EAGLE BANCORP/MT
Form 10KSB
September 15, 2006

September 18, 2006

To Our Stockholders, Customers, and Friends:

The Board of Directors, management, and staff of Eagle Bancorp and its wholly owned subsidiary,

American Federal Savings Bank, are pleased to present our annual report for our fiscal year ended June 30, 2006.

Despite a challenging interest rate environment characterized by a very flat yield curve, we were able to achieve an increase of 2.4% in net income for the fiscal year ended June 30, 2006. We were pleased that net interest income, our main component of core earnings, increased as well, which enabled us to grow basic earnings per share by 7% from $1.55 to $1.66. Per share earnings were enhanced by our continuing stock repurchase program ($473,000 in treasury stock was purchased during the year).

Montana s continuing strong economy, along with our very strong capital position, have allowed us to again increase our quarterly cash dividend to $0.22 per share, an increase of $.02 per share or 10% over our previous quarterly dividend. At a share price of $32.00, this would be a dividend yield of 2.75%.

Last year s plan was to achieve strong growth in assets by continuing strong growth in our loan portfolio, funded by a combination of deposit growth and Federal Home Loan Bank advances. During the year, we did increase assets by 9.6% and loans receivable by nearly 32%. This was accomplished while maintaining very sound credit quality. Our non-performing loans as a percentage of assets actually decreased from a very low 0.24% to 0.20%.

Although we were successful in our new money market account for higher balance customers, we were unable to grow our total deposits by more than 1.07%. We expect the funding side of our business to remain our greatest challenge for next year as well. However, we plan to continue managing growth in assets and our capital ratios in order to improve our Return on Equity and resulting shareholder value.

We have begun our new fiscal year by increasing our advertising budget by 12.5% and launching a series of checking account promotions. We are spearheading the series with the introduction of our new Freedom Rewards account. This account was designed for our higher balance customers by featuring value rather than price. It includes free ATM use, identity theft protection, higher rates on certificates of deposit, lower rates on consumer loans, etc. We thank our stockholders who responded to our survey to research the product features and pricing during the development process.

The PUD process in Bozeman is taking longer than originally anticipated. Therefore, we now expect to open our new location on Oak Street in Bozeman in the spring of 2008.

We have nearly completed the remodeling of our downtown Helena drive-in/walk-up branch with the addition of a drive-up ATM and interior changes to make the lobby and customer service/new accounts area more customer friendly.

We recently joined the Moneypass ATM network to offer our depositors free ATM locations nationwide.

Finally, we are very proud to have been recently selected to receive an Independent Community Bankers of America community service award. We thank our dedicated Board of Directors, officers, and employees for demonstrating once again that they understand the relationship between employee loyalty, customer loyalty, community loyalty, and shareholder loyalty. We thank all of you for your confidence and support.

Very Sincerely,

Larry A. Dreyer
President and Chief Executive Officer

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

[X] Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2006.

[ ] Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______________________ to ______________________.

Commission file number: 0-29687

Eagle Bancorp

(Name of small business issuer in its charter)

United States	81-0531318
(State or other jurisdiction of incorporation	(I.R.S. Employer Identification No.) or organization)
1400 Prospect Avenue, Helena, MT	59601
(Address of principal executive offices)	(Zip Code)

Issuer s telephone number: (406) 442-3080

www.americanfederalsavingsbank.com

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

Title of class	Name of exchange on which registered
None	N/A

Securities to be registered under Section 12(g) of the Act:

Common stock, par value $0.01 per share

(Title of class)

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

Yes ____X____ No _________

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer s revenues for its most recent fiscal year are __$12,664,000

The aggregate market value of the common stock held by non-affiliates, computed by reference to the closing price as of August 30, 2006, was $11,065,510.

As of August 30, 2006, there were 1,087,557 shares of common stock issued and outstanding.

Documents Incorporated By Reference

1. Portions of the proxy statements for the annual meeting of stockholders for the fiscal years ended June 30, 2006 and June 30, 2005 and the Registration Statement on Form SB-2 filed on December 20, 1999 are incorporated by reference in Part III hereof.

Transitional Small Business Disclosure Format (Check one):

Yes ____ No __X__

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

General

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

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

Business Strategy

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

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

Market Area

From our headquarters in Helena, Montana, we operate four full service offices, including our main office, and one satellite branch. Our satellite branch is located in Helena and our other full service branches are located in Bozeman (opened 1980), Butte (opened 1979) and Townsend (opened 1979), Montana.

Montana is one of the largest states in terms of land mass but ranks as one of the least populated states. As of the 2000 census it had a population of 902,000. Helena, where we are headquartered, is the county seat of Lewis and Clark County, which has a population of approximately 58,500 and is located within 120 miles of four of Montana s other five largest cities: Missoula, Great Falls, Bozeman and Butte. It is approximately midway between Yellowstone and Glacier National Parks. Helena is also Montana s state capital. Its economy has shown moderate growth, in terms of both employment and income. State government and the numerous offices of the federal government comprise the largest employment sector. Helena also has significant employment in the service industries. Specifically, it has evolved into a central health care center with employment in the medical and the supporting professions as well as the medical insurance industry. The local economy is also dependent to a lesser extent upon ranching and agriculture. These have been more cyclical in nature and remain vulnerable to severe weather conditions, increased competition, both domestic and international, as well as commodity prices.

