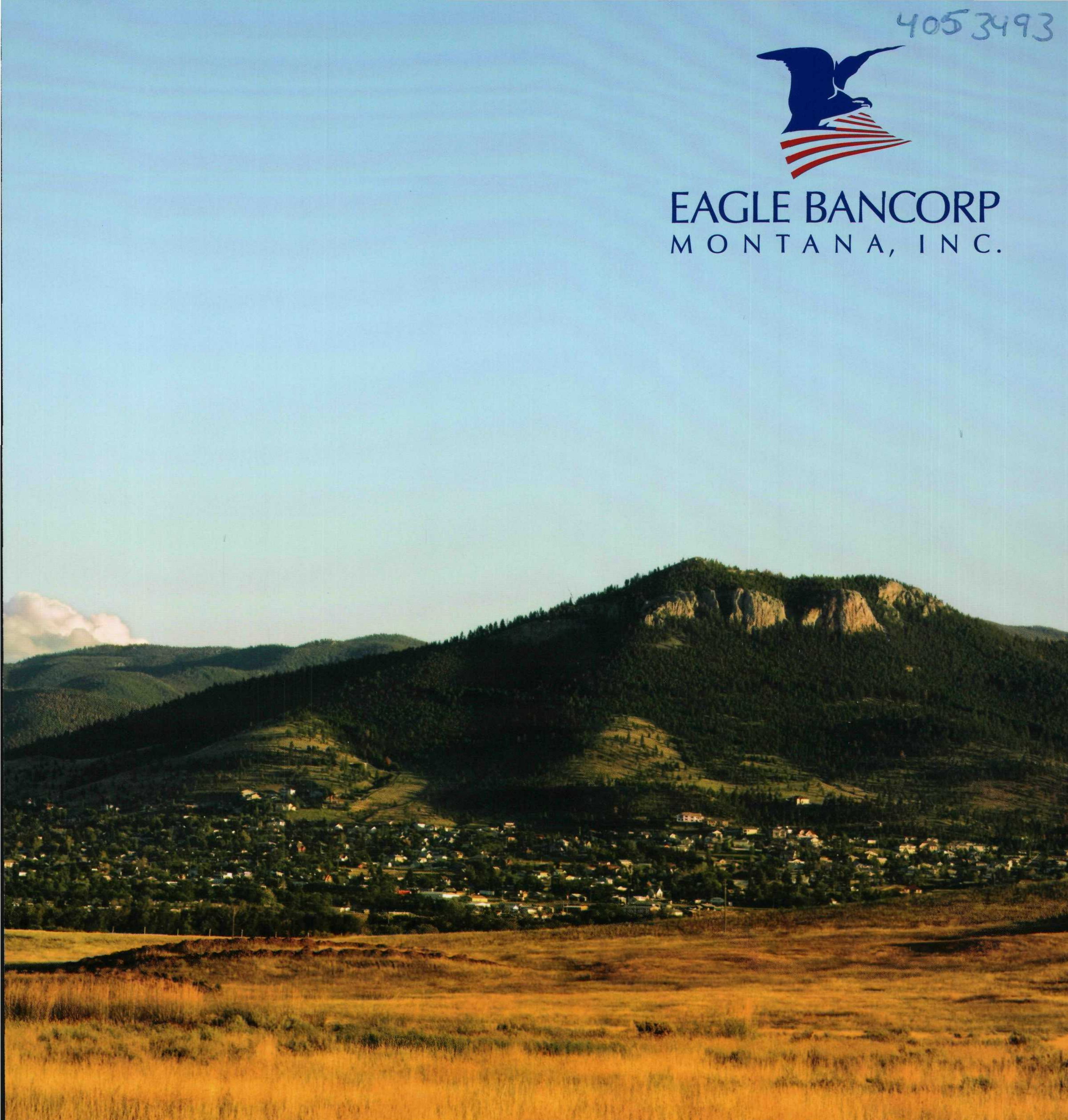
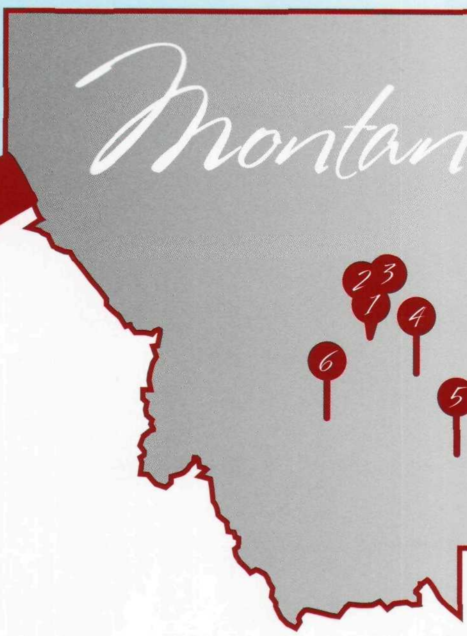


EAGLE BANCORP
MONTANA, INC.

Steadfast growth in unprecedented times.

2010 ANNUAL REPORT

Eagle Bancorp Montana, Inc., the stockholding company of American Federal Savings Bank, completed its second-step conversion on April 5, 2010, from the partially-public mutual holding company structure to the fully publicly-owned stock holding company structure. As part of that transaction, it also completed a related stock offering. As a result of the conversion and offering, the Company became the stock holding company for American Federal Savings Bank, and Eagle Financial MHC and Eagle Bancorp ceased to exist. The Company sold a total of 2,464,274 shares of common stock at a purchase price of $10.00 per share for gross proceeds of $24.6 million.



1 **Helena—Main Branch**
1400 Prospect Avenue, Helena, MT 59601

2 **Helena—Neill Avenue**
28 Neill Avenue, Helena, MT 59601

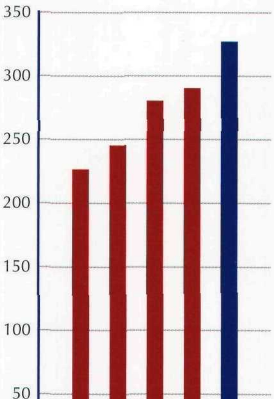
3 **Helena—Skyway**
2090 Cromwell Dixon Lane, Helena, MT 59602

4 **Townsend**
416 Broadway Street, Townsend, MT 59644

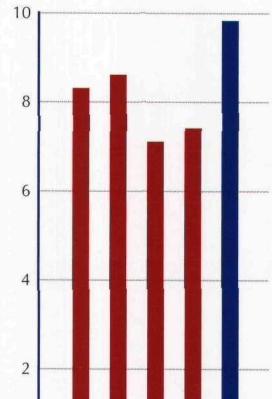
5 **Bozeman**
1455 W. Oak Street, Bozeman, MT 59715

