | | |
| U.S. Government and agency | \$ 1,686 | \$ 18 | \$ 458 | \$ 7 |
| Municipal obligations | 11,529 | 422 | 5,732 | 634 |
| Corporate obligations | 1,193 | 49 | 1,961 | 570 |
| Mortgage-backed & CMOs | 2,755 | 196 | 1,062 | 195 |
| Total | \$17,163 | \$ 685 | \$ 9,213 | \$ 1,406 |

June 30, 2008

| | | | | |
|----------------------------|----------|----------|----------|--------|
| U.S. Government and agency | \$ 964 | \$ 16 | \$ | \$ |
| Municipal obligations | 13,272 | 460 | 3,067 | 200 |
| Corporate obligations | 7,973 | 218 | | |
| Mortgage-backed & CMOs | 32,191 | 404 | 1,991 | 39 |
| Common stock | 33 | 49 | | |
| Total | \$54,433 | \$ 1,147 | \$ 5,058 | \$ 239 |

The table above shows the Company's investment gross unrealized losses and fair values, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2009 and 2008. 97 and 140 securities are in an

unrealized loss position as of June 30, 2009 and 2008, respectively.

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

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 3: Securities continued

At June 30, 2009, 58 U.S. Government and agency securities and municipal obligations have unrealized losses with aggregate depreciation of less than 3.2% from the Company's amortized cost basis. These unrealized losses are principally due to rising interest rates. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At June 30, 2009, 28 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of less than 1.0% from the Company's cost basis. These unrealized losses are principally due to rising interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At June 30, 2009, 11 corporate obligations have unrealized losses with aggregate depreciation of less than 7.0% from the Company's cost basis. These unrealized losses are principally due to rising interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 4: Loans

A summary of the balances of loans follows:

| June 30, | |
|----------|------|
| 2009 | 2008 |
| | |

(Dollars in Thousands)

First mortgage loans:

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June 30,

| | | |
|-----------------------------------|------------|------------|
| Residential mortgage (1-4 family) | \$ 79,216 | \$ 86,751 |
| Commercial real estate | 36,713 | 28,197 |
| Real estate construction | 4,642 | 7,317 |
| Other loans: Home equity | 28,676 | 28,034 |
| Consumer | 10,835 | 11,558 |
| Commercial | 7,541 | 6,502 |
| Subtotal | 167,623 | 168,359 |
| Less: Allowance for loan losses | (525) | (300) |
| Deferred loan fees, net | 99 | 90 |
| Total loans, net | \$ 167,197 | \$ 168,149 |

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were \$990,000 and \$0 at June 30, 2009 and 2008, respectively. Interest income not accrued on these loans and cash interest income was immaterial for the years ended June 30, 2009 and 2008. The allowance for loan losses on nonaccrual loans as of June 30, 2009 and 2008 was \$12,000 and \$32,000, respectively. The Company expects to collect all amounts due on nonaccrual loans, including interest accrued at contractual rates. There were \$15,000 and \$32,000 loans considered impaired at June 30, 2009 and 2008, respectively. As of June 30, 2009 and 2008, the Company had \$251,000 and \$0, respectively, of loans past due greater than ninety days that were still accruing interest.

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

June 30,

| | 2009 | 2008 |
|--|--------|--------|
| <i>(Dollars in Thousands)</i> | | |
| Balance at beginning of period | \$ 300 | \$ 518 |
| Provision (credit) for loan losses | 257 | (175) |
| Loans charged off | (47) | (54) |
| Recoveries of loans previously charged off | 15 | 11 |
| Balance at end of period | \$ 525 | \$ 300 |

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 4: Loans continued

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

Loans receivable from directors and senior officers, and their related parties, of the Company at June 30, 2009 and 2008, were \$1,760,679 and \$7,808,639, respectively. During the year ended June 30, 2009, total principal additions amounted to \$123,752 and total principal payments amounted to \$6,123,665. One loan was to a company that is a related party of a director, and accounts for \$6,000,000 of the \$6,123,665 principle payments noted previously. On July 9, 2008 \$6,000,000 of this loan was sold to the Montana Board of Investments under an existing commitment established February 28, 2007. Interest income from all these loans was \$140,015 and \$229,617 for the years ended June 30, 2009

and 2008, respectively.

NOTE 5: Mortgage Servicing Rights

The Company is servicing loans for the benefit of others totaling approximately \$270,508,000 and \$204,654,000 at June 30, 2009 and 2008, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$2,668,000 and \$2,219,000 at June 30, 2009 and 2008, respectively.

