Eagle Bancorp Montana, Inc.
Form 10-K
September 18, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2014

or

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

For the transition period from to

Commission file number 1-34682

Eagle Bancorp Montana, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-1449820
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

1400 Prospect Avenue, Helena, MT	59601
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01	The NASDAQ Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No

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

x Yes o No

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

x Yes o No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
¨ Yes x No

The aggregate market value of the common stock held by non-affiliates of Eagle, computed by reference to the closing price at which the stock was sold as of December 31, 2013 was $35,234,000. The outstanding number of shares of common stock of Eagle as of August 1, 2014, was 3,916,233.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end is incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "will," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "estim "plan," "project," "could," "intend," "target" and other similar words and expressions of the future. These forward-looki statements include, but are not limited to: (i) statements of our goals, intentions and expectations; (ii) statements regarding our business plans, prospects, growth and operating strategies; (iii) statements regarding the asset quality of our loan and investment portfolios; and (iv) estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

general economic conditions, either nationally or in our market areas, that are worse than expected;

competition among depository and other financial institutions;

changes in the prices, values and sales volume of residential and commercial real estate in Montana;

inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

adverse changes or volatility in the securities markets;

our ability to enter new markets successfully and capitalize on growth opportunities;

our ability to successfully integrate acquired businesses;

changes in consumer spending, borrowing and savings habits;

changes in our organization, compensation and benefit plans;

our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial business loans;

possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;

the level of future deposit premium assessments;

- the impact of a recurring recession on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
- the impact of the current restructuring of the U.S. financial and regulatory system;
- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as other reports that we file with the SEC.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

General

Eagle Bancorp Montana, Inc. ("Eagle" or "the Company"), is a Delaware corporation that holds 100% of the capital stock of American Federal Savings Bank ("American Federal" or "the Bank"), a federally chartered stock savings bank headquartered in Helena, Montana. Eagle's principal business is to hold the capital stock of American Federal. On April 5, 2010, Eagle completed a second-step conversion from a partially-public mutual holding company structure to a fully publicly-owned stock holding company structure. As part of that transaction it also completed a related stock offering. As a result of the conversion and offering, the Company became the stock holding company for American Federal Savings Bank, and Eagle Financial MHC and Eagle Bancorp ceased to exist. The Company sold a total of 2,464,274 shares of common stock at a purchase price of $10.00 per share in the offering for gross proceeds of $24.6 million. Concurrent with the completion of the offering, each share of Eagle Bancorp common stock owned by the public was exchanged for 3.800 shares of the Company's common stock owned immediately prior to completion of the transaction.

American Federal was founded in 1922 as a Montana chartered building and loan association and has conducted operations in Helena since that time. In 1975, the Bank adopted a federal thrift charter. The Bank currently has 13 full service offices. We also have seven automated teller machines located in our market area and we participate in the Money Pass® ATM network. Investor information for the Company may be found at www.americanfederalsavingsbank.com. The contents on or accessible through, our website are not incorporated into this report.

The Bank has equity investments in Certified Development Entities which have received allocations of New Markets Tax Credits ("NMTC"). Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury. The NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over a seven-year credit allowance period. The federal tax credit benefits were $380,000 for the years ended June 30, 2014 and 2013.

Recent Developments

On November 30, 2012, the Company completed a significant transaction with Sterling Financial Corporation of Spokane, Washington in which the Company purchased all of Sterling's retail bank branches in Montana. As a result of this transaction, the Bank's assets grew to over $500 million and the retail branch network grew from six to 13 branches, with six branches in new markets. As a result of the transaction, total Bank assets increased by 56.0% and the Bank's loan portfolio grew by 23.5%. As of June 30, 2014, the Bank was the 6th largest retail bank headquartered in Montana in terms of assets. The acquisition also included the addition of a wealth management division with over $100 million in managed assets and a mortgage banking operation that should increase opportunities for additional origination and fee income.

On May 8, 2014, the Company announced that it has applied to the State of Montana to form an interim bank for the purpose of facilitating the conversion of the Company's wholly-owned subsidiary, American Federal Savings Bank, from a federally chartered savings bank to a Montana chartered commercial bank. If the new charter is approved, the bank plans to rename itself "Opportunity Bank of Montana."

On August 28, 2014, the Board of Directors (the "Board") of Eagle approved a change in the Company's fiscal year end from June 30 to December 31 of each year. The fiscal year change is effective beginning with the Company's 2015 fiscal year, which will now begin on January 1, 2015 and end on December 31, 2015.