6 **Butte**
3401 Harrison Avenue, Butte, MT 59701

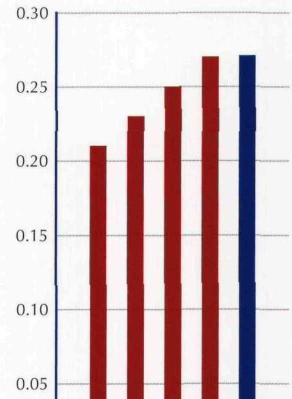
Total Assets
dollars in millions



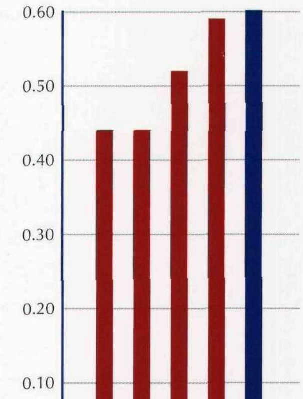
Stock Price*
in dollars



Dividends*
dollars per share



EPS*
basic, in dollars

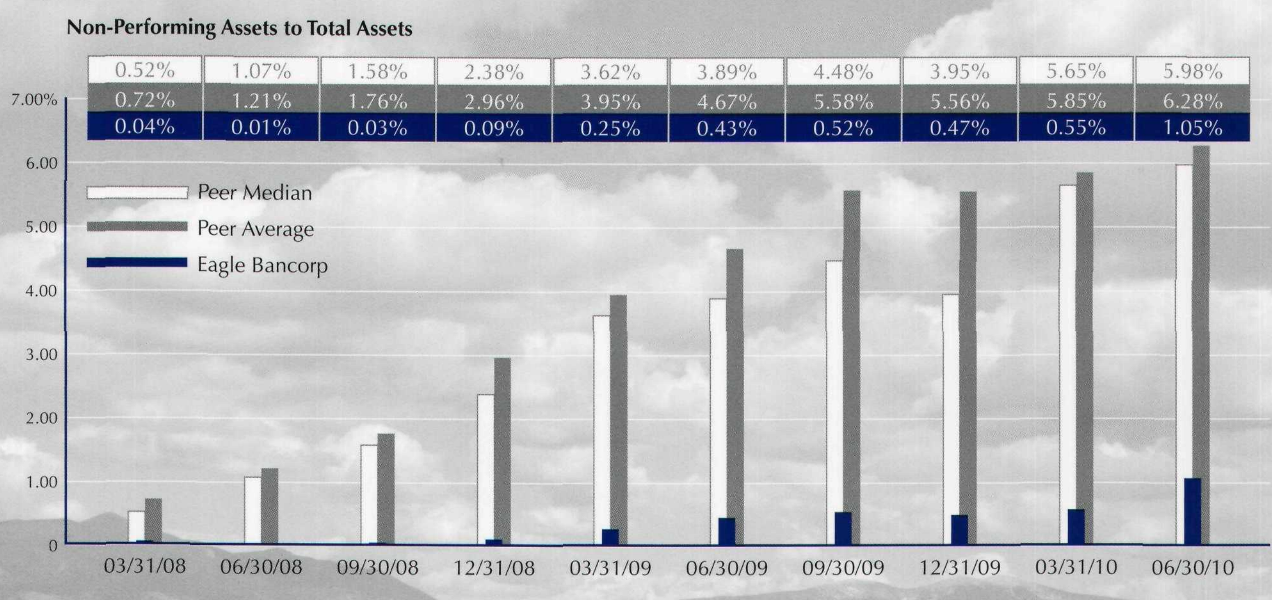


**Calculated on a converted basis using 3.8 to 1 exchange ratio.*

Financial Highlights

(Dollars in thousands)	**2010**	2009	2008	2007	2006
	For the Years Ended June 30				
Selected Financial Condition Data:					
Total Assets	**$325,739**	$289,709	$279,907	$244,686	$226,178
Net Loans	**169,502**	167,197	168,149	158,140	140,858
Total Securities	**114,653**	82,663	80,435	65,695	65,216
Total Deposits	**197,939**	187,199	178,851	179,647	174,342
Total Shareholders' Equity	**52,432**	27,792	25,634	24,088	22,545
Selected Operating Data:					
Net Interest Income	**$ 9,802**	$ 9,233	$ 7,436	$ 6,685	$ 6,714
Provision for Loan Losses	**715**	257	(175)	—	—
Non-interest Income	**3,593**	2,999	2,224	2,261	2,165
Non-interest Expense	**9,231**	8,563	7,063	6,614	6,465
Net Income	**$ 2,414**	$ 2,388	$ 2,110	$ 1,778	$ 1,785

Non-Performing Assets to Total Assets Remain Well Below Peers.



To Our Stockholders, Customers, and Friends:

The Board of Directors, management, and staff of Eagle Bancorp Montana, Inc. and its wholly owned subsidiary, American Federal Savings Bank, are pleased to present our annual report for our fiscal year ended June 30, 2010.

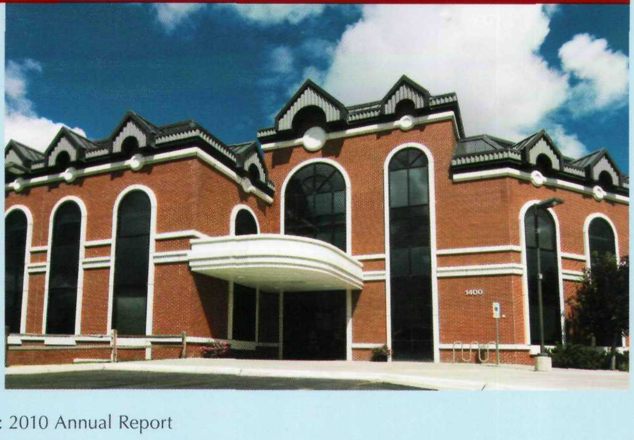
The year's highlight was our successful second-step stock offering, which closed on April 5th. We raised over $24 million in gross proceeds, thanks to the strong support of our stockholders, customers and communities. This additional capital puts the Company in an extremely strong position to take advantage of growth opportunities, through strategic acquisition or organic growth. I believe the timing of our offering worked in our favor, just after the capital markets "thawed" and before the market became crowded with other financial institutions trying to raise capital. The owners of Eagle Bancorp, the predecessor to Eagle Bancorp Montana, Inc. (EBMT), received 3.8 new shares of EBMT for every share they owned previously. New shareholders purchased shares that were valued at approximately 80% of book value, allowing for future appreciation. The increased number of shares also enabled the Company to move up to the NASDAQ exchange, providing better liquidity for our stockholders. We were also able to increase our dividend by 2.3%, the tenth consecutive year of dividend increases.

This past year has seen continued focus on the banking industry and its role in the turbulence in financial markets and the resulting impact on the national economy. This led to Congress enacting historic financial reform legislation, also known as the Dodd-Frank Act. The full impact of the legislation will not be known for several years, as regulations begin to be promulgated by the national banking regulatory agencies. It is easy to predict that it will translate into increased workloads and resultant higher costs at banks across the country, with a disproportionate share falling on community banks such as American Federal. Credit quality also continues to be a significant problem for many banks throughout the U.S. Montana banks had avoided credit concerns until this year, with several now experiencing credit quality challenges, primarily in loans related to land development. I am pleased to report that our non-performing loans, although increasing slightly from last year, still remain significantly lower than our peers. Montana's economy is projected to have slow growth over the next few years, and has maintained a lower unemployment rate than the national average throughout the recent national recession. The housing markets in Montana (with the exception of Bozeman, Missoula and Kalispell) have not experienced the downturn seen in other parts of the country.

The Company's performance marks another successful year, with an increase in net income of $26,000, or 1.1% over the previous year. Basic earnings per share also increased from $0.59 to $0.60 (adjusted for the 3.8 to 1 exchange ratio). Two factors should be considered when reviewing this year's results:

- Short-term interest rates have continued to stay at historically low levels, with long-term interest rates also remaining low. The continued low level of short-term interest rates has enabled us to lower our interest expense again this year, leading to an increase in our net interest income of over 6% (before provision for loan losses). We did experience a decline in gain on sale of loans of $936,000 compared to last year, when mortgage refinance activity was at record levels.

Helena Branch



American Federal's Prospect branch serves as headquarters to Eagle Bancorp Montana, Inc. and American Federal Savings Bank. Their main office was constructed in February of 1997. American Federal originated in Helena, in 1922 as "American Building and Loan," a State Building and Loan Association specializing in savings and home loans. Helena is the capital city of Montana and the county seat of Lewis and Clark County. It is home to Carroll College, a Catholic liberal arts university. Helena enjoys a good degree of economic stability. It is a trading and transportation center for nearby livestock, mining, and farming enterprises. The economic health of Montana's state government is far better than that of other states as job losses due to budget cuts are minimal.

- The Company increased its loan loss provision by $458,000 over the previous year. While the Company's level of non-performing loans is lower than its peers, loan delinquencies have increased, though they 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, our level of non-performing loans as a percentage of assets increased, from 0.43% to 1.05%. Our continued conservative underwriting and stable local economies will serve us well during the coming year.

Total assets increased 12.44% (compared to last year's growth of 3.50%) driven by the proceeds of the stock offering. Securities increased 39.22% while loans receivable increased 1.72%. Deposit growth continued to be strong, with an increase of 5.74%, compared to last year's 4.67%. The stock proceeds and our strong earnings increased our core capital ratio to 16.10% from 9.59%. Capital deficiencies and a lack of liquidity, the ability to meet short term cash needs of depositors and creditors, have been leading causes of bank failures in the past two years. Our securities portfolio consists of high quality, short-term investments that provide a large cushion to meet our liquidity needs. We have many sources of additional liquidity available to us if the need were to arise.