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

| | Years Ended June 30, | |
|---|----------------------|----------|
| | 2009 | 2008 |
| <i>(Dollars in Thousands)</i> | | |
| Mortgage servicing rights | | |
| Balance at beginning of period | \$ 1,652 | \$ 1,628 |
| Mortgage servicing rights capitalized | 1,154 | 337 |
| Amortization of mortgage servicing rights | (598) | (313) |
| Balance at end of period | 2,208 | 1,652 |
| Valuation allowance | | |
| Balance at beginning of period | | |
| Provision (credited) to operations | | |
| Balance at end of period | | |
| Net mortgage servicing rights | \$ 2,208 | \$ 1,652 |

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 5: Mortgage Servicing Rights continued

The fair values of these rights were \$2,389,000 and \$2,078,000 at June 30, 2009 and June 30, 2008, respectively. The fair value of servicing rights was determined using discount rates ranging from 9% to 20%, prepayment speeds ranging from 100% to 400%, depending on stratification of the specific right. The fair value was also adjusted for the affect of potential past dues and foreclosures.

NOTE 6: Premises and Equipment

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

| | June 30, | |
|--|----------|------|
| | 2009 | 2008 |

June 30,

| | June 30, | |
|-----------------------------------|-----------|-----------|
| | 2009 | 2008 |
| <i>(Dollars in Thousands)</i> | | |
| Land, buildings, and improvements | \$ 16,380 | \$ 10,571 |
| Furniture and equipment | 3,757 | 4,261 |
| | 20,137 | 14,832 |
| Accumulated depreciation | (6,376) | (6,752) |
| | \$ 13,761 | \$ 8,080 |

Depreciation expense totaled \$482,256 and \$458,964 for the years ended June 30, 2009 and 2008, respectively.

NOTE 7: Deposits

The composition of deposits are summarized as follows:

| | June 30, | |
|--|------------|------------|
| | 2009 | 2008 |
| <i>(Dollars in Thousands)</i> | | |
| Noninterest checking | \$ 15,002 | \$ 14,617 |
| Interest bearing checking (0.33%, 0.38%) | 32,664 | 30,720 |
| Passbook savings (0.41%, 0.65%) | 26,445 | 23,906 |
| Money market accounts (.64%, 1.75%) | 26,886 | 25,275 |
| Time certificates of deposits | | |
| (2009 .75% 5.35%, 2008 1.98% 5.35%) | 86,202 | 84,333 |
| | \$ 187,199 | \$ 178,851 |

The weighted average cost of funds was 1.38% and 1.94% at June 30, 2009 and 2008, respectively.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 7: Deposits continued

At June 30, 2009, the scheduled maturities of time deposits are as follows:

| | |
|-------------------------------|----------|
| <i>(Dollars in Thousands)</i> | |
| Within one year | \$72,102 |
| One to two years | 10,067 |
| Two to three years | 2,663 |
| Three to four years | 913 |

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| | |
|------------|-----------|
| Thereafter | 457 |
| Total | \$ 86,202 |

Interest expense on deposits is summarized as follows:

| | Years Ended June 30, | |
|-------------------------------|----------------------|---------|
| | 2009 | 2008 |
| <i>(Dollars in Thousands)</i> | | |
| Checking | \$ 114 | \$ 71 |
| Passbook savings | 131 | 150 |
| Money market accounts | 322 | 420 |
| Time certificates of deposits | 2,594 | 3,746 |
| | \$3,161 | \$4,387 |

As of May 20, 2009 FDIC insurance covers deposits up to \$250,000 through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per deposit for all account categories except for IRAs and other certain retirement accounts which will remain at \$250,000 per depositor. The Bank is a participant in the FDIC's Transactional Account Guarantee Program, and as such noninterest bearing accounts are fully insured until June 30, 2010 when the program expires. At June 30, 2009 and 2008, the Company held \$40,146,000 and \$37,211,000, respectively, in non-retirement deposit accounts that included balances in excess of \$100,000 or more. At June 30, 2009 and 2008, the Company held \$294,000 and \$285,000, respectively, in qualified retirement deposit accounts that included balances in excess of \$250,000. After December 31, 2013 deposit amounts above \$100,000, and \$250,000 for retirement accounts may not be insured by the FDIC, depending upon the underlying ownership of the account.

At June 30, 2009 and 2008, the Company reclassified \$148,000 and \$44,000, respectively, in overdrawn deposits as loans.