Bozeman is approximately 95 miles southeast of Helena. It is located in Gallatin County, which has a population of approximately 78,200. Bozeman is home to Montana State University and has achieved its recent growth in part due to the growth of the University as well as the increased tourism for resort areas in and near Bozeman. Agriculture, however, remains an important part of Bozeman s economy. Bozeman has also become an attractive location for retirees, primarily from the West Coast, owing to its many winter and summer recreational opportunities and the presence of the University. Residential construction in Bozeman has increased more rapidly than such construction in Helena and the other cities in which we operate.

Butte, Montana is approximately 64 miles southwest of Helena. Butte and the surrounding Silver-Bow County have a population of approximately 33,000. Butte s population has declined as a result of the decline in the energy and telecommunications industries, which had afforded many higher paying jobs to residents of Butte and Silver-Bow County.

Townsend is the smallest community in which we operate. It has a population of about 2,000. Many of its residents commute to other Montana locations for work. Other employment in Townsend is primarily in agriculture and services. Townsend is approximately 32 miles southeast of Helena.

Competition

We face strong competition in our primary market area for the attraction of retail deposits and the origination of loans. Historically, Montana was a unit banking state. This means that the ability of Montana state banks to create branches was either prohibited or significantly restricted. As a result of unit banking, Montana has a significant number of independent financial institutions serving a single community in a single location. While the state s population is approximately 935,000 people, there are approximately 66 credit unions in Montana as well as two federally chartered thrift institutions, and 77 commercial banks as of June 30, 2006. Our most direct competition for depositors has historically come from locally owned and out-of-state commercial banks, thrift institutions and credit unions operating in our primary market area. The number of such competitor locations has increased significantly in recent years. Our competition for loans also comes from banks, thrifts and credit unions in addition to mortgage bankers and brokers. Our principal market areas can be characterized as markets with moderately increasing incomes, low unemployment, increasing wealth (particularly in the growing resort areas such as Bozeman), and moderate population growth.

Lending Activities

General.

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

Loan Portfolio Composition.

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

	At June 30,			
	2006		2005	
	(Dollars in thousands)			
	Amount	Percent of Total	Amount	Percent of Total
First mortgage loans:				
Residential mortgage (1-4 family)(1)	$ 75,913	53.71%	$ 56,533	52.68%
Commercial real estate	18,648	13.20%	14,779	13.77%
Real estate construction	6,901	4.88%	2,723	2.54%
Total first mortgage loans	101,462	71.79%	74,035	68.99%
Other loans:				
Home equity	20,191	14.29%	16,801	15.66%
Consumer	11,820	8.36%	10,909	10.16%
Commercial	7,861	5.56%	5,568	5.19%
Total other loans	39,872	28.21%	33,278	31.01%
Total loans	141,334	100.00%	107,313	100.00%
Less:				
Deferred loan fees:	(59)		(99)	
Allowance for loan losses	535		573	
Total loans, net	$140,858		$106,839	

(1) Excludes loans held for sale.

Fee Income.

American Federal Savings Bank receives lending related fee income from a variety of sources. Its principal source of this income is from the origination and servicing of sold mortgage loans. Fees generated from mortgage loan servicing, which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing for loans held by others, were $547,000 and $570,000 for the years ended June 30, 2006 and 2005, respectively. Other loan related fee income for contract collections, late charges, credit life commissions and credit card fees were $88,000 and $103,000 for the years ended June 30, 2006 and 2005, respectively.

Loan Maturity Schedule.

The following table sets forth the estimated maturity of the loan portfolio of the Bank at June 30, 2006. Scheduled principal repayments of loans do not necessarily reflect the actual life of such assets. The average life of a loan is typically substantially less than its contractual terms because of prepayments. In addition, due on sale clauses on loans generally give American Federal Savings Bank the right to declare loans immediately due and payable in the event, among other things, that the borrower sells the real property, subject to the mortgage, and the loan is not paid off. All mortgage loans are shown to be maturing based on the date of the last payment required by the loan agreement, except as noted.

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

	Within 6 Months	6 to 12 Months	More than 1 year to 2 years	More than 2 years to 5 years	Over 5 years	Total
			(In thousands)			
Residential mortgage (1-4 family)[1]	$	$ 84	$ 594	$ 2,447	$ 73,692	$ 76,817
Commercial real estate	68	1,644	629	4,603	11,704	18,648
Real estate construction	396	5,609	896			6,901
Home equity	275	1,352	1,293	8,184	9,087	20,191
Consumer	213	2,438	719	5,119	3,331	11,820
Commercial	555	2,322	203	2,194	2,587	7,861
Total Loans (1)	$1,507	$13,449	$4,334	$22,547	$100,401	$142,238

(1) Includes loans held for sale.

The following table sets forth the dollar amount of all loans, at June 30, 2006, due after June 30, 2007, which have fixed interest rates and which have floating or adjustable interest rates:

	Fixed	Adjustable	Total
		(Dollars in thousands)	
Residential mortgage (1-4 family)	$ 66,120	$10,613	$ 76,733
Commercial real estate	15,508	1,428	16,936
Real estate construction	896		896
Home equity	14,371	4,193	18,564
Consumer	8,657	512	9,169
Commercial	3,009	1,975	4,984
Total [1]	$108,561	$18,721	$127,282
Percent of total	85.29%	14.71%	100.00%

(1) Due after June 30, 2007.