In the coming year we intend to continue managing our balance sheet growth. We plan to accomplish this by funding loan portfolio growth 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.

During the last quarter of our fiscal year, we did complete our preparation for complying with the Section 404(b) provision of the Sarbanes-Oxley Act, which requires our external audit firm to provide an attestation as to the quality of our internal controls over financial reporting. The Dodd-Frank reform bill subsequently removed that requirement for small reporting companies such as ours. Although not required by law for a Company of our size, we are pleased that we have developed internal control processes on par with larger companies.

Our retail branch operations continue to grow and improve. We are pleased to announce that our new full service branch on Oak Street, in Bozeman, opened in October 2009. It has proven to be a success in its first year, drawing strong deposit account growth with a larger presence in the Bozeman market. We have closed our previous location on North 7th Avenue.

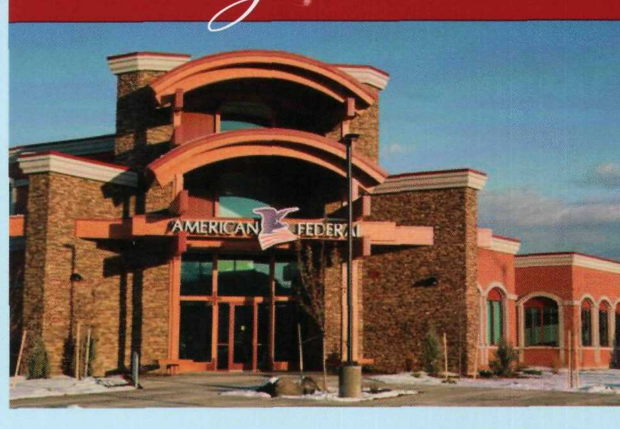
I would like to thank Don Campbell, who is retiring after 16 years of service on our Board of Directors. He has been a dedicated and valuable member of our board and our Audit Committee and we wish him well in his future endeavors.

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

Bozeman Branch



Located in Gallatin County, Bozeman sits 95 miles southeast of Helena and 100 miles north of West Yellowstone Park. Agriculture plays a major role in the local economy, with tourism a close second. American Federal has had a presence in Bozeman for 30 years and recently opened a new full service bank in October 2009. The new branch is a 20,000 square foot state of the art office. Energy conservation was a top priority and the building was designed to exceed the International Energy Conservation Code. Recently, the Montana Contractors' Association presented the architect and general contractor Excellence Awards in "Craftsmanship" and "Best Commercial" categories. Bozeman's economy continues to flourish with the influx of retirees and natural beauty. Montana State University also contributes to the strong local economic growth with support to a number of high-tech firms who have chosen Bozeman as their base.

Directors & Executive Officers

DIRECTORS

Don O. Campbell
Vice Chairman of the Board

Lynn E. Dickey
Retired

Larry A. Dreyer
Chairman of the Board

Rick F. Hays
Retired

Peter J. Johnson
President/Chief Executive Officer
Eagle Bancorp Montana, Inc.

James A. Maierle
Chairman of the Board of
Morrison-Maierle, Inc.

Thomas J. McCarvel
Vice President of
Carroll College

EXECUTIVE OFFICERS

Peter J. Johnson
President/Chief Executive Officer
Eagle Bancorp Montana, Inc.

Robert M. Evans
Senior Vice President/Chief Information Officer/
Bank Security Officer

Clint J. Morrison
Senior Vice President/Chief Financial Officer

Michael C. Mundt
Senior Vice President/Chief Lending Officer

Rachel R. Amdahl
Senior Vice President/Operations

CORPORATE SECRETARY

Charles H. Berger

EAGLE BANCORP
MONTANA, INC.

AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

and

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

June 30, 2010 and 2009

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Contents

DK Davis Kinard & Co, PC
CERTIFIED PUBLIC ACCOUNTANTS
Quality. Integrity. Knowledge.

First Financial Bank Building
400 Pine St. Suite 600, Abilene, Texas 79601-5190
325.672.4000 / 800.588.2525 / f: 325.672.7049
www.dkcpa.com

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of financial condition of **Eagle Bancorp Montana, Inc. and Subsidiary** as of June 30, 2010 and 2009 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 such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2010 and 2009 financial statements referred to above present fairly, in all material respects, the financial position of **Eagle Bancorp Montana, Inc. and Subsidiary** as of June 30, 2010 and 2009, 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.

Davis Kinard & Co, PC

DAVIS KINARD & CO, PC

Abilene, Texas
July 29, 2010

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
June 30, 2010 and 2009
(Dollars in Thousands, Except for Per Share Data)

Assets	2010	2009
Cash and due from banks	$ 2,543	$ 2,487
Interest bearing deposits in banks	966	224
Federal funds sold	-	3,617
Cash and cash equivalents	3,509	6,328
Securities available-for-sale	114,528	82,263
Securities held-to-maturity (fair value approximates $125 in 2010 and $384 in 2009)	125	375
Preferred stock - FASB ASC 825, at market value	-	25
FHLB stock restricted, at cost	2,003	2,000
Investment in Eagle Bancorp Statutory Trust I	155	155
Mortgage loans held for sale	7,695	5,349
Loans receivable, net of deferred loan fees and allowance for loan losses of $1,100 in 2010 and $525 in 2009	169,502	167,197
Accrued interest and dividend receivable	1,610	1,399
Mortgage servicing rights, net	2,337	2,208
Premises and equipment, net	15,848	13,761
Cash surrender value of life insurance	6,691	6,496
Real estate and other assets aquired in settlement of loans	619	-
Other assets	1,117	2,153
	$ 325,739	$ 289,709
Liabilities and Shareholders' Equity		
Noninterest bearing	$ 18,376	$ 15,002
Interest bearing	179,563	172,197
Total deposits	197,939	187,199
Accrued expenses and other liabilities	2,989	2,507
FHLB advances and other borrowings	67,224	67,056
Subordinated debentures	5,155	5,155
Total liabilities	273,307	261,917
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $0.01 par value; 8,000,000 shares authorized June 30, 2010; 9,000,000 authorized June 30, 2009 4,083,127 shares issued and outstanding June 30, 2010 1,223,572 shares issued, 1,076,072 shares outstanding June 30, 2009	41	12
Capital surplus	22,104	4,564
Unallocated common stock held by ESOP	(1,889)	(18)
Treasury stock, at cost	-	(5,034)
Retained earnings	30,652	28,850
Net accumulated other comprehensive gain/(loss)	1,524	(582)
Total shareholders' equity	52,432	27,792
	$ 325,739	$ 289,709

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Income
Years Ended June 30, 2010 and 2009
(Dollars in Thousands, Except for Per Share Data)

	2010	2009
Interest and dividend income		
Loans, including fees	$ 10,857	$ 11,411
Securities available-for-sale	4,003	3,893
Securities held- to-maturity	11	20
Trust preferred securities	9	9
Deposits with banks	27	15
Total interest income	14,907	15,348
Interest expense		
Deposits	2,161	3,161
FHLB advances and other borrowings	2,635	2,645
Subordinated debentures	309	309
Total interest expense	5,105	6,115
Net interest income	9,802	9,233
Provision for loan losses	715	257
Net interest income after provision for loan losses	9,087	8,976
Noninterest income		
Service charges on deposit accounts	765	745
Net gain on sale of loans	1,280	2,216
Mortgage loan service fees	770	628
Net realized gain on sales of available for sale securities	33	54
Net gain (loss) on preferred stock - FASB ASC 825	84	(1,296)
Other income	661	652
Total noninterest income	3,593	2,999
Noninterest expenses		
Salaries and employee benefits	4,750	4,411
Occupancy and equipment expense	1,177	900
Data processing	407	370
Advertising	438	394
Amortization of mortgage servicing rights	487	598
Federal insurance premiums	275	307
Postage	144	151
Legal, accounting, and examination fees	318	231
Consulting fees	170	114
ATM processing	69	62
Other expense	996	1,025
Total noninterest expenses	9,231	8,563
Income before income taxes	3,449	3,412
Income tax expense	1,035	1,024
Net income	$ 2,414	$ 2,388
Basic earnings per share*	$ 0.60	$ 0.59
Diluted earnings per share *	$ 0.54	$ 0.52