Directors and senior officers' deposit accounts at June 30, 2009 and 2008, were \$299,000 and \$201,000, respectively.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 8: Advances from the Federal Home Loan Bank and other borrowings

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

| | June 30, | |
|-------------------------------|-----------|----------|
| | 2009 | 2008 |
| <i>(Dollars in Thousands)</i> | | |
| Within one year | \$ 10,667 | \$ 9,167 |
| One to two years | 8,389 | 15,666 |
| Two to three years | 18,000 | 3,389 |
| Three to four years | 16,000 | 16,000 |
| Four to five years | 9,000 | 16,000 |

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June 30,

| | June 30, | |
|------------|----------|----------|
| Thereafter | 5,000 | 5,000 |
| Total | \$67,056 | \$65,222 |

Federal Home Loan Advances

The advances are due at maturity, with the exception of two advances, totaling, \$10,000,000, that are callable at the FHLB of Seattle's option. The advances are subject to prepayment penalties. The interest rates on advances are fixed. The advances are collateralized by investment securities pledged to the FHLB of Seattle and a blanket pledge of the Bank's 1-4 family residential mortgage portfolio. The carrying value of the securities collateralized for these advances was \$1,135,081 as of June 30, 2009. At June 30, 2009 and 2008, the Company exceeded the collateral requirements of the FHLB. The Company's investment in FHLB stock is also pledged as collateral on these advances. The total FHLB funding line available to the Company at June 30, 2009, was 30% of total Bank assets, or approximately \$86.8 million. The balance of advances was \$44,056,000 and \$42,222,000 at June 30, 2009 and 2008, respectively.

Other Borrowings

The Bank had \$23,000,000 in structured repurchase agreements with PNC Financial Service Group, Inc. (PNC) at June 30, 2009, and 2008. These agreements are collateralized by corporate and municipal securities. The carrying value of these securities was \$27,961,000 as of June 30, 2009. These agreements include terms, under certain conditions, which allow PNC to exercise a call option.

Federal Funds Purchased

The Bank has a \$6,000,000 Federal Funds line of credit with PNC. The balance was \$0, and \$3,000,000 as of June 30, 2009 and 2008, respectively.

The Bank established a \$5,000,000 Federal Funds line of credit with Zions Bank during the fiscal year 2009. The balance was \$0 as of June 30, 2009.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 8: Advances from the Federal Home Loan Bank and other borrowings continued

Federal Reserve Bank Discount Window

For additional liquidity sources, the Bank opened a credit facility at the Federal Reserve Bank's Discount Window. The amount available to the Bank is limited by various collateral requirements. The Bank has pledged one Agency security and one mortgage backed security at the Federal Reserve Bank that had a carrying value of \$6,151,000 as of June 30, 2009. The account had \$0 balance as of June 30, 2009 and 2008.

For all borrowings outstanding the weighted average interest rate for advances at June 30, 2009 and 2008 was 4.02% and 3.94% respectively. The weighted average amount outstanding was \$67,772,000 and \$43,712,000 for the years ended June 30, 2009 and 2008, respectively.

The maximum amount outstanding at any month-end was \$73,789,000 and \$68,222,222 during the years ended June 30, 2009 and 2008, respectively.

NOTE 9: Subordinated Debentures

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

For the years ended June 30, 2009 and June 30, 2008, interest expense on the subordinated debentures was \$309,000.

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

NOTE 10: Legal Contingencies

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

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EAGLE BANCORP AND SUBSIDIARY Notes to Consolidated Financial Statements June 30, 2009 and 2008

NOTE 11: Income Taxes

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

| | Years Ended June 30, | |
|-------------------------------|----------------------|--------|
| | 2009 | 2008 |
| <i>(Dollars in Thousands)</i> | | |
| Current | | |
| U.S. federal | \$ 975 | \$ 678 |
| Montana | 270 | 198 |
| | 1,245 | 876 |
| Deferred | | |
| U.S. federal | (149) | (165) |
| Montana | (72) | (49) |
| | (221) | (214) |
| Total | \$ 1,024 | \$ 662 |

The nature and components of deferred tax assets and liabilities, which are a component of other assets in 2009 and 2008 in the accompanying statement of financial condition, are as follows:

June 30,

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June 30,

2009 2008

(Dollars in Thousands)

Deferred tax assets:

Deferred compensation \$ 272 \$ 267

Loans receivable 34 20

Securities available-for-sale & preferred stock SFAS 159 862 567

Other 16 22

Total deferred tax assets 1,184 876

Deferred tax liabilities:

Premises and equipment 210 112

Deferred loan fees 11 23

FHLB stock 389 389

Unrealized gain on hedging 20 14

Other 11

Total deferred tax liabilities 630 549

Net deferred tax asset \$ 554 \$ 327

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

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 11: Income Taxes continued

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

Years Ended June 30,

2009 2008

(Dollars in Thousands)

Federal income taxes at the statutory rate of 34% \$ 1,160 \$ 942

State income taxes 230 150

Nontaxable income (451) (409)

Other, net 85 (21)

Income tax expense \$ 1,024 \$ 662

Effective tax rate 30.0% 23.9%

Prior to January 1, 1987, the Company was allowed a special bad debt deduction limited generally in the current year to 32% (net of preference tax) of otherwise taxable income and subject to certain limitations based on aggregate loans and savings account balances at the end of the year. If the amounts that qualified as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, they will be

subject to federal income tax at the then current corporate rate. Retained earnings include approximately \$525,000 and \$300,000 at June 30, 2009 and 2008, respectively, for which federal income tax has not been provided.