Business Strategy

The Company's principal strategy is to manage its principal asset, American Federal Savings Bank, in a profitable manner. The Company seeks to continue profitable operations through building a diversified loan portfolio and positioning the Bank as a full-service community bank that offers both retail and commercial loan and deposit products in all of its markets. We believe that this focus will enable us to continue to grow our franchise, while maintaining our commitment to customer service, high asset quality, and sustained net earnings. The following are the key elements of our business strategy:

Continue to diversify our portfolio through growth in commercial real estate and commercial business loans as a complement to our traditional single family residential real estate lending. Such loans now constitute about 45.7% of total loans;

Continue to emphasize the attraction and retention of lower cost long-term core deposits;

Seek opportunities where presented to acquire other institutions or expand our branch structure;

Maintain our high asset quality levels; and

Operate as a community-oriented independent financial institution that offers a broad array of financial services with high levels of customer service.

Our results of operations may be significantly affected by our ability to effectively implement our business strategy including our plans for expansion through strategic acquisitions. If we are unable to effectively integrate and manage acquired or merged businesses or attract significant new business through our branching efforts, our financial performance may be negatively affected.

Market Area

From our headquarters in Helena, Montana, we operate thirteen full service retail banking offices, including our main office. Our other full service branches are located in Helena – Neill (opened 1987), Helena – Skyway (opened 2009), Bozeman – Oak (opened 1980, relocated 2009), Butte (opened 1979) and Townsend (opened 1979), Montana. The Sterling Bank Montana branch acquisition that was completed November 30, 2012 included retail banking offices in: Bozeman, Big Timber, Livingston, Billings, Missoula and Hamilton. The acquisition also included three mortgage loan origination locations in Bozeman, Missoula and Kalispell. The Kalispell location was closed in fiscal 2014.

Montana is one of the largest states in terms of land mass but ranks as one of the least populated states. According to U.S. Census Bureau data for 2010, it had a population of 989,415 (1,015,165 estimated for 2013). Helena, where we are headquartered, is Montana's state capital. It is also the county seat of Lewis and Clark County, which has a population of approximately 65,338 and is located within 120 miles of four of Montana's other five largest cities: Missoula, Great Falls, Bozeman and Butte. Helena is approximately midway between Yellowstone and Glacier National Parks. Its economy has shown moderate growth, in terms of both employment and income. State government and the numerous offices of the federal government comprise the largest employment sector. Helena also has significant employment in the service industries. Specifically, it has evolved into a central health care center with employment in the medical and the supporting professions as well as the medical insurance industry. The local economy is also dependent to a lesser extent upon ranching and agriculture. These have been more cyclical in nature and remain vulnerable to severe weather conditions, increased competition, both domestic and international, as well as commodity prices.

Bozeman is approximately 95 miles southeast of Helena. It is located in Gallatin County, which has a population of approximately 94,720. Bozeman is home to Montana State University and experienced fairly significant growth from 1990 to 2007, in part due to the growth of the University as well as the increased tourism for resort areas in and near Bozeman. Agriculture, however, remains an important part of Bozeman's economy. Bozeman has also become an attractive location for retirees, primarily from the West Coast, owing to its many winter and summer recreational opportunities and the presence of the University.

Butte, Montana is approximately 64 miles southwest of Helena. Butte and the surrounding Silver-Bow County have a population of approximately 34,523. Butte's economy was historically reliant on the mining industry and fluctuations in metal and mineral commodity prices have had a corresponding impact on the local economy.

Townsend, Montana is approximately 34 miles southeast of Helena It has a population of approximately 1,970. Townsend is located in Broadwater County which has a population of approximately 5,692. Many of its residents commute to other Montana locations for work, particularly Helena. Other employment in Townsend is primarily in agriculture and services.

Billings, Montana is approximately 293 miles east of Helena. Billings and the surrounding Yellowstone County have a population of approximately 154,162. Billings is a significant trade center for eastern Montana. Select manufacturing is also a significant contributing portion of its economy.

Missoula, Montana is approximately 116 miles west of Helena. Missoula and the surrounding Missoula County have a population of approximately 111,807. The University of Montana is located in Missoula and the local economy is reliant on the University and the corresponding trade and services resulting from the University's presence.

Hamilton, Montana is approximately 161 miles southwest of Helena in Ravalli County. Ravalli County has a population of approximately 40,823. Hamilton is a relatively short distance from Missoula with a number of persons working in Missoula, residing in Hamilton. Medical research and the wood products industry are significant contributors to Ravalli County's economy.

Livingston, Montana is approximately 124 miles east of Helena. Livingston and the surrounding Park County have a population of approximately 15,682. Livingston's economy is somewhat reliant on the wood products and tourism industry.

Big Timber, Montana is approximately 158 miles east of Helena. Big Timber and the surrounding Sweet Grass County have a population of approximately 3,669. Big Timber's economy is somewhat reliant on the wood products, agriculture, and tourism industries.