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

	Ended June 30,	
	2006	2005

	Ended June 30,	
	(In thousands)	
Net loans receivable [1] at beginning of period:	$108,987	$ 93,893
Loans originated:		
Residential mortgage (1-4 family)	63,311	51,791
Commercial real estate	9,266	8,853
Real estate construction	13,745	6,383
Home equity	14,409	11,452
Consumer	7,904	6,584
Commercial loans	6,390	3,404
Total loans originated	115,025	88,467
Loans sold:		
Whole loans	29,735	29,473
Participations		
Total loans sold	29,735	29,473
Principal repayments and loan refinancings	52,621	43,968
Deferred loan fees decrease (increase)	27	13
Allowance for loans decrease (increase)	93	55
Net loan increase (decrease)	32,789	15,094
Net loans receivable [1] at end of period		
	$141,776	$108,987

(1) Includes loans held for sale.

Residential Lending

The Bank s primary lending activity consists of the origination of one-to-four-family residential mortgage loans secured by property located in the Bank s market area. Approximately 53.71% of the bank s loans as of June 30, 2006 were comprised of such loans. American Federal generally originates one- to four-family residential mortgage loans in amounts up to 80% of the lesser of the appraised value or the selling price of the mortgaged property without requiring private mortgage insurance. A mortgage loan originated by the Bank, whether fixed rate or adjustable rate, can have a term of up to 30 years. The Bank holds substantially all of its adjustable rate and its 8, 10 and 12 year fixed rate loans in portfolio. Adjustable rate loans limit the periodic interest rate adjustment and the minimum and maximum rates that may be charged over the term of the loan. The Bank s fixed rate 15-year and 20-year loans are held in portfolio or sold in the secondary market depending on market conditions. Generally, all 30 year fixed rate loans are sold in the secondary market. The volume of loan sales is dependent on the volume, type and term of loan originations.

The Bank obtains a significant portion of its noninterest income from servicing loans sold. The Bank offers many of the fixed rate loans it originates for sale in the secondary market on a servicing retained basis. This means that we process the borrower s payments and send them to the purchaser. The retention of servicing enables the Bank to increase fee income and maintain a relationship with the borrower. Servicing income was $547,000 (before adjustments to the valuation allowance on Mortgage Servicing Rights) for the year ended June 30, 2006. At June 30, 2006, American Federal Savings Bank had $190.04 million in residential mortgage loans sold with servicing retained. American Federal Savings Bank does not ordinarily purchase home mortgage loans from other financial institutions.

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

Home Equity Loans.

American Federal Savings Bank also originates home equity loans. These loans are secured by the borrowers primary real estate, but are typically subject to a prior lien, which may or may not be held by the Bank. At June 30, 2006, $20.19 million or 14.29% of our total loans, were home equity loans. Borrowers may use the proceeds from the Bank s home equity loans for many purposes, including home improvement, debt consolidation, or other purchasing needs. The Bank offers fixed rate, fixed payment home equity loans as well as variable and fixed rate home equity lines of credit. Fixed rate home equity loans typically have terms of no longer than fifteen years.

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

Commercial Real Estate.

American Federal Savings Bank originates commercial real estate mortgage loans, including both developed and undeveloped land loans, and loans on multi-family dwellings. Commercial real estate loans make up 13.20% of the Bank s total loan portfolio, or $18.65 million at June 30, 2006. The majority of these loans are non-residential commercial real estate loans. American Federal Savings Bank s commercial real estate mortgage loans are primarily permanent loans secured by improved property such as office buildings, retail stores, commercial warehouses and apartment buildings. The terms and conditions of each loan are tailored to the needs of the borrower and based on the financial strength of the project and any guarantors. Generally, commercial real estate loans originated by the Bank will not exceed 75% of the appraised value or the selling price of the property, whichever is less. The average loan size is approximately $134,000 and is typically made with fixed rates of interest with five to 15 year maturities. Upon maturity, the loan is repaid or the terms and conditions are renegotiated. Generally, all originated commercial real estate loans are within the market area of the Bank and all are within the state of Montana. American Federal Savings Bank s largest single commercial real estate loan had a balance of approximately $1,519,000 on June 30, 2006, and was secured by a commercial building. This loan contains a 90 percent government guaranty under the USDA Rural Development Program.

Real Estate Construction Lending.

American Federal Savings Bank also lends funds for the construction of one- to four-family homes. Real estate construction loans are made both to individual homeowners for the construction of their primary residence and to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Real estate construction loans accounted for $6.90 million or 4.88% of American Federal s loan portfolio at June 30, 2006.

Consumer Loans.

As part of its strategy to invest in higher yielding shorter term loans, American Federal Savings Bank has made significant efforts to grow its consumer lending portfolio. This portfolio includes personal loans secured by collateral other than real estate, unsecured personal loans and lines of credit, and loans secured by deposits held by the Bank. As of June 30, 2006, consumer loans totaled $11.82 million or 8.36% of the Bank s total loan portfolio. These loans consist primarily of auto loans, RV loans, boat loans, personal loans and credit lines and deposit account loans. Consumer loans are originated in the Bank s market area and generally have maturities of up to 7 years. For loans secured by savings accounts, American Federal Savings Bank will lend up to 90% of the account balance on single payment loans and up to 100% for monthly payment loans.

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

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

Commercial Loans.