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 12: Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income that are reported directly in stockholders equity, such as the change during the period in the after-tax net unrealized gain or loss on securities available-for-sale.

The Company's other comprehensive income is summarized as follows for the years ended June 30:

| | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|
| <i>(Dollars in Thousands)</i> | | |
| Net unrealized holding loss arising during the year: | | |
| Available for sale securities, net of related income tax benefit of \$112 and \$48, respectively | \$ 263 | \$ 112 |
| Forward delivery commitments, net of related income tax expense of \$6 and \$8, respectively | 15 | 20 |
| FAS 159 reclassification on July 1, 2007 | | 118 |
| Change in effective tax rate (on beginning balance of other comprehensive loss of (\$908) at July 1, 2007) | | (114) |
| Reclassification adjustment for net realized gain included in net income, net of related income tax expense of \$16 and \$22, respectively | (38) | (50) |
| Other comprehensive income | \$ 240 | \$ 86 |

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 13: Supplemental Cash Flow Information

| | <u>Years Ended June 30,</u> | |
|--|-----------------------------|-------------|
| | <u>2009</u> | <u>2008</u> |
| <i>(Dollars in Thousands)</i> | | |
| Supplemental Cash Flow Information | | |
| Cash paid during the year for interest | \$6,127 | \$6,565 |

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| | Years Ended June 30, | |
|---|----------------------|---------|
| | | |
| Cash paid during the year for income taxes | 1,475 | 919 |
| Non-Cash Investing Activities | | |
| Increase in market value of securities available for sale | \$ (321) | \$ (88) |
| Mortgage servicing rights capitalized | 1,154 | 338 |
| ESOP shares released | 114 | 137 |

NOTE 14: Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted assets (as defined), and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of June 30, 2009 and 2008, that the Bank meets all capital adequacy requirements to which it is subject.

The most recent notification from the Office of Thrift Supervision (OTS) (as of January 5, 2009) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum tangible, core, and risk-based ratios as set forth in the table below. The Bank's actual capital amounts (in thousands) and ratios are presented in the table below:

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EAGLE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

NOTE 14: Regulatory Capital Requirements continued

| <i>(Dollars in Thousands)</i> | Actual | | Minimum Capital Requirement | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|-----------|--------|-----------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| June 30, 2009: | | | | | | |
| Total Risk-based Capital to Risk Weighted Assets | | | | | | |
| Consolidated | \$ 33,886 | 16.61% | \$ 16,318 | 8.00% | \$ N/A | N/A% |
| Bank | 27,592 | 13.66 | 16,157 | 8.00 | 20,196 | 10.00 |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Consolidated | 33,374 | 16.36 | 8,159 | 4.00 | N/A | N/A |
| Bank | 27,079 | 13.41 | 8,078 | 4.00 | 12,118 | 6.00 |
| Tier I Capital to | | | | | | |

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| | | | | | | |
|-----------------------|-----------|--------|-----------|-------|--------|-------|
| Adjusted Total Assets | | | | | | |
| Consolidated | 33,374 | 11.50 | 8,709 | 3.00 | N/A | N/A |
| Bank | 27,079 | 9.53 | 8,522 | 3.00 | 14,203 | 5.00 |
| Tangible Capital to | | | | | | |
| Adjusted Total Assets | | | | | | |
| Consolidated | 33,374 | 11.50 | 4,354 | 1.50 | N/A | N/A |
| Bank | 27,079 | 9.53 | 4,261 | 1.50 | N/A | N/A |
| June 30, 2008: | | | | | | |
| Total Risk-based | | | | | | |
| Capital to Risk | | | | | | |
| Weighted Assets | | | | | | |
| Consolidated | \$ 31,875 | 16.24% | \$ 15,702 | 8.00% | \$ N/A | N/A% |
| Bank | 26,192 | 13.43 | 15,599 | 8.00 | 19,498 | 10.00 |
| Tier I Capital to | | | | | | |
| Risk Weighted Assets | | | | | | |
| Consolidated | 31,611 | 16.11 | 7,851 | 4.00 | N/A | N/A |
| Bank | 25,928 | 13.30 | 7,799 | 4.00 | 11,699 | 6.00 |
| Tier I Capital to | | | | | | |
| Adjusted Total Assets | | | | | | |
| Consolidated | 31,611 | 11.25 | 8,433 | 3.00 | N/A | N/A |