Competition

We face strong competition in our primary market area for 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 1,015,000 people, there are 57 credit unions in Montana as well as 2 federally chartered thrift institutions and 62 commercial banks as of June 30, 2014. Our most direct competition for depositors has historically come from locally owned and out-of-state commercial banks, thrift institutions and credit unions operating in our primary market area. The number of such competitor locations has increased significantly in recent years. Our competition for loans also comes from banks, thrifts and credit unions in addition to mortgage bankers and brokers. Our principal market areas can be characterized as markets with moderately increasing incomes, relatively low unemployment, increasing wealth (particularly in the growing resort areas such as Bozeman), and moderate population growth.

Lending Activities

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

Loan Portfolio Composition.
The following table includes the composition of the Bank's loan portfolio by loan category:

	At June 30,					
	2014			2013		
	Amount	Percent of Total		Amount	Percent of Total	
	(Dollars in thousands)					
Real estate loans:						
Residential mortgage (one- to four-family) (1)	$92,321	33.39	%	$70,453	32.50	%
Commercial real estate	92,043	33.29	%	74,395	34.32	%
Real estate construction	6,923	2.50	%	2,738	1.26	%
Total real estate loans	191,287	69.18	%	147,586	68.08	%
Other loans:						
Home equity	37,866	13.69	%	35,660	16.45	%
Consumer	12,964	4.69	%	11,773	5.43	%
Commercial	34,412	12.44	%	21,775	10.04	%
Total other loans	85,242	30.82	%	69,208	31.92	%
Total loans	276,529	100.00	%	216,794	100.00	%
Deferred loan fees	413			117		
Allowance for loan losses	2,125			2,000		
Total loans, net	$273,991			$214,677		

(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 $1.37 million and $1.02 million for the years ended June 30, 2014 and 2013, respectively. Other loan related fee income for contract collections, late charges, credit life commissions and credit card fees were $164,000 and $95,000 for the years ended June 30, 2014 and 2013, respectively.

Loan Maturity Schedule.
The following table sets forth the estimated maturity of the loan portfolio of the Bank at June 30, 2014. Balances exclude deferred loan fees and allowance for loan losses. Scheduled principal repayments of loans do not necessarily reflect the actual life of such assets. The average life of a loan is typically substantially less than its contractual terms because of prepayments. In addition, due on sale clauses on loans generally give American Federal Savings Bank the right to declare loans immediately due and payable in the event, among other things, that the borrower sells the real property, subject to the mortgage, and the loan is not paid off. All mortgage loans are shown to be maturing based on the date of the last payment required by the loan agreement, except as noted.

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

	Within 6 Months (In Thousands)	6 to 12 Months	More than 1 year to years	More than 2 years to 5 years	Over 5 years	Total
Residential mortgage (one- to four-family) (1)	$2	$539	$49	$2,598	$106,378	$109,566
Commercial real estate and land	5,261	1,030	1,732	9,821	74,199	92,043
Real estate construction	4,391	2,532	-	-	-	6,923
Home equity	1,203	2,124	2,844	5,047	26,648	37,866
Consumer	509	603	1,480	6,623	3,749	12,964
Commercial	10,121	4,742	1,949	7,301	10,299	34,412
Total loans (1)	$21,487	$11,570	$8,054	$31,390	$221,273	$293,774

(1) Includes loans held for sale.

The following table includes loans by fixed or adjustable rates at June 30, 2014:

	Fixed	Adjustable (Dollars in Thousands)	Total
Due after June 30, 2015:			
Residential mortgage (one- to four-family) (1)	$ 79,801	$ 29,224	$ 109,025
Commercial real estate and land	58,518	27,234	85,752
Real estate construction	-	-	-
Home equity	12,734	21,805	34,539
Consumer	10,224	1,628	11,852
Commercial	12,271	7,278	19,549
Total (1)	173,548	87,169	260,717
Due in less than one year	30,243	2,814	33,057
Total Loans (1)	$ 203,791	$ 89,983	$ 293,774
Percent of total	69.37 %	30.63 %	100.00 %

(1) Includes loans held for sale

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

	Years Ended June 30, 2014	2013
	(In Thousands)	
Net loans receivable at beginning of period (1)	$ 235,484	$ 184,452
Loans originated:		
Residential mortgage (one- to four-family)	212,761	250,066
Commercial real estate and land	41,425	17,007
Real estate construction	10,267	8,189
Home equity	12,921	9,853
Consumer	8,230	7,063
Commercial	12,179	10,143
Total loans originated	297,783	302,321
Loans purchased in acquistion:		
Residential mortgage (one- to four-family)	-	12,469
Commercial real estate and land	-	10,235
Real estate construction	-	-
Home equity	-	15,028
Consumer	-	2,364
Commercial	-	1,227
Total loans purchased	-	41,323
Loans sold:		
Whole loans	182,038	228,919
Principal repayments and loan refinancings	60,414	63,365
Deferred loan fees increase (decrease)	296	(47)
Allowance for losses increase	125	375
Net loan increase	55,752	51,032
Net loans receivable at end of period (1)	$ 291,236	$ 235,484