Commercial loans amounted to $7.86 million, or 5.56% of the Bank s total loan portfolio at June 30, 2006. American Federal Savings Bank s commercial loans are traditional business loans and are not secured by real estate. Such loans may be structured as unsecured lines of credit or may be secured by inventory, accounts receivable or other business assets. While the commercial loan portfolio amounts to only 5.56% of the total portfolio at June 30, 2006, American Federal Savings Bank intends to increase such lending by focusing on market segments which it has not previously emphasized, such as business loans to doctors, lawyers, architects and other professionals as well as to small businesses within its market area. Our management believes that this strategy provides opportunities for growth, without significant additional cost outlays for staff and infrastructure.

Commercial loans of this nature usually involve greater risk than 1-4 family residential mortgage loans. The collateral we receive is typically related directly to the performance of the borrower s business which means that repayment of commercial loans is dependent on the successful operations and income stream of the borrower s business. Such risks can be significantly affected by economic conditions. In addition, commercial lending generally requires substantially greater oversight efforts compared to residential real estate lending.

Loans to One Borrower.

Under federal law, savings institutions have, subject to certain exemptions, lending limits to one borrower in an amount equal to the greater of $500,000 or 15% of the institution s unimpaired capital and surplus. As of June 30, 2006, our largest aggregation of loans to one borrower was approximately $1,960,000, consisting of four commercial loans secured by business assets and commercial real estate. This total also includes two personal loans to the business owner. This was well below our federal legal lending limit to one borrower of approximately $3.84 million at such date. At June 30, 2006, all of these loans were current.

Loan Solicitation and Processing.

Our customary sources of mortgage loan applications include repeat customers, walk-ins, and referrals from home builders and real estate brokers. We also advertise in local newspapers and on local radio and television. We recently added an online mortgage loan application and pre-approval feature to our website. Our branch managers and loan officers located at our headquarters and in branches, have authority to approve certain types of loans when presented with a completed application. Other loans must be approved at our main offices as disclosed herein. No loan consultants or loan brokers are currently used by us for either residential or commercial lending activities.

After receiving a loan application from a prospective borrower, a credit report and verifications are obtained to confirm specific information relating to the loan applicant s employment, income and credit standing. When required by our policies, an appraisal of the real estate intended to secure the proposed loan is undertaken by an independent fee appraiser. In connection with the loan approval process, our staff analyze the loan applications and the property involved. Officers and branch managers are granted lending authority based on the kind of loan types where they possess expertise and their level of experience. We have established a series of loan committees to approve any loans which may exceed the lending authority of particular officers or branch managers. A quorum (four) of the board of directors is required for approval of any loan, or aggregation of loans to a single borrower, more than $950,000.

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

Loan Commitments.

We generally provide commitments to fund fixed and adjustable-rate single-family mortgage loans for periods up to 60 days at a specified term and interest rate, and other loan categories for shorter time periods. The total amount of our commitments to extend credit as of June 30, 2006, was approximately $3.33 million, all of which was for residential mortgage loans.

Non-performing Loans and Problem Assets

Collection Procedures

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

For mortgage loans and home equity loans, if the borrower is unable to cure the delinquency or reach a payment agreement, we will institute foreclosure actions. If a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at the lower of the unpaid principal balance of the related loan or its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. As of June 30, 2006, American Federal Savings Bank had no real estate owned.

Loans are reviewed on a quarterly basis and are placed on non-accrual status when they are more than 90 days delinquent. Loans may be placed on non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2006, we had $345,000 of loans that were non-performing and held on non-accrual status.

Delinquent Loans.

The following table provides information regarding the Bank s loans that are delinquent 30 to 89 days at June 30, 2006:

	Number	Amount	Percentage of Total Delinquent Loans
		(Dollars in thousands)	
Loan Type:			
Mortgage (1-4 family)	6	$342	47.30%
Real estate construction			0.00%
Commercial real estate	3	133	18.40%
Home equity	4	46	6.36%
Consumer	18	64	8.85%
Commercial	3	138	19.09%
Total	34	$723	100.00%

Non-Performing Assets.

The following table sets forth information regarding American Federal Savings Bank s non-performing assets as of the dates indicated. The Bank does not have any troubled debt restructurings within the meaning of the Statement of Financial Accounting Standards No. 114.

	At June 30,	
	2006	2005

	At June 30,	
	(Dollars in thousands)	
Non-accrual loans	$ 345	$ 434
Accruing loans delinquent 90 days or more	114	67
Real estate owned		
Total	$ 459	$ 501
Total non-performing loans as a percentage of total loan portfolio	0.33%	0.47%
Percentage of total assets	0.20%	0.24%

The decrease in non-accrual loans during the year ended June 30, 2006, was attributable primarily to a commercial real estate property being sold after repossession. During the year ended June 30, 2006, the Bank had one foreclosure, resulting in a loss on sale of approximately $6,000.

During the year ended June 30, 2006, approximately $30,000 of interest would have been recorded on loans accounted for on a non-accrual basis if such loans had been current according to the original loan agreements for the entire period. This amount was not included in the Bank s interest income for the period.

Classified Assets.

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

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

	At June 30,	
	2006	2005
	(Dollars in thousands)	
Residential mortgages		
(1-4 family):		
Special mention	$	$
Substandard	291	237
Doubtful		
Loss		
Commercial Real Estate and Land:		
Special mention		
Substandard		87
Doubtful		
Loss		

	At June 30,	
Home equity loans:		
Special mention		
Substandard	34	100
Doubtful		32
Loss	31	
Consumer loans:		
Special mention		
Substandard	14	5
Doubtful		
Loss	1	24
Commercial loans:		
Special mention		
Substandard	318	260
Doubtful	11	
Loss		
Real estate owned/repossessed property		
Special mention		
Substandard		10
Doubtful		
Loss		5
Total classified loans and real estate owned	$700	$760

Allowance for Loan Losses and Real Estate Owned.