* per share data is calculated on a converted basis using a 3.8 to 1.0 exchange ratio

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

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended June 30, 2010 and 2009
(Dollars in Thousands, Except for Per Share Data)

	Preferred Stock	Common Stock
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		
Balance at June 30, 2009	$ -	$ 12
Net income		
Change in net unrealized depreciation on available for sale securities and cash flow hedges, net		
Total comprehensive income		
Dividends paid		
Treasury stock purchased (805 shares @ $28.25)		
Stock conversion		(12)
Stock sold/issued		41
ESOP allocated prior to conversion		
ESOP shares allocated or committed to be released for allocation (8,214) shares		
Balance at June 30, 2010	$ -	$ 41

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

Additional Paid-In Capital	Unallocated ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
$ 4,487	$ (55)	$ (5,013)	$ 27,025	$ (822)	$ 25,634
			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)	$ 27,792
			2,414		2,414
				2,106	2,106
					4,520
			(612)		(612)
		(22)			(22)
(4,564)		5,056			480
22,053	(1,971)				20,123
50	18				68
1	82				83
$ 22,104	$ (1,889)	$ -	$ 30,652	$ 1,524	$ 52,432

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009
(Dollars in Thousands, Except for Per Share Data)

	2010	2009
Cash flows from operating activities		
Net income	$ 2,414	$ 2,388
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision for loan losses	715	257
Depreciation	651	482
Net amortization of securities premium & discounts	393	163
Amortization of capitalized mortgage servicing rights	487	598
Net gain on sale of loans	(1,280)	(2,216)
Net realized gain on sales of available-for-sale securities	(33)	(54)
Net recognized (gain) loss on preferred stock - FASB ASC 825	(84)	1,296
Net loss on sale of foreclosed real estate	-	2
Net loss on sale/disposal of fixed assets	2	-
Appreciation in cash surrender value of life insurance, net	(195)	(211)
Net change in		
Loans held for sale	(793)	4,257
Accrued interest receivable	(211)	27
Other assets	1,084	(1,603)
Accrued expenses and other liabilities	(748)	344
Net cash provided by operating activities	2,402	5,730
Cash flows from investing activities		
Activity in available-for-sale securities		
Sales	8,928	5,298
Maturities, prepayments and calls	11,556	11,182
Purchases	(50,266)	(20,114)
Activity in held to maturity securities		
Maturities, prepayments and calls	250	322
FHLB stock purchased	(3)	(285)
Loan originations and principal collections, net	(3,820)	(471)
Proceeds from sale of foreclosed real estate	28	13
Additions to premises and equipment	(2,771)	(6,163)
Net cash used in investing activities	(36,098)	(10,218)
Cash flows from financing activities		
Net increase in deposits	10,740	8,348
Net change in federal funds purchased	-	(3,000)
Net change in advances from the FHLB and other borrowings	168	1,834
Purchase of treasury stock, at cost	(22)	(21)
Issuance of common stock	22,574	-
Purchase ESOP shares	(1,971)	-
Dividends paid	(612)	(435)
Net cash provided by financing activities	30,877	6,726
Net change in cash and cash equivalents	(2,819)	2,238
Cash and cash equivalents at beginning of year	6,328	4,090
Cash and cash equivalents at end of year	$ 3,509	$ 6,328

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

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

On April 5, 2010, Eagle Bancorp completed its second-step conversion from the partially-public mutual holding company structure to the fully publicly-owned stock holding company structure. As part of that transaction it also completed a related stock offering. As a result of the conversion and offering, Eagle Bancorp Montana, Inc. ("the Company", or "Eagle") became the stock holding company for American Federal Savings Bank ("the Bank"), and Eagle Financial MHC and Eagle Bancorp ceased to exist. The Company sold a total of 2,464,274 shares of common stock at a purchase price of $10.00 per share in the offering for gross proceeds of $24.6 million. Concurrent with the completion of the offering, shares of Eagle Bancorp common stock owned by the public were exchanged. Stockholders of Eagle Bancorp received 3.800 shares of the Company's common stock for each share of Eagle Bancorp common stock that they owned immediately prior to completion of the transaction.

The Company's Employee Stock Ownership Plan ("ESOP"), which purchased shares in the Offering, was authorized to purchase up to 12% of the shares sold in the Offering, or 197,142 shares. The ESOP completed its purchase of all such authorized shares in the Offering, at a total cost of $1,971,420.

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.

Collectively, Eagle Bancorp Montana Inc., and the Bank are referred to herein as "the Company."

Principles of Consolidation

The consolidated financial statements include the accounts of Eagle Bancorp Montana Inc. 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, and valuation of mortgage servicing rights, management obtains independent appraisals and valuations.

NOTE 1: Summary of Significant Accounting Policies – continued

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, 2010 and June 30, 2009, 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.

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, 2010 and 2009.

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.

NOTE 1: Summary of Significant Accounting Policies – continued

Trading – No investment securities were designated as trading at June 30, 2010 and 2009.

Securities – FASB ASC 825 – Beginning fiscal year, July 1, 2007 the Company elected to account for its preferred stock under, FASB ASC 825 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 earning when incurred. On July 1, 2007 a charge to retained earnings for $118,000 was recorded in accordance with the implementation of FASB ASC 825 to record the unrealized loss (net of taxes) on preferred stock at that date.

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, 2010 and 2009.

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.

NOTE 1: Summary of Significant Accounting Policies – continued

Loans – continued

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.

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.

NOTE 1: Summary of Significant Accounting Policies – continued

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.

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, 2010 and 2009 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 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 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.

NOTE 1: Summary of Significant Accounting Policies – continued

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.

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 no shares in 2010 and 148,260 shares in 2009.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs were approximately $438,000 and $394,000 for the years ended June 30, 2010 and 2009, 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.

NOTE 1: Summary of Significant Accounting Policies – continued

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. Due to the conversion and related stock offering occurring on April 5, 2010 all EPS calculations are prepared using a 3.8 to 1.0 exchange ratio.

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, 2010 and 2009, 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

GAAP Codification – On July 1, 2009, the FASB's GAAP Codification became effective as the sole authoritative source of GAAP. This codification reorganizes current GAAP for non-governmental entities into a topical index to facilitate accounting research and to provide users additional assurance that they have referenced all related literature pertaining to a given topic. Existing GAAP prior to the Codification was not altered in the compilation of the GAAP Codification. The GAAP Codification encompasses all FASB Statements of Financial Accounting Standards, Emerging Issues Task Force statements, FASB Staff Positions, FASB Interpretations, FASB Derivative Implementation Guides, American Institute of Certified Public Accountants Statement of Positions, Accounting Principles Board Opinions and Accounting Research Bulletins along with the remaining body of GAAP effective as of June 30, 2009. Financial Statements issued for all interim and annual periods ending after September 15, 2009, will need to reference accounting guidance embodied in the Codification as opposed to referencing the previously authoritative pronouncements.

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.

NOTE 1: Summary of Significant Accounting Policies – continued

Recent Accounting Pronouncements – continued

In April 2009, the FASB issued new guidance impacting ASC Topic 820, *Fair Value Measurements and Disclosures*. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of this new guidance did not have a material effect on Company's results of operations or financial position.

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, *Financial Instruments*, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance is effective for interim and annual periods ending after June 15, 2009. The Company has presented the necessary disclosures in Note 18 herein.

In June 2009, the FASB issued new authoritative accounting guidance under ASC Topic 810, *Consolidation* , which amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC Topic 810 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

In June 2009, the FASB issued ASC 860, *Transfers and Servicing*, to improve the information included in an entity's financial statements about a transfer of financial assets and the effects of a transfer on its financial position, financial performance and cash flows. The guidance eliminates the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. The guidance is effective for the first reporting period (including interim periods) that begins after November 15, 2009. The Company does not expect that the adoption of this guidance will have a material effect on its financial position, results of operations or cash flows.

NOTE 1: Summary of Significant Accounting Policies – continued

Recent Accounting Pronouncements – continued

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value.* This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of the guidance did not have a material effect on the Company's consolidated financial position or results of operations.