(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 33.4% of the Bank’s loans as of June 30, 2014 were comprised of such loans. American Federal generally originates one- to four-family residential mortgage loans in amounts of up to 80% of the lesser of the appraised value or the selling price of the mortgaged property without requiring private mortgage insurance. A mortgage loan originated by the Bank, whether fixed rate or adjustable rate,

can have a term of up to 30 years. The Bank holds substantially all of its adjustable rate and its 8, 10 and 12-year fixed rate loans in portfolio. Adjustable rate loans limit the periodic interest rate adjustment and the minimum and maximum rates that may be charged over the term of the loan. The Bank's fixed rate 15-year and 20-year loans are held in portfolio or sold in the secondary market depending on market conditions. Generally, all 30-year fixed rate loans are sold in the secondary market. The volume of loan sales is dependent on the volume, type and term of loan originations.

The Bank obtains a significant portion of its noninterest income from servicing of loans that it has sold. The Bank offers many of the fixed rate loans it originates for sale in the secondary market on a servicing retained basis. This means that we process the borrower's payments and send them to the purchaser of the loan. This retention of servicing enables the Bank to increase fee income and maintain a relationship with the borrower. Servicing income was $1.37 million for the year ended June 30, 2014. At June 30, 2014, American Federal Savings Bank had $548.49 million in residential mortgage loans and $12.44 million in commercial real estate loans sold with servicing retained. American Federal Savings Bank does not ordinarily purchase home mortgage loans from other financial institutions.

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

Home Equity Loans.
American Federal Savings Bank also originates home equity loans. These loans are secured by the borrowers' primary residence, but are typically subject to a prior lien, which may or may not be held by the Bank. At June 30, 2014, $37.87 million or 13.7% of our total loans were home equity loans. Borrowers may use the proceeds from the Bank's home equity loans for many purposes, including home improvement, debt consolidation, or other purchasing needs. The Bank offers fixed rate, fixed payment home equity loans as well as variable and fixed rate home equity lines of credit. Fixed rate home equity loans typically have terms of not longer than 15 years.

Home equity loans are secured by real estate but they have historically carried 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 not more than 85% of appraised value of the underlying real estate collateral, less the amount of any existing prior liens on the property securing the loan.

Commercial Real Estate and Land Loans.
American Federal Savings Bank originates commercial real estate mortgage and land loans, including both developed and undeveloped land loans, and loans on multi-family dwellings. Commercial real estate and land loans made up 33.3% of the Bank's total loan portfolio, or $92.04 million at June 30, 2014. 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 $271,000 and is typically made with fixed rates of interest and 5- to 15-year maturities. Upon maturity, the loan is repaid or the terms and conditions are renegotiated. Generally, all commercial real estate loans that we originate are secured by property located in the state of Montana and within the market area of the Bank. American Federal Savings Bank's largest single commercial real estate loan had a balance of approximately $10.83 million ($9.75 million is guaranteed by Rural Development of the U.S. Department of Agriculture, leaving approximately $1.08 million unguaranteed) on June 30, 2014, and is secured by a detention facility.

Real Estate Construction Lending.
American Federal Savings Bank also lends funds for the construction of one-to-four-family homes and commercial real estate. Real estate construction loans are made both to individual homeowners for the construction of their primary residence and, to a lesser extent, to local builders for the construction of pre-sold houses or houses that are being built for sale in the future. Real estate construction loans accounted for $6.92 million or 2.5% of the Bank’s loan portfolio at June 30, 2014.

Consumer Loans.
As part of its strategy to invest in higher yielding shorter term loans, American Federal Savings Bank emphasized growth of its consumer lending portfolio in recent years. This portfolio includes personal loans secured by collateral other than real estate, unsecured personal loans and lines of credit, and loans secured by deposits held by the Bank. As of June 30, 2014, consumer loans totaled $12.96 million or 4.7% of the Bank’s total loan portfolio. These loans consist primarily of auto loans, RV loans, boat loans, personal loans and credit lines and deposit account loans. Consumer loans are originated in the Bank’s market area and generally have maturities of up to 7 years. For loans secured by savings accounts, American Federal Savings Bank will lend up to 90% of the account balance on single payment loans and up to 100% for monthly payment loans.

Consumer loans have a shorter term and generally provide higher interest rates than residential loans. Consumer loans can be helpful in improving the spread between average loan yield and cost of funds and at the same time improve the matching of the maturities of rate sensitive assets and liabilities. Although the amount of such loans declined slightly over 2013 levels, increasing consumer loans continues to be a major part of the Bank's strategy of operating more like a commercial bank than a traditional savings bank.