The Bank segregates its loan portfolio for loan losses into the following broad categories: residential mortgages (1-4 family), commercial real estate, real estate construction, commercial loans, home equity loans and consumer loans. The Bank provides for a general allowance for losses inherent in the portfolio by the above categories, which consists of two components. General loss percentages are calculated based on historical analyses and other factors such as peer group and national comparisons (used primarily when recent loss history is inadequate). A supplemental portion of the allowance is calculated for inherent losses which probably exist as of the evaluation date even though they might not have been identified by the more objective processes used. This is due to the risk of error and/or inherent imprecision in the process.

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

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

Provisions for losses are charged against earnings in the period they are established. We had $535,000 in allowances for loan losses at June 30, 2006.

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

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

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

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

	For the Years Ended June 30,	
	2006	**2005**
	(Dollars in thousands)	
Balance at beginning of period	$ 573	$ 628
Loans charged-off	(48)	(50)
Recoveries	25	10
Net loans charged-off	(23)	(40)
Provision for possible loan losses		
Transfer to repossessed property reserve	(15)	(15)
Balance at end of period	$ 535	$ 573
Allowance for loan losses to total loans	0.38%	0.53%
Allowance for loan losses to total non-performing loans	141.91%	132.03%
Net recoveries (charge-offs) to average loans outstanding during the period	(0.02)%	(0.05)%

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

	2006			**2005**		
	(Dollars in thousands)					
	Amount	**Percentage of Allowance to Total Allowance**	**Loans in Each Category of Total Loans**	**Amount**	**Percentage of Allowance to Total Allowance**	**Loans in Each Category to Total Loans**
First Mortgage Loans:						
Residential mortgage (1-4 family)	$ 60	11.21%	53.71%	$ 51	8.90%	52.68%
Commercial real estate	8	1.50%	13.20%	19	3.32%	13.77%
Real estate construction	3	0.56%	4.88%	3	0.52%	2.53%
Total mortgage loans	71	13.27%	71.79%	73	12.74%	68.99%
Other loans:						

	2006			2005		
Home equity	37	6.92%	14.29%	8	1.40%	15.66%
Consumer	245	45.79%	8.36%	327	57.06%	10.17%
Commercial	182	34.02%	5.56%	165	28.80%	5.20%
Total other loans	464	86.73%	28.21%	500	87.25%	31.01%
Total	$535	100.00%	100.00%	$573	99.99%	100.00%

Investment Activities

General

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

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

Investment Policies.

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

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

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

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

Investment Securities.

We maintain a portfolio of investment securities, classified as either available-for-sale or held-to-maturity to enhance total return on investments. At June 30, 2006, our investment securities were U.S. government and agency obligations, Small Business Administration pools, municipal securities, mortgage-backed securities, collateralized mortgage obligations and corporate obligations, all with varying characteristics as to rate, maturity and call provisions. Investment securities held-to-maturity represented 1.53% of Eagle s total investment portfolio. Securities available-for-sale totaled 96.45% of Eagle s total investment portfolio. The remaining percentage is comprised of interest-bearing deposits in banks and stock in the Federal Home Loan Bank (FHLB). During the past year, total investment balances have declined as a result of principal payments received on mortgage-backed securities and collateralized mortgage obligations. Much of the cash generated by these payments has been reinvested in the loan portfolio.

The following table sets forth the carrying value of Eagle s investment and mortgage-backed securities portfolio at the dates indicated.

	At June 30,			
	2006		2005	
	(Dollars in thousands)			
	Book Value	Percentage of Total	Book Value	Percentage of Total
Securities available for sale, at fair value:				
U.S. Government and agency obligations	$ 7,296	10.96%	$ 7,971	10.02%
Corporate obligations	15,617	23.46	16,789	21.10
Municipal obligations	17,143	25.76	13,427	16.87
Collateralized mortgage obligations	15,817	23.76	24,370	30.62
Mortgage-backed securities	6,747	10.14	11,054	13.89
Common Stock				
Mutual Funds				
Corporate preferred stock	1,578	2.37	1,616	2.02
Total securities available-for-sale	64,198	96.45	75,227	94.52
Securities held to maturity, at book value:				
U.S. Government and agency obligations				
Mortgage-backed securities	190	0.29	372	0.47
Municipal obligations	828	1.24	829	1.04
Total securities held-to-maturity	1,018	1.53	1,201	1.51
Total securities	65,216	97.98	76,428	96.03
Interest-bearing deposits	27	0.04	1,844	2.32
Federal Home Loan Bank capital stock, at cost	1,315	1.98	1,315	1.65
Total	$66,558	100.00%	$79,587	100.00%

The following table sets forth information regarding the carrying values, weighted average yields and maturities of Eagle s investment and mortgage-backed securities portfolio at June 30, 2006.