The FASB issued new authoritative accounting guidance under ASC Topic 855, *Subsequent Events*, which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. This guidance sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This new guidance was effective for the period ended June 30, 2010 and did not have a significant impact on the Company's consolidated financial statements

Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 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:

(In Thousands)	2010	2009
Weighted average shares outstanding during the year on which basic earnings per share is calculated	4,035,183	4,074,556
Add: weighted average of stock held in treasury	430,778	563,388
Average outstanding shares on which diluted earnings per share is calculated	4,465,961	4,637,944
Net income applicable to common stockholders	$ 2,414	$ 2,338
Basic earnings per share	$ 0.60	$ 0.59
Diluted earnings per share	$ 0.54	$ 0.52

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:

NOTE 3: Securities – continued

(Dollars in Thousands)	June 30, 2010			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and agency	$ 31,852	$ 418	$ (29)	$ 32,241
Municipal obligations	35,181	752	(521)	35,412
Corporate obligations	7,110	341	-	7,451
Mortgage-backed securites - government-backed	1,690	65	-	1,755
Private lable CMOs	957	-	(115)	842
CMOs - government backed	35,902	963	(38)	36,827
Total securities available for sale	$ 112,692	$ 2,539	$ (703)	$ 114,528
Held to Maturity				
Municipal obligations	$ 125	$ -	$ -	$ 125
Total securities held to maturity	$ 125	$ -	$ -	$ 125
Securities ASC 825				
Preferred stock	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -

(Dollars in Thousands)	June 30, 2009			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
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 securites - government-backed	8,287	162	(5)	8,444
Private label CMOs	2,226	-	(382)	1,844
CMOs - government backed	29,048	663	(4)	29,707
Total securities available for sale	$ 83,164	$ 1,190	$ (2,091)	$ 82,263
Held to Maturity				
Municpal obligations	$ 375	$ 9	$ -	$ 384
Total securities held to maturity	$ 375	$ 9	$ -	$ 384
Securities ASC 825				
Preferred stock	$ 2,000	$ -	$ (1,975)	$ 25
	$ 2,000	$ -	$ (1,975)	$ 25

NOTE 3: Securities – continued

Beginning July 1, 2007 the Company elected to account for its FHLMC and FNMA preferred stock under FASB ASC 825, *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 $0 and $25,000 at June 30, 2010 and 2009, respectively. These securities were sold during the second quarter of fiscal year 2010 resulting in a loss on sale of $64,000 from their then carrying value. The gain and (loss) in market value of $84,000 and ($1,296,000) for the years ending June 30, 2010 and 2009, respectively, 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 $250,000 and $113,000 for the years ended June 30, 2010 and 2009, respectively. Gross realized losses on securities available-for-sale were $217,000, and $59,000 for the years ended June 30, 2010 and 2009, respectively.

The amortized cost and estimated fair value of securities at June 30, 2010 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, 2010			
	Held to Maturity		Available for Sale	
(Dollars in Thousands)	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 125	$ 125	$ 6,270	$ 6,314
Due from one to five years			31,695	32,518
Due from five to ten years			11,918	12,106
Due after ten years			24,260	24,166
	125	125	74,143	75,104
Mortgage-backed securites - government-backed			1,690	1,755
Private lable CMOs			957	842
CMOs - government backed			35,902	36,827
Total	$ 125	$ 125	$ 112,692	$ 114,528

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

NOTE 3: Securities – continued

At June 30, 2010 and 2009, securities with a carrying value of $35,760,000 and $36,651,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The following table discloses, as of June 30, 2010 and 2009, 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	
(Dollars in Thousands)	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
	June 30, 2010			
U.S. Government and agency	$ 3,679	$ 27	$ 872	$ 2
Municipal obligations	5,712	129	3,884	392
Private label CMOs	467	14	374	101
Mortgage-backed & CMOs	6,729	38	-	-
Total	$ 16,587	$ 208	$ 5,130	$ 495
	June 30, 2009			
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
Private label CMOs	1,339	192	504	190
Mortgage-backed & CMOs	1,416	4	558	5
Total	$ 17,163	$ 685	$ 9,213	$ 1,406

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, 2010 and 2009. 48 and 97 securities are in an unrealized loss position as of June 30, 2010 and 2009, 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.

NOTE 3: Securities – continued

At June 30, 2010, 41 U.S. Government and agency securities and municipal obligations have unrealized losses with aggregate depreciation of less than 0.82% from the Company's amortized cost basis. These unrealized losses are principally due to changes in interest rates and credit spreads. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. 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, 2010, 7 mortgage backed and CMO securities have unrealized losses with aggregate depreciation of less than 0.4% from the Company's cost basis. We believe these unrealized losses are principally due to the credit market's concerns regarding the stability of the mortgage market. Management considers available evidence to assess whether it is more likely-than-not that all amounts due would not be collected. In such assessment, management considers the severity and duration of the impairment, the credit ratings of the security, the overall deal and payment structure, including the Company's position within the structure, underlying obligor, financial condition and near term prospects of the issuer, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. There has been no disruption of the scheduled cash flows on any of the securities. Management's analysis as of June 30, 2010 revealed no expected credit losses on the securities. Two of the CMO securities are non-agency securities (backed by Alt-A collateral) which have ratings below investment grade from the credit rating agencies. The fair value of these two securities represents less than 0.65% of the total fair value of all securities available for sale and their unrealized loss is $108,000 as of June 30, 2010.

NOTE 4: Loans

A summary of the balances of loans follows:

(Dollars in Thousands)	June 30, 2010	June 30, 2009
First mortgage loans:		
Residential mortgage (1-4 family)	$ 73,010	$ 79,216
Commercial real estate	41,677	36,713
Real estate construction	7,016	4,642
Other loans:		
Home equity	29,795	28,676
Consumer	9,613	10,835
Commercial	9,452	7,541
Subtotal	170,563	167,623
Less: Allowance for loan losses	(1,100)	(525)
Deferred loan fees, net	39	99
Total loans, net	$ 169,502	$ 167,197

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were $2,402,000 and $990,000 at June 30, 2010 and 2009, respectively. Interest income not accrued on these loans and cash interest income was immaterial for the years ended June 30, 2010 and 2009. The allowance for loan losses on nonaccrual loans as of June 30, 2010 and 2009 was $380,000 and $12,000, respectively. The Company expects to collect all amounts due on nonaccrual loans, including interest accrued at contractual rates. There were $2,104,000 ($1,688,000 net of loss reserves of $416,000) of and $15,000 ($3,000 net of loss reserves of $12,000) loans considered impaired at June 30, 2010 and 2009, respectively. As of June 30, 2010 and 2009, the Company had $29,000 and $251,000, 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:

(Dollars in Thousands)	June 30, 2010	June 30, 2009
Balance at beginning of period	$ 525	$ 300
Provision (credit) for loan losses	715	257
Loans charged off	(143)	(47)
Recoveries of loans previously charged off	3	15
Balance at end of period	$ 1,100	$ 525

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, 2010 and 2009, were $1,865,000 and $1,761,000, respectively. During the year ended June 30, 2010, total principal additions amounted to $284,000 and total principal payments amounted to $176,000. Interest income from all these loans was $117,000 and $140,000 for the years ended June 30, 2010 and 2009, respectively. The Bank serviced, for the benefit of others, $6,633,000 and $6,832,000 at June 30, 2010 and 2009, respectively, loans from directors and senior officers.

NOTE 5: Mortgage Servicing Rights

The Company is servicing loans for the benefit of others totaling approximately $297,423,000 and $270,508,000 at June 30, 2010 and 2009, 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 $2,260,000 and $2,668,000 at June 30, 2010 and 2009, respectively.