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

Commercial Business Loans.
Commercial business loans amounted to $34.41 million, or 12.4% of the Bank's total loan portfolio at June 30, 2014. American Federal Savings Bank's commercial business loans are traditional business loans and are not secured by real estate. Such loans may be structured as unsecured lines of credit or may be secured by inventory, accounts receivable or other business assets. Within the commercial loan category, $3.88 million and $707,000 were in loans originated through a syndication program where the business resides outside of Montana, at June 30, 2014 and 2013, respectively.

While the commercial business loan portfolio amounted to only 12.4% of the total portfolio at June 30, 2014, American Federal intends to continue to increase such lending by focusing on market segments which it has not previously emphasized, such as business loans to doctors, lawyers, architects and other professionals as well as to small businesses within its market area. Our management believes that this strategy provides opportunities for growth, without significant additional cost outlays for staff and infrastructure.

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

Loans to One Borrower.
Under federal law, savings institutions such as the Bank have, subject to certain exemptions, been required to limit credit concentrations to single borrowers to an amount equal to the greater of $500,000 or 15% of the institution's unimpaired capital and surplus. As of June 30, 2014, our largest aggregation of loans to one borrower was approximately $20.34 million. This consisted of three loans: two commercial real estate loans secured by two separate detention facilities and a commercial real estate loan secured by a chemical dependency treatment facility. The first commercial real estate loan had a principal balance of $5.17 million, but 90% of that amount, or $4.65 million was sold to the Montana Board of Investments, leaving a net principal balance payable to the Bank of $517,000. As of June 30, 2014, the principal balance on the second commercial real estate loan was $10.83 million. However, 90% of this loan is guaranteed by the USDA Rural Development. Thus, 90% of the loan, or $9.75 million, is not required to be included in the Bank's limitations to a single borrower under applicable banking regulations. This leaves approximately $1.08 million subject to the lending limit described above. The Bank entered into an interest rate swap with a third party to change the underlying cash flows of the second loan to be a variable market rate tied to one-month LIBOR. The third commercial real estate loan had a principal balance of $4.34 million as of June 30, 2014. As a result, the total amount subject to the lending limit at June 30, 2014 was $5.94 million. At

June 30, 2014, these loans were performing in accordance with their terms. The Bank maintains the servicing for these loans.

Loan Solicitation and Processing.

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

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

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

Loan Commitments.
We generally provide commitments to fund fixed and adjustable-rate single-family mortgage loans for periods up to 60 days at a specified term and interest rate, and other loan categories for shorter time periods. The total amount of our commitments to extend credit as of June 30, 2014, was approximately $5.24 million, all of which was for residential mortgage loans.

Nonperforming Loans and Problem Assets

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

For mortgage loans and home equity loans, if the borrower is unable to cure the delinquency or reach a payment agreement, we will institute foreclosure actions. If a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure, or by deed in lieu of foreclosure, is classified as real estate owned until such time as it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial recording of any loss is charged to the allowance for loan losses. As of June 30, 2014, American Federal Savings Bank had $458,000 of real estate owned.

Loans are reviewed on a quarterly basis and are placed on non-accrual status when they are 90 days or more delinquent. Loans may be placed on non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2014, we had $342,000 ($276,000 net of specific reserves for loan losses) of loans that were nonperforming and held on non-accrual status.

Delinquent Loans.
The following table provides information regarding the Bank's loans that are delinquent 30 to 89:

	At June 30, 2014		
	Number	Amount (Dollars in Thousands)	Percentage of Total Delinquent Loans
Loan type:			
Residential mortgage (one- to four-family)	5	$ 701	39.97 %
Commercial real estate and land	3	294	16.76 %
Real estate construction	-	-	0.00 %
Home equity	11	583	33.24 %
Consumer	29	97	5.53 %
Commercial business	4	79	4.50 %
Total	52	$ 1,754	100.00 %

Nonperforming Assets.
The following table sets forth information regarding nonperforming assets:

	At June 30,	
	2014	2013
	(Dollars in Thousands)	
Non-accrual loans		
Real estate loans:		
Residential mortgage (one- to four-family)	$ 50	$ 58
Home equity	142	305
Consumer	43	41
Commercial business	107	66
Accruing loans delinquent 90 days or more	-	-
Restructured loans:		
Commercial real estate and land	130	303
Home equity	50	-
Total nonperforming loans	522	773
Real estate owned and other repossed property, net	458	550
Total nonperforming assets	$ 980	$ 1,323
Total nonperforming loans to total loans	0.19 %	0.36 %
Total nonperforming loans to total assets	0.10 %	0.15 %
Total allowance for loan loss to non-performing loans	407.09 %	258.73 %
Total nonperforming assets to total assets	0.18 %	0.26 %

During the year ended June 30, 2014, the Bank had three foreclosed real estate property and other repossessed assets resulting in a loss of $50,000 upon sale. One other foreclosed real estate property had a write-down of $10,000 based on fair value less cost to sell. During the year ended June 30, 2014, a minimal amount of interest was recorded on loans previously accounted for on a non-accrual basis.