At June 30, 2006								
One Year or Less		One to Five Years		More than Five Years		Total Investment Securities		
Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Approximate Market Value	Annualized Weighted Average Yield

	At June 30, 2006								
	(Dollars in thousands)								
Securities available for sale:									
U.S. Government and agency obligations	$1,481	2.91%	$ 4,237	4.11%	$ 1,578	5.05%	$ 7,296	$ 7,296	4.07%
Corporate obligations	6,040	2.99	9,577	3.61			15,617	15,617	3.37
Municipal obligations			488	4.30	16,655	4.78	17,143	17,143	4.77
Collateralized mortgage obligations			1,541	3.71	14,276	4.47	15,817	15,817	4.40
Mortgage-backed securities	222	2.90	2,796	3.57	3,729	4.45	6,747	6,747	4.03
Mutual funds									
Corporate preferred stock					1,578	4.80	1,578	1,578	4.80
Common stock (dividend yield)									
Total securities available for sale	7,743	2.97	18,639	3.74	37,816	4.64	64,198	64,198	4.18
Securities held to maturity:									
Mortgage-backed securities			190	6.33			190	190	6.33
Municipal obligations			563	5.42	265	6.61	828	840	5.80
Total securities held to maturity			753	5.65	265	6.61	1,018	1,030	5.90
Total securities	7,743	2.97	19,392	3.82	38,081	4.66	65,216	65,228	4.21
Interest-bearing deposits	27	5.15					27	27	5.15
Federal Home Loan Bank capital stock					1,315		1,315	1,315	
Total	$7,770	2.98%	$19,392	3.82%	$39,396	4.50%	$66,558	$66,570	4.12%

SOURCES OF FUNDS

General.

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

Deposits.

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

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

Deposits are obtained primarily from residents of Helena, Bozeman, Butte and Townsend. We believe we are able to attract deposit accounts by offering outstanding service, competitive interest rates and convenient locations and service hours. We use traditional methods of advertising to attract new customers and deposits, including radio, television, print media advertising and sales training and incentive programs for employees. We do not utilize the services of deposit brokers and management believes that non-residents of Montana hold an insignificant number of deposit accounts.

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

Core deposits are deposits that are more stable and somewhat less sensitive to rate changes. They also represent a lower cost source of funds than rate sensitive, more volatile accounts such as certificates of deposit. We believe that our core deposits are our checking, as well as NOW accounts, passbook and statement savings accounts, money market accounts and IRA accounts. Based on our historical experience, we include IRA accounts funded by certificates of deposit as core deposits because they exhibit the principal features of core deposits in that they are stable and generally are not rate sensitive. Core deposits amounted to $118.69 million or 68.08% of the Bank s deposits at June 30, 2006 ($95.71 million or 54.90% if IRA certificates of deposit are excluded). The presence of a high percentage of core deposits and, in particular, transaction accounts, is part of our strategy to restructure our liabilities to more closely resemble the lower cost liabilities of a commercial bank. However, a significant portion of our deposits remains in certificate of deposit form. These certificates of deposit, should they mature and be renewed at higher rates, will result in an increase in our cost of funds.

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

	At June 30,					
	2006			2005		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in thousands)					
Noninterest checking	$ 12,575	7.21%	0.00%	$ 11,660	6.76%	0.00%
Passbook savings	24,438	14.02%	0.65%	25,239	14.63%	0.65%
NOW account/Interest bearing checking	29,571	16.96%	0.13%	30,865	17.89%	0.18%
Money market accounts	29,129	16.71%	1.93%	26,748	15.51%	1.07%
Total	95,713	54.90%	0.79%	94,512	54.79%	0.54%
Certificates of deposit accounts:						
IRA certificates	22,977	13.18%	3.40%	24,665	14.30%	3.08%
Other certificates	55,652	31.92%	3.67%	53,319	30.91%	2.54%
Total certificates of deposit	78,629	45.10%	3.59%	77,984	45.21%	2.71%
Total deposits	$174,342	100.00%	2.05%	$172,496	100.00%	1.52%

The following table sets forth the amounts and maturities of our certificates of deposit as of June 30, 2006, for the maturity dates indicated:

	Certificate of Deposit Maturity (In thousands)				
	June 30, 2007	**June 30, 2008**	**June 30, 2009**	**After June 30, 2009**	**Total**
1.01 2.00%	$	$	$	$	$
2.01 3.00%	11,747	527	62		12,336
3.01 4.00%	35,991	10,400	1,043	465	47,899
4.01 5.00%	15,901	1,889	36	498	18,324
5.01 6.00%	34	1		35	70
6.01 7.00%					
Total	$63,673	$12,817	$1,141	$998	$78,629

The following table shows the amount of certificates of deposit of more than $100,000 by time remaining until maturity as of June 30, 2006:

Jumbo Certificates By Maturity

Maturity Period	Amount (In thousands)
3 months or less	$ 3,360
Over 3 to 6 months	2,894
Over 6 to 12 months	4,773
Over 12 months	3,503
Total	$ 14,530

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

	Year Ended June 30,	
	2006	**2005**
	(Dollars in thousands)	
Opening balance	$172,496	$170,069
Deposits(Withdrawals), Net	(1,110)	115
Interest credited	2,956	2,312
Ending balance	$174,342	$172,496
Net increase	$ 1,846	$ 2,427
Percent increase	1.07%	1.43%
Weighted average cost of deposits during the period	1.87%	1.49%
Weighted average cost of deposits at end of period	2.05%	1.52%

Our depositors are primarily residents of the state of Montana. We have no brokered deposits.

Borrowings.

Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances from the Federal Home Loan Bank of Seattle to supplement our supply of lendable funds and to meet deposit withdrawal requirements.

During the past year, Eagle formed a special purpose subsidiary, Eagle Bancorp Statutory Trust I (the Trust), for the purpose of issuing trust preferred securities in the amount of $5.0 million. Eagle has issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the trust preferred securities. For regulatory purposes, the securities qualify as Tier 1 Capital, while for accounting purposes they are recorded as long term debt. The securities have a 30 year maturity and carry a fixed coupon of 6.02% for the first five years, at which time the coupon becomes variable, at a spread of 142 basis points over 3 month LIBOR.

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

	At or For the Year Ended June 30,	
	2006	**2005**
	(Dollars in thousands)	
Advances from Federal Home Loan Bank:		
Average balance	$12,665	$5,093
Maximum balance at any month-end	22,602	9,885
Balance at period end	22,371	9,885
Weighted average interest rate during the period	4.31%	3.30%
Weighted average interest rate at period end	4.96%	3.78%

Subsidiary Activity

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

Personnel

As of June 30, 2006, we had 66 full-time employees and 8 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

REGULATION

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

Regulation of American Federal Savings Bank

General.

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

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

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

Insurance of Deposit Accounts.

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

Regulatory Capital Requirements.

Office of Thrift Supervision (OTS) capital regulations require savings institutions to meet three capital standards. The standards for capital adequacy are tangible capital equal to 1.5% of adjusted total assets, core capital (leverage ratio) equal to at least 4% of total adjusted assets, and risk-based capital equal to 8% of total risk-weighted assets. In order to be deemed Well Capitalized , OTS rules require a leverage ratio of at least 5%, a Tier 1 risk-based ratio of at least 6%, and a total risk-based ratio of at least 10%. American Federal s capital ratios at June 30, 2006 are set forth below.

	Actual		For Capital Adequacy Purposes	
	Amount	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)			
Tangible	$25,087	11.16	$ 3,371	1.50
Leverage	$25,087	11.16	$ 6,742	3.00
Tier 1 risk-based	$25,087	15.48	$ 6,481	4.00
Total risk-based	$25,590	15.79	$12,961	8.00

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

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

Office of Thrift Supervision rules require a deduction from capital for institutions which have unacceptable levels of interest rate risk. The Office of Thrift Supervision calculates the sensitivity of an institution s net portfolio value based on data submitted by the institution in a schedule to its quarterly Thrift Financial Report and using the interest rate risk measurement model adopted by the Office of Thrift Supervision. The amount of the interest rate risk component, if any, is deducted from an institution s total capital in order to determine if it meets its risk-based capital requirement. Federal savings institutions with less than $300 million in assets and a risk-based capital ratio above 12% are exempt from filing the interest rate risk schedule. However, the Office of Thrift Supervision may require any exempt institution to file such schedule on a quarterly basis and may be subject to an additional capital requirement based on its level of interest rate risk as compared to its peers.

Dividend and Other Capital Distribution Limitations.

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

Office of Thrift Supervision regulations impose limitations on all capital distributions by savings institutions, such as cash dividends, payment to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger, and other distributions charged against capital. The rule establishes three tiers of institutions based primarily on an institution s capital level. An institution that exceeds all capital requirements before and after a proposed capital distribution and has not been advised by the Office of Thrift Supervision that it is in need of more than the normal supervision has the greatest amount of flexibility for determining dividends. Such institutions can, after prior notice but without the approval of the Office of Thrift Supervision, make capital distributions during a calendar year. These distributions can be equal to the greater of 100% of its net income to date during the calendar year plus the amount that would reduce by one-half its excess capital divided by its fully phased-in capital requirements at the beginning of the calendar year. At the institution s discretion, dividends can also be 75% of its net income over the most recent four-quarter period. Any additional capital distributions require prior regulatory notice. As of June 30, 2006, American Federal Savings Bank had this level of flexibility with respect to dividends.

Qualified Thrift Lender Test.

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

Transactions With Affiliates.

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

Liquidity Requirements.

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision regulations. The OTS states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the bank engages.

Federal Home Loan Bank System.

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

As a member, we are required to purchase and maintain stock in the Federal Home Loan Bank of Seattle in an amount equal to at least 1% of our aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year, or 5% of our outstanding advances, whichever is larger. We are in compliance with this requirement. The Federal Home Loan Bank imposes various limitations on advances such as limiting the amount of real estate related collateral to 30% of a member s capital and limiting total advances to a member. As a federal savings bank, we were mandatory members of the Federal Home Loan Bank of Seattle. Under the Gramm-Leach-Bliley Financial Modernization Act of 1999, we are now voluntary members of the Federal Home Loan Bank of Seattle. We could withdraw or significantly reduce our required stock ownership in the Federal Home Loan Bank of Seattle.

Federal Reserve System.

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

Savings institutions have authority to borrow from the Federal Reserve System discount window, but Federal Reserve System policy generally requires savings institutions to exhaust all other sources before borrowing from the Federal Reserve System.

Regulation of Eagle Bancorp

General.

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

Federal Taxation

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

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

The revisions to the Internal Revenue Code in 1996 also provided that all thrift institutions must generally recapture any applicable excess reserves into their taxable income, over a six year period beginning in 1996; however, such recapture may be delayed up to two years if a thrift institution meets a residential-lending test. Generally, a thrift institution s applicable excess reserves equals the excess of the balance of its bad debt reserves as of the close of its taxable year beginning before January 1, 1996, over the balance of such reserves as of the close of its last taxable year beginning before January 1, 1988. These are known as pre-1988 reserves. American Federal Savings Bank had recaptured all of it s remaining applicable excess reserve as of June 30, 2006.