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

	Years Ended June 30,	
	2010	2009
(Dollars in Thousands)		
Mortgage servicing rights		
Balance at beginning of period	$ 2,208	$ 1,652
Mortgage servicing rights capitalized	616	1,154
Amortization of mortgage servicing rights	(487)	(598)
Balance at end of period	2,337	2,208
Valuation allowance		
Balance at beginning of period	-	-
Provision (credited) to operations	-	-
Balance at end of period	-	-
Net mortgage servicing rights	$ 2,337	$ 2,208

NOTE 5: Mortgage Servicing Rights – continued

The fair values of these rights were $2,400,000 and $2,389,000 at June 30, 2010 and June 30, 2009, respectively. The fair value of servicing rights was determined using discount rates ranging from 9.0% to 20.0%, prepayment speeds ranging from 213% to 405%, 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,	
	2010	2009
(Dollars in Thousands)		
Land, buildings, and improvements	$ 18,504	$ 16,380
Furniture and equipment	4,369	3,757
	22,873	20,137
Accumulated depreciation	(7,025)	(6,376)
	$ 15,848	$ 13,761

Depreciation expense totaled $586,000 and $482,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE 7: Deposits

The composition of deposits is summarized as follows:

	June 30,	
	2010	2009
(Dollars in Thousands)		
Noninterest checking	$ 18,376	$ 15,002
Interest bearing checking (0.15%, 0.33%)	34,658	32,664
Passbook savings (0.21%, 0.41%)	30,875	26,445
Money market accounts (.24%, .64%)	29,021	26,886
Time certificates of deposits		
(2010 - .50% - 4.64%, 2009 - .75% - 5.35%)	85,009	86,202
	$ 197,939	$ 187,199

The weighted average cost of deposit funds was .85% and 1.38% at June 30, 2010 and 2009, respectively.

NOTE 7: Deposits – continued

At June 30, 2010, the scheduled maturities of time deposits are as follows:

(Dollars in Thousands)	
Within one year	$ 61,005
One to two years	15,876
Two to three years	4,547
Three to four years	2,850
Thereafter	731
Total	$ 85,009

Interest expense on deposits is summarized as follows:

	Years Ended June 30,	
(Dollars in Thousands)	2010	2009
Checking	$ 72	$ 114
Passbook savings	92	131
Money market accounts	117	322
Time certificates of deposits	1,880	2,594
	$ 2,161	$ 3,161

As of May 20, 2009 FDIC insurance covers deposits up to $250,000 through December 31, 2013. On July 21, 2010, this coverage was made permanent with the passage of the Frank-Dodd Wall Street Reform and Consumer Protection Act. At June 30, 2010 the Company held $17,787,000 in deposit accounts that included balances of $250,000 or more. The Bank is a participant in the FDIC's Transactional Account Gaurantee Program, and as such noninterest bearing accounts are fully insured until December 31, 2010 when the program expires. At June 30, 2010 the Company held $18,376,000, in noninterest bearing accounts.

At June 30, 2010 and 2009, the Company reclassified $53,000 and $148,000, respectively, in overdrawn deposits as loans.

Directors' and senior officers' deposit accounts at June 30, 2010 and 2009, were $235,000 and $299,000, respectively.

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,	
	2010	2009
(Dollars in Thousands)		
Within one year	$ 13,224	$ 10,667
One to two years	18,000	8,389
Two to three years	16,000	18,000
Three to four years	9,000	16,000
Four to five years	9,000	9,000
Thereafter	2,000	5,000
Total	$ 67,224	$ 67,056

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, 2010 and 2009, 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, 2010, was 30% of total Bank assets, or approximately $93.17 million. The balance of advances was $44,224,000 and $44,056,000 at June 30, 2010 and 2009, respectively.

Other Borrowings

The Bank had $23,000,000 in structured repurchase agreements with PNC Financial Service Group, Inc. ("PNC") at June 30, 2010, and 2009. These agreements are collateralized by corporate and municipal securities. The carrying value of these securities was $28,515,000 as of June 30, 2010. These agreements include terms, under certain conditions, which allow PNC to exercise a call option.

Federal Funds Purchased

The Bank has a $7,000,000 Federal Funds line of credit with PNC. The balance was $0 as of June 30, 2010 and 2009.

The Bank has a $6,500,000 Federal Funds line of credit with Zions Bank. The balance was $0 as of June 30, 2010 and 2009.

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

Federal Reserve Bank Discount Window

For additional liquidity sources, the Bank has a credit facility at the Federal Reserve Bank's Discount Window. The amount available to the Bank is limited by various collateral requirements. The Bank has pledged one Agency security and one collateralized mortgage obligation security at the Federal Reserve Bank that had a total carrying value of $5,547,000 as of June 30, 2010. The account had $0 balance as of June 30, 2010 and 2009.

For all borrowings outstanding the weighted average interest rate for advances at June 30, 2010 and 2009 was 3.78% and 4.02% respectively. The weighted average amount outstanding was $66,090,000 and $67,772,000 for the years ended June 30, 2010 and 2009, respectively.

The maximum amount outstanding at any month-end was $68,500,000 and $73,789,000 during the years ended June 30, 2010 and 2009, respectively.

NOTE 9: Subordinated Debentures

On September 28, 2005, the Company completed the private placement of $5,155,000 in subordinated debentures to Eagle Bancorp Statutory Trust I ("the Trust"). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank, N.A. with a liquidation value of $5,155,000. Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on December 15, 2005. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities 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, 2010 and June 30, 2009, 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.

NOTE 11: Income Taxes

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

(Dollars in Thousands)	Years Ended June 30, 2010	Years Ended June 30, 2009
Current		
U.S. federal	$ (894)	$ 975
Montana	(247)	270
	(1,141)	1,245
Deferred		
U.S. federal	1,697	(149)
Montana	479	(72)
	2,176	(221)
Total	$ 1,035	$ 1,024

The nature and components of deferred tax assets and liabilities, which are a component of other liabilities in 2010 and other assets in 2009 in the accompanying statement of financial condition, are as follows:

(Dollars in Thousands)	June 30, 2010	June 30, 2009
Deferred tax assets:		
Deferred compensation	$ 278	$ 272
Loans receivable	130	34
Deferred loan fees	13	-
Securities available-for-sale & preferred stock FASB ASC 825	-	862
Other	17	16
Total deferred tax assets	438	1,184
Deferred tax liabilities:		
Premises and equipment	1,017	210
Deferred loan fees	-	11
FHLB stock	389	389
Securities available-for-sale & preferred stock FASB ASC 825	551	-
Unrealized gain on hedging	102	20
Other		-
Total deferred tax liabilities	2,059	630
Net deferred tax (liability) asset	$ (1,621)	$ 554

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.

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:

(Dollars in Thousands)	Years Ended June 30, 2010	Years Ended June 30, 2009
Federal income taxes at the statutory rate of 34%	$ 1,173	$ 1,160
State income taxes	233	230
Nontaxable income	(541)	(451)
Other, net	170	85
Income tax expense	$ 1,035	$ 1,024
Effective tax rate	30.0%	30.0%

Prior to January 1, 1987, the Company was allowed a special bad debt deduction limited generally in the current year to 32% (net of preference tax) of otherwise taxable income and subject to certain limitations based on aggregate loans and savings account balances at the end of the year. If the amounts that qualified as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, they will be subject to federal income tax at the then current corporate rate. Retained earnings include approximately $852,000 and $525,000 at June 30, 2010 and 2009, respectively, for which federal income tax has not been provided.

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:

(Dollars in Thousands)	2010	2009
Net unrealized holding loss arising during the year:		
Available for sale securities, net of related income tax (expense) benefit of ($831) and $112, respectively	$ 1,938	$ 263
Forward delivery commitments, net of related income tax expense of $82 and $6, respectively	191	15
Reclassification adjustment for net realized gain included in net income, net of related income tax expense of $9 and $16, respectively	(23)	(38)
Other comprehensive income	$ 2,106	$ 240

NOTE 13: Supplemental Cash Flow Information

	Years Ended June 30,	
	2010	2009
(Dollars in Thousands)		
Supplemental Cash Flow Information		
Cash paid during the year for interest	$ 5,115	$ 6,127
Cash paid during the year for income taxes	603	1,475
Non-Cash Investing Activities		
Increase in market value of securities available for sale	$ (2,737)	$ (321)
Mortgage servicing rights capitalized	617	1,154
ESOP shares released	101	114

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, 2010 and 2009, 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:

NOTE 14: Regulatory Capital Requirements – continued

(Dollars in Thousands)	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
June 30, 2010:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-based Capital to Risk Weighted Assets						
Consolidated	$ 56,591	26.47 %	$ 17,103	8.00 %	$ N/A	N/A %
Bank	41,223	19.63	16,799	8.00	20,999	10.00
Tier I Capital to Risk Weighted Assets						
Consolidated	55,908	26.15	8,551	4.00	N/A	N/A
Bank	40,539	19.31	8,400	4.00	12,599	6.00
Tier I Capital to Adjusted Total Assets						
Consolidated	55,908	17.12	9,798	3.00	N/A	N/A
Bank	40,539	13.10	9,282	3.00	15,471	5.00
Tangible Capital to Adjusted Total Assets						
Consolidated	55,908	17.12	4,899	1.50	N/A	N/A
Bank	40,539	13.10	4,641	1.50	N/A	N/A
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 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

NOTE 14: Regulatory Capital Requirements – continued

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

(Dollars in Thousands)	2010	2009
Capital determined by generally accepted accounting principles	$ 42,009	$ 26,687
Unrealized (gain) loss on securities available-for-sale	(1,232)	439
Unrealized gain on forward delivery commitments	(238)	(47)
Tier I (core) capital	40,539	27,079
General allowance for loan losses	684	513
Total risk based capital	$ 41,223	$ 27,592

Dividend Limitations

Under OTS regulations that became effective April 1, 1999, savings associations such as the Bank generally may declare annual cash dividends up to an amount equal to net income for the current year plus net income retained for the two preceding years. Dividends in excess of such amount require OTS approval. The Bank has paid dividends totaling $1,000,000 and $1,552,000 to the Company during the years ended June 30, 2010, and 2009, respectively. The Company had paid quarterly dividends of $0.26 per share for the first three fiscal quarters of fiscal year ended June 30, 2010. For its fourth quarter fiscal year ended June 30, 2010, the Company paid a dividend of $0.06842 per share ($0.26 on a converted basis with regards to the conversion that occurred on April 5, 2010) to its shareholders. The Company paid four quarterly dividends of $.255 per share to its shareholders for the year ended June 30, 2009.

Liquidation Rights

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

NOTE 14: Regulatory Capital Requirements – continued

Liquidation Rights – continued

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

NOTE 15: Related Party Transactions

The Bank has contracted with a subsidiary of a company which is partially owned by one of the Company's directors. The Bank paid $103,000 during the year ended June 30, 2010 for support services, and an additional $157,000 for computer hardware and software used by the Bank for its computer network. For the year ended June 30, 2009, expenditures were $54,000 for support services and $83,000 for computer hardware and software.

In 2007, the Bank also made a construction loan, in the normal course of lending, to this same affiliated entity for the construction of an office building. In fiscal 2008 the construction was completed and the loan was refinanced into $7,500,000 permanent financing. On July 9, 2008, 80 percent, or $6.0 million was sold to the Montana Board of Investments. As of June 30, 2010 this loan's principal balance was $7,102,000 ($1,420,000 net of participation sold). The Bank maintains the servicing for this loan and the loan is current.

NOTE 16: Employee Benefits

Profit Sharing Plan

The Company provides a noncontributory profit sharing plan for eligible employees who have completed one year of service. The amount of the Company's annual contribution, limited to a maximum of 15% of qualified employees' salaries, is determined by the Board of Directors. Profit sharing expense was $169,000 and $182,000 for the years ended June 30, 2010 and 2009, respectively.

The Company's profit sharing plan includes a 401(k) feature. At the discretion of the Board of Directors, the Company may match up to 50% of participants' contributions up to a maximum of 4% of participants' salaries. For the years ended June 30, 2010 and 2009, the Company's match totaled $48,000 and $47,000, respectively.

NOTE 16: Employee Benefits – continued

Deferred Compensation Plans – continued

The Company has entered into deferred compensation contracts with current key employees. The contracts provide fixed benefits payable in equal annual installments upon retirement. The Company purchased life insurance contracts that may be used to fund the payments. The charge to expense is based on the present value computations of anticipated liabilities. For the years ended June 30, 2010 and 2009, the total expense was $106,000 and $102,000, respectively. The Company has recorded a liability for the deferred compensation plan of $926,000 and $908,000 at June 30, 2010 and 2009, respectively, which is included in the balance of accrued expenses and other liabilities.

Employee Stock Ownership Plan

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

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

Total ESOP expenses of $123,000 and $107,000 were recognized in fiscal 2010 and 2009, respectively. 4600 shares were released and allocated to participants during the year ended June 30, 2009. 2,300 shares, prior to the April 5, 2010 conversion, were released and allocated to participants during the year ended June 30, 2010. 8,214 shares, subsequent to the conversion on April 5, 2010, were allocated to participants during the year ended June 30, 2010.The cost of the 188,928 ESOP shares ($1,889,280 at June 30, 2010) that have not yet been allocated or committed to be released to participants is deducted from stockholders' equity. The fair value of these shares was approximately $1,842,048 at that date.

Stock Incentive Plan

The Company adopted the Stock Incentive Plan ("the Plan") on October 19, 2000. The Plan provides for different types of awards including stock options, restricted stock and performance shares. Under the Plan, 23,000 shares of restricted stock were granted to directors and certain officers during fiscal 2001. These shares of restricted stock vest in equal installments over five years beginning one year from the grant date.

There were no stock options granted under the Plan as of June 30, 2010.

NOTE 17: Financial Instruments and Off-Balance-Sheet Activities

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

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

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

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

The notional amounts of the Company's commitments to extend credit at fixed and variable interest rates were approximately \$9,029,000 and \$12,440,000 at June 30, 2010 and 2009, respectively. Fixed rate commitments are extended at rates ranging from 4.00% to 8.00% and 4.50% to 8.0% at June 30, 2010 and 2009, respectively. The Company has lines of credit representing credit risk of approximately \$59,373,000 and \$52,288,000 at June 30, 2010 and 2009, respectively, of which approximately \$32,012,000 and \$26,838,000 had been drawn at June 30, 2010 and 2009, respectively. The Company has credit cards issued representing credit risk of approximately \$727,000 and \$675,000 at June 30, 2010 and 2009, respectively, of which approximately \$30,000 and \$21,000 had been drawn at June 30, 2010 and 2009, respectively. The Company has letters of credits issued representing credit risk of approximately \$2,432,000 and \$1,347,000 at June 30, 2010 and 2009, respectively.

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

As of June 30, 2010 and 2009, the Company had entered into commitments to deliver approximately \$7,437,000 and \$5,344,000 respectively, in loans to various investors, all at fixed interest rates ranging from 2.75% to 7.125% and 4.25% to 5.63%, at June 30, 2010 and 2009, respectively. The Company had approximately \$340,000 and \$68,000 of gains deferred as a result of the forward delivery commitments entered into as of June 30, 2010 and 2009, respectively. The total amount of the gain is expected to be taken into income within the next twelve months.

NOTE 17: *Financial Instruments and Off-Balance-Sheet Activities – continued*

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

The Company did not have any gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it was probable that the original forecasted transaction would not occur by the end of the originally specified time frame as of June 30, 2010.

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

NOTE 18: Fair Value Disclosures

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

FASB ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, FASB ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

NOTE 18: Fair Value Disclosures – continued

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Available for Sale Securities – Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

Preferred Stock – FASB ASC 825– Freddie Mac and Fannie Mae preferred stock are reported at fair value utilizing Level 1 and Level 2inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Loans Held for Sale – These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds based on sales contracts and commitments and are considered Level 2 inputs.

NOTE 18: Fair Value Disclosures – continued

Repossessed Assets – Fair values are valued at the time the loan is foreclosed upon and the asset is transferred from loans. The value is based upon primary third party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in Level 3 classification of the inputs for determining fair value. Repossessed assets are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on same or similar factors above.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2010 and 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	June 30, 2010			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available for sale securities	$ -	$ 114,528	$ -	$ 114,528
Loans held-for-sale	-	7,695	-	7,695

	June 30, 2009			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available for sale securities	$ -	$ 82,263	$ -	$ 82,263
Preferred stock - FASB ASC 825	-	25	-	25
Loans held-for-sale	-	5,349	-	5,349

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table summarizes financial assets and financial liabilities measured at fair value on a nonrecurring basis as of June 30, 2010 and 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

NOTE 18: Fair Value Disclosures – continued

	June 30, 2010			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans	$ -	$ -	$ 1,688	$ 1,688
Mortgage servicing rights	-	2,400	-	2,400
Repossessed assets	-	-	619	619

	June 30, 2009			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans	$ -	$ -	$ 3	$ 3
Mortgage servicing rights	-	2,389	-	2,389
Repossessed assets	-	-	-	-

During the year ended June 30, 2010, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of $2,101,000 were reduced by specific valuation allowance allocations totaling $416,000 to a total reported fair value of $1,685,000 based on collateral valuations utilizing Level 3 valuation inputs.