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

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

	At June 30, 2014	At June 30, 2013
	(In Thousands)	
Residential mortgage (one- to four-family):		
Special mention	$-	$-
Substandard	660	315
Doubtful	-	-
Loss	-	-
Commercial real estate and land:		
Special mention	-	715
Substandard	280	-
Doubtful	-	-
Loss	-	-
Real estate construction:		
Special mention	-	-
Substandard	-	-
Doubtful	-	-
Loss	-	-
Home equity loans:		
Special mention	-	-
Substandard	257	626
Doubtful	-	-
Loss	31	153
Consumer loans:		
Special mention	-	-
Substandard	74	62
Doubtful	7	10
Loss	20	6
Commercial loans:		
Special mention	-	-
Substandard	300	121
Doubtful	-	-
Loss	15	-
Securities available-for-sale:		
Special mention	-	-
Substandard	-	-
Doubtful	-	-
Loss	-	-
Real estate owned/repossessed property	458	550
Total classified loans and real estate owned	$2,102	$2,558

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Allowance for Loan Losses and Real Estate Owned

The Bank segregates its loan portfolio for loan losses into the following broad categories: real estate loans (residential mortgages [one- to four-family], real estate construction, commercial real estate and land) home equity loans, consumer loans, and commercial business loans. The Bank provides for a general allowance for losses inherent in the portfolio in the categories referenced above, which consists of two components: General loss percentages which are calculated based on historical analyses and other factors such as volume and severity of delinquencies, local and national economy, underwriting standards, and other factors. This portion of the allowance is calculated for inherent losses which probably exist as of the evaluation date even though they might not have been identified by the more objective processes used. This is due to the risk of error and/or inherent imprecision in the process. This portion of the allowance is subjective in nature and requires judgments based on qualitative factors which do not lend themselves to exact mathematical calculations such as: trends in delinquencies and non-accruals; trends in volume; terms and portfolio mix; new credit products; changes in lending policies and procedures; and changes in the outlook for the local, regional and national economy.

At least quarterly, the management of the Bank evaluates the need to establish an allowance against losses on loans based on estimated losses on specific loans 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. Real estate owned is evaluated annually and recorded at fair value.

Provisions for, or adjustments to, estimated losses are included in earnings in the period they are established. At June 30, 2014, we had $2.13 million in allowances for loan losses.

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

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

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

The following table includes information for allowance for loan losses:

	For the Years Ended June 30,	
	2014	2013
	(Dollars in Thousands)	
Beginning balance, July 1, 2013	$2,000	$1,625
Provision for loan losses	608	678
Loans charged-off		
Real estate loans	-	(73)
Commercial real estate and land	(199)	(35)
Real estate construction	-	-
Home equity	(73)	(190)
Consumer	(88)	(66)
Commercial business loans	(144)	(1)
Recoveries		
Real estate loans	-	-
Commercial real estate and land	17	-
Real estate construction	-	-
Home equity	-	-
Consumer	4	6
Commercial business loans		56
Net loans charged-off	(483)	(303)
Ending balance, June 30, 2014	$2,125	$2,000
Allowance for loan losses to total loans	0.77%	0.92%
Allowance for loan losses to total non-performing loans	407.09%	258.73%
Net charge-offs to average loans outstanding during the period	0.19%	0.15%

The following table presents allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans:

	June 30,					
	2014			2013		
	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans	Amount	Percentage of Allowance to Total Allowance	Loan Category to Total Loans
	(Dollars in Thousands)					
Real estate loans:						
Residential mortgage (one- to four-family)	$485	22.82 %	33.39 %	$423	21.15 %	32.50 %
Commercial real estate and land	974	45.84 %	33.29 %	952	47.60 %	34.32 %
Real estate construction	30	1.41 %	2.50 %	15	0.75 %	1.26 %
Total real estate loans	1,489	70.07 %	69.18 %	1,390	69.50 %	68.08 %
Other loans:						
Home equity	299	14.07 %	13.69 %	290	14.50 %	16.45 %
Consumer	49	2.31 %	4.69 %	40	2.00 %	5.43 %
Commercial business	288	13.55 %	12.44 %	280	14.00 %	10.04 %
Total other loans	636	29.93 %	30.82 %	610	30.50 %	31.92 %
Total	$2,125	100.00 %	100.00 %	$2,000	100.00 %	100.00 %

Historical loss averages have decreased, as a result of lower charge-offs within the past three years, and impacted the allowance adequacy calculation as a percent of loans.