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

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

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

State Taxation

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

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

ITEM 2. DESCRIPTION OF PROPERTY.

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

Location	Address	Opened	Value At June 30, 2005 (In thousands)	Square Footage
Helena Main Office	1400 Prospect Ave. Helena, MT 59601	1997	$ 4,447	32,304
Helena Downtown Drive-up	28 Neill Ave. Helena, MT 59601	1987	$ 387	1,391
Butte Office	3401 Harrison Ave. Butte, MT 59701	1979	$ 532	3,890
Bozeman Office	606 North Seventh Bozeman, MT 59715	1980	$ 545	5,886
Townsend Office	416 Broadway	1979	$ 48	1,973

Location	Address	Opened	Value At June 30, 2005 (In thousands)	Square Footage
	Townsend, MT 59644			

As of June 30, 2006, the net book value of land, buildings, furniture, and equipment owned by American Federal, less accumulated depreciation, totaled $5.96 million. Eagle has an earnest money deposit for the purchase of land in Bozeman for potential branch relocation and has spent approximately $23,000 on architect fees for preliminary building plans.

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ITEM 3. LEGAL PROCEEDINGS.

American Federal, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which American Federal Savings Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of American Federal. There were no lawsuits pending or known to be contemplated against Eagle or American Federal at June 30, 2006.

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

No matters were submitted to a vote of security holders in the fourth quarter of the fiscal year ended June 30, 2006.

PART II

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

The common stock is traded on the OTC Bulletin Board under the symbol EBMT. At the close of business on June 30, 2006, there were 1,091,722 shares of common stock outstanding, held by approximately 600 shareholders of record. Eagle Financial MHC, Eagle s mutual holding company, held 648,493 shares (or 59.4%) of the outstanding common stock.

The high bid and asked prices noted below for the four quarters of fiscal 2005 and the four quarters of the current fiscal year were obtained from the OTC Bulletin Board. The quotations reflect interdealer prices without retail markup, markdown or commission, and may not represent actual transactions.

	High Bid	Low Bid
Fourth quarter 2006	$33.00	$30.30
Third quarter 2006	$34.50	$31.50
Second quarter 2006	$36.00	$32.15
First quarter 2006	$35.00	$30.00
Fourth quarter 2005	$35.00	$30.00
Third quarter 2005	$37.00	$34.00
Second quarter 2005	$38.00	$31.50
First quarter 2005	$33.00	$31.50

The closing price of the common stock on June 30, 2006, was $31.60. The company had paid four quarterly dividends during the year, all in the amount of $0.20 per share. Eagle Financial MHC waived receipt of its dividends during the year.

ITEM 5 (c) SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased*	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 2006				
4-1-06 to 4-30-06	None	N/A	N/A	N/A
May 2006				
5-1-06 to 5-31-06	1,600	$31.00	1,600	11,900
June 2006				
6-1-06 to 6-30-06	None	N/A	N/A	N/A
Total	1,600	$31.00	1,600	N/A

* The Company publicly announced a stock repurchase program on July 21, 2005. The Company is authorized to acquire up to 28,750 shares of common stock with the price subject to market conditions. No expiration date was set for the repurchase program. As of September 1, 2006, 21,015 shares had been purchased.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Note Regarding Forward-Looking Statements

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

General

Eagle Bancorp s subsidiary, American Federal Savings Bank, operates as a community savings bank. It raises money by offering FDIC-insured deposit products and lending this money, primarily for the purpose of home financing. As of June 30, 2006, 46.20% of its total loans were residential mortgage loans with fixed rates and 7.51% were residential mortgage loans with adjustable rates. Total first lien mortgage loans at June 30, 2006, were $101.46 million or 71.79% of the total loan portfolio. Other loan products include home equity loans, consumer and commercial loans. These loans totaled $39.87 million or 28.21% of the total loan portfolio.

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

Analysis of Net Interest Income

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

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

	For the twelve months ended June 30,					
	2006			2005		
	(Dollars in thousands)					
	Average Daily Balance	Interest and Dividends	Yield/ Rate	Average Daily Balance	Interest and Dividends	Yield/ Rate
Assets:						
Interest-earning assets:						
FHLB stock	$ 1,315	$	0.00%	$ 1,421	$ 20	1.41%
Loans receivable, net	124,282	7,799	6.28	97,889	6,117	6.25
Investment securities	69,700	2,641	3.79	83,087	2,872	3.46
Interest-bearing deposits with banks	1,473	59	4.01	1,992	34	1.71
Total interest-earning assets	196,770	10,499	5.34	184,389	9,043	4.90
Noninterest-earning assets	18,274			17,393		
Total assets	$215,044			$201,782		
Liabilities and Equity:						
Interest-bearing liabilities:						
Deposit accounts:						
Money market	$ 29,388	$ 492	1.67	$ 29,369	$ 291	0.99
Passbooks	24,994	164	0.66	26,154	170	0.65
Checking	31,024	55	0.18	29,753	54	0.18
Certificates of deposit	75,842	2,300	3.03	75,526	1,880	2.49
Advances from FHLB & subordinated debt	16,573	774				