As of June 30, 2010, mortgage servicing rights were remeasured and reported at the lower of cost or fair value through a valuation allowance based upon the fair value of the calculated servicing rights. Servicing rights with a carrying value of $2,337,000 were lower than fair value of $2,400,000 based on collateral valuations utilizing Level 2 valuation inputs, and as such are reported at the lower value of cost.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring and non-recurring basis include goodwill, other intangible assets and other non-financial long-lived assets. As stated above, FASB ASC 820 will be applicable to these fair value measurements that began on January 1, 2009.

Those financial instruments not subject to the initial implementation of FASB ASC 820 are required under SFAS 107 to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. Below is a table that summarizes the fair market values of all financial instruments of the Company at June 30, 2010 and 2009, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments not covered by FASB ASC 820.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

NOTE 18: Fair Value Disclosures – continued

	June 30,			
	2010		2009	
(Dollars in Thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ 3,509	$ 3,509	$ 6,328	$ 6,328
Securities held-to-maturity	125	125	375	384
FHLB stock	2,003	2,003	2,000	2,000
Loans receivable, net	169,502	176,037	167,197	172,408
Cash value of life insurance	6,691	6,691	6,496	6,496
Financial Liabilities:				
Deposits	112,930	112,930	100,997	100,997
Time certificates of deposit	85,009	86,770	86,202	88,284
Advances from the FHLB & other borrowings	67,224	66,117	67,056	70,524
Subordinated debentures	5,155	3,872	5,155	3,899

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments.

Cash and interest-bearing accounts – The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

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

Loans receivable – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms.

For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

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

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

NOTE 18: Fair Value Disclosures – continued

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

Deposits and time certificates of deposit – The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Advances from the FHLB & Subordinated Debentures – The fair value of the Company's advances and debentures are estimated using discounted cash flow analysis based on the interest rate that would be effective June 30, 2010 and 2009, respectively if the borrowings repriced according to their stated terms.

NOTE 19: Condensed Parent Company Financial Statements

Set forth below is the condensed statements of financial condition as of June 30, 2010 and 2009, of Eagle Bancorp together with the related condensed statements of income and cash flows for the years ended June 30, 2010 and 2009.

NOTE 19: Condensed Parent Company Financial Statements – continued

Condensed Statements of Financial Condition
(Dollars in Thousands)

	2010	2009
Assets		
Cash and cash equivalents	$ 301	$ 318
Securities available for sale	14,892	5,491
Preferred stock - FASB ASC 825	-	25
Investment in Eagle Bancorp Statutory Trust I	155	155
Investment in American Federal Savings Bank	42,010	26,688
Other assets	242	283
Total assets	$ 57,600	$ 32,960
Liabilities and stockholders' equity		
Accounts payable and accrued expenses	13	13
Long-term subordinated debt	5,155	5,155
Stockholders' Equity	52,432	27,792
Total liabilities and stockholders' equity	$ 57,600	$ 32,960

Condensed Statements of Income
(Dollars in Thousands)

	2010	2009
Interest income	$ 387	$ 146
Interest expense	(310)	(310)
Noninterest expense	(144)	(114)
Loss before income taxes	(67)	(278)
Income tax benefit	(20)	(83)
Loss before equity in undistributed earnings of American Federal Savings Bank	(47)	(195)
Equity in undistributed earnings of American Federal Savings Bank	2,461	2,583
Net income	$ 2,414	$ 2,388

NOTE 19: Condensed Parent Company Financial Statements – continued

Condensed Statements of Cash Flow
(Dollars in Thousands)

	2010	2009
Cash flows from operating activities		
Net income	$ 2,414	$ 2,388
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of American Federal Savings Bank	(2,461)	(2,583)
Other adjustments, net	(165)	94
Net cash used in operating activities	(212)	(101)
Cash flows from investing activities		
Cash contribution from American Federal Savings Bank	1,000	1,302
Cash contribution to American Federal Savings Bank	(12,000)	-
Activity in available for sale securities		
Sales	8	89
Maturities, prepayments and calls	912	279
Purchases	(9,830)	(1,152)
Net cash provided by investing activities	(19,910)	518
Cash flows from financing activities		
Common stock issued	22,574	-
ESOP payments and dividends	136	120
ESOP shares purchased	(1,971)	-
Payments to purchase treasury stock	(22)	(21)
Dividends paid	(612)	(435)
Net cash used in financing activities	20,105	(336)
Net change in cash and cash equivalents	(17)	81
Cash and cash equivalents at beginning of period	318	237
Cash and cash equivalents at end of period	$ 301	$ 318

NOTE 20: Quarterly Results of Operations (Unaudited)

The following is a condensed summary of quarterly results of operations for the years ended June 30, 2010 and 2009:

	Year ended June 30, 2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Dollars in Thousands, except per share data)				
Interest and dividend income	$ 3,724	$ 3,798	$ 3,686	$ 3,690
Interest expense	1,341	1,353	1,216	1,186
Net interest income	2,383	2,445	2,470	2,504
Loan loss provision	135	107	214	259
Net interest income after loan loss provision	2,248	2,338	2,256	2,245
Non interest income	1,061	937	722	873
Non interest expense	2,103	2,485	2,254	2,389
Income before income tax expense	1,206	790	724	729
Income tax expense	362	237	244	192
Net income	$ 844	$ 553	$ 480	$ 537
Comprehensive income (loss)	$ 1,890	$ (624)	$ 216	$ 624
Basic earnings per common share *	$ 0.21	$ 0.14	$ 0.12	$ 0.14
Diluted earnings per common share *	$ 0.18	$ 0.12	$ 0.10	$ 0.14

*calculated on a converted basis using a 3.8 to 1.0 exchange ratio

	Year ended June 30, 2009			
Interest and dividend income	$ 3,816	$ 3,943	$ 3,822	$ 3,760
Interest expense	1,580	1,575	1,512	1,441
Net interest income	2,236	2,368	2,310	2,319
Loan loss provision	-	34	72	151
Net interest income after loan loss provision	2,236	2,334	2,238	2,168
Non interest income	(504)	444	1,526	1,533
Non interest expense	1,849	2,056	2,251	2,407
Income before income tax expense	(117)	722	1,513	1,294
Income tax expense	(17)	198	454	389
Net income	$ (100)	$ 524	$ 1,059	$ 905
Comprehensive income (loss)	$ 556	$ 215	$ 236	$ (921)
Basic earnings per common share	$ 0.43	$ 0.20	$ 0.50	$ 0.083
Diluted earnings per common share	$ 0.38	$ 0.18	$ 0.44	$ 0.73

Shareholder Information

STOCK LISTING
Symbol: EBMT
NASDAQ Global

SHAREHOLDER SERVICES AGENT
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07106-3572
800.368.5948
www.rtco.com

INVESTOR INFORMATION
Copies of reports filed with the Securities and Exchange Commission are available without charge through the Internet at www.sec.gov or the Investor Relations section of our website at www.americanfederalsavingsbank.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Davis, Kinard & Co., P.C.
400 Pine Street, Suite 600
Abilene, TX 79601
325.672.4000
www.dkcpa.com

CORPORATE HEADQUARTERS
1400 Prospect Avenue
Helena, MT 59601
406.442.3080

SHAREHOLDER CONTACT
Charles Berger, Corporate Secretary
American Federal Savings Bank
P.O. Box 4999
Helena, MT 59604-4999
406.442.3080
fax: 406.457.4013
cberger@amfedsb.com

CORPORATE COUNSEL
Nixon Peabody, LLP
401 9th Street, N.W.
Suite 900
Washington, DC 20004
202.585.8000
www.nixonpeabody.com

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EAGLE BANCORP
MONTANA, INC.

1400 PROSPECT AVENUE
HELENA, MT 59601