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, is designed to foster earnings and liquidity within prudent interest rate risk guidelines, while complementing American Federal's lending activities. The policy provides for available-for-sale (including those accounted for under FASB ASC 825), held-to-maturity, and trading classifications. However, Eagle currently does not hold any securities for purposes of trading or held-to-maturity. The policy permits investments in high credit quality instruments with diversified cash flows while permitting us to maximize total return within the guidelines set forth in our interest rate risk and liquidity management policies. Permitted investments include but are not limited to U.S. government obligations, government agency or government-sponsored agency obligations, state, county and municipal obligations, and mortgage-backed securities. Collateralized mortgage obligations, investment grade corporate debt securities, and commercial paper are also included. We also invest in Federal Home Loan Bank (FHLB) overnight deposits and federal funds, but these instruments are not considered part of the investment portfolio.

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

We do not participate in the use of off-balance sheet derivative financial instruments, except interest rate caps and certain financial instruments designated as cash flow hedges related to loans committed to be sold in the secondary market and interest rate swaps designated as fair-value hedges. Further, Eagle does not invest in securities which are not rated investment grade at time of purchase.

The Board, through its asset liability committee, has charged the President and CEO with implementation of the investment policy. All transactions are reported to the Board monthly, as well as the current composition of the portfolio, including market values and unrealized gains and losses.

Investment Securities.
We maintain a portfolio of investment securities, classified as either available-for-sale (including those accounted for under FASB ASC 825) or held-to-maturity to enhance total return on investments. Our investment securities include 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. There were no held-to-maturity investment securities included

in the investment portfolio at June 30, 2014 and 2013. All investment securities included in the investment portfolio are currently available-for-sale. The Bank does not expect to alter the mix of U.S. Treasury obligations it will hold and purchase, notwithstanding the downgrade of U.S. Treasury debt obligations to AA+ by Standard & Poor's. It will, however, continue to monitor developments. Eagle also has interest-bearing deposits in other banks and stock in the FHLB of Seattle.

The following table summarizes investment securities:

	At June 30,					
	2014			2013		
	Fair Value	Percentage of Total		Fair Value	Percentage of Total	
	(Dollars in Thousands)					
Securities available-for-sale:						
U.S. Government and agency obligations	$41,306	21.51	%	$50,931	22.81	%
Corporate obligations	5,964	3.11	%	9,061	4.06	%
Municipal obligations	80,364	41.85	%	84,436	37.82	%
Collateralized mortgage obligations	32,761	17.06	%	47,633	21.33	%
Mortgage-backed securities	29,158	15.18	%	26,902	12.05	%
Total securities available-for-sale	189,553	98.70	%	218,963	98.07	%
Interest-bearing deposits	611	0.32	%	2,385	1.07	%
FHLB capital stock, at cost	1,878	0.98	%	1,931	0.86	%
Total	$192,042	100.00	%	$223,279	100.00	%

The following table sets forth information regarding the values, weighted average yields and maturities of investment securities:

	At June 30, 2014										
	One Year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Investment Securities		
	Fair Value	Annualized Weighted Average Yield	Fair Value	Annualized Weighted Average Yield	Fair Value	Annualized Weighted Average Yield	Fair Value	Annualized Weighted Average Yield	Fair Value	Approximate Market Value	Annualized Weighted Average Yield
	(Dollars in Thousands)										
Securities available-for-sale:											
U.S. government and agency obligations	$518	2.38%	$4,411	1.61%	$1,909	2.07%	$34,468	2.17%	$41,306	$41,306	2.11%
Corporate obligations	-	-	2,003	1.60	3,961	1.73	-	-	5,964	5,964	1.69
Municipal obligations	1,013	4.82	1,355	2.19	10,941	3.03	67,055	3.84	80,364	80,364	3.71
Private collateralized mortgage obligations	-	-	-	-	-	-	-	-	-	-	-
Collateralized mortgage obligations	-	-	4,584	1.42	12,054	2.00	16,123	2.45	32,761	32,761	2.14
Mortgage-backed securities	-	-	10	5.10	3,923	1.52	25,225	3.34	29,158	29,158	3.10
Total securities available-for-sale	1,531	3.99	12,363	1.60	32,788	2.26	142,871	3.19	189,553	189,553	2.93
Interest-bearing deposits	611	0.51	-	-	-	-	-	-	611	611	0.51
Federal funds sold	-	-	-	-	-	-	-	-	-	-	-
FHLB capital stock	-	-	-	-	1,878	0.10	-	-	1,878	1,878	0.10
Total	$2,142	3.00%	$12,363	1.60%	$34,666	2.14%	$142,871	3.19%	$192,042	$192,042	2.90%

SOURCES OF FUNDS

General.

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

Deposits.

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

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

Deposits are obtained primarily from residents of Helena, Bozeman, Butte, Townsend, Billings, Missoula, Livingston, Big Timber and Hamilton. We believe we are able to attract deposit accounts by offering outstanding service, competitive interest rates and convenient locations and service hours. We use traditional methods of advertising to attract new customers and deposits, including radio, television, print media advertising and sales training and incentive programs for employees. Management believes that non-residents of Montana hold an insignificant number and amount of deposit accounts.

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

Core deposits are deposits that are more stable and somewhat less sensitive to rate changes. They also represent a lower cost source of funds than rate sensitive, more volatile accounts such as certificates of deposit. We believe that our core deposits are our checking, as well as NOW accounts, savings accounts, money market accounts and IRA accounts. Based on our historical experience, we include IRA accounts funded by certificates of deposit as core deposits because they exhibit the principal features of core deposits in that they are stable and generally are not rate sensitive. Core deposits amounted to $310.82 million or 72.8% of the Bank's deposits at June 30, 2014 (this amount would be $274.85 million or 64.4% if IRA certificates of deposit are excluded). The presence of a high percentage of core deposits and, in particular, transaction accounts reflects in part our strategy to restructure our liabilities to more closely resemble the lower cost liabilities of a commercial bank. However, a significant portion of our deposits remains in certificate of deposit form. These certificates of deposit, if they mature and are renewed at higher rates, would result in an increase in our cost of funds.

The following table includes deposit accounts and the associated weighted average interest rates for each category of deposits:

	At June 30,					
	2014			2013		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in Thousands)					
Noninterest checking	$ 58,432	13.68 %	0.00 %	$ 52,972	12.68 %	0.00 %
Savings	60,493	14.17 %	0.05 %	56,051	13.42 %	0.05 %
NOW account/interest bearing checking	68,033	15.93 %	0.03 %	65,876	15.77 %	0.04 %
Money market accounts	87,892	20.58 %	0.12 %	85,361	20.43 %	0.13 %
Total	274,850	64.36 %	0.06 %	260,260	62.30 %	0.07 %
Certificates of deposit accounts:						
IRA certificates	35,967	8.42 %	1.08 %	37,141	8.89 %	1.14 %
Brokered certificates	4,195	0.98 %	1.80 %	-	0.00 %	0.00 %
Other certificates	112,033	26.23 %	0.85 %	120,350	28.81 %	0.98 %
Total certificates of deposit	152,195	35.64 %	0.93 %	157,491	37.70 %	1.02 %
Total deposits	$ 427,045	100.00 %	0.37 %	$ 417,751	100.00 %	0.42 %

The following table includes amounts and maturities of certificates of deposits as of June 30, 2014, for the maturity dates indicated:

	June 30, 2015	June 30, 2016	June 30, 2017	After June 30, 2017	Total
under 0.51%	$ 56,031	$ 1,427	$ -	$ -	$ 57,458
0.51-0.75%	15,136	4,568	879	-	20,583
0.76-1.00%	10,680	5,231	6,517	698	23,126
1.01-1.25%	7,190	4,694	728	5,414	18,026
1.26-1.50%	601	801	712	6,045	8,159
1.51-2.00%	754	1,806	4,082	4,315	10,957
2.01% and higher	7,912	4,638	1,336	-	13,886
Total	$ 98,304	$ 23,165	$ 14,254	$ 16,472	$ 152,195

The following table shows the amount of certificates of deposit with balances of $100,000 to $250,000 and greater than $250,000 by time remaining until maturity as of June 30, 2014:

	Balance		
	$100 - $250	Greater than $250	Total
		(In Thousands)	
3 months or less	$ 8,479	$ 917	$ 9,396
Over 3 to 6 months	5,298	4,087	9,385
Over 6 to 12 months	13,381	4,841	18,222
Over 12 months	16,252	10,596	26,848
Total	$ 43,410	$ 20,441	$ 63,851

The following table includes net changes in deposit accounts:

	Years Ended June 30,	
	2014	2013
	(Dollars in thousands)	
Beginning balance, July 1, 2013	$ 417,751	$ 219,989
Deposits, net	7,694	14,170
Acquired deposits in branch acquisition	-	182,463
Interest credited	1,600	1,129
Ending balance, June 30, 2014	$ 427,045	$ 417,751
Net increase	$ 9,294	$ 197,762
Percent increase	2.22 %	89.90 %
Weighted average cost of deposits during the period	0.35 %	0.41 %
Weighted average cost of deposits at end of period	0.37 %	0.42 %

Our depositors are primarily residents of the state of Montana.

Borrowings.
Deposits are the primary source of funds for our lending and investment activities and for general business purposes. However, as the need arises, or in order to take advantage of funding opportunities, we also borrow funds in the form of advances from the FHLB of Seattle and other borrowings from PNC Financial Services, Inc. (PNC) to supplement our supply of lendable funds and to meet deposit withdrawal requirements.

During the fiscal year ended June 30, 2006, our predecessor entity formed a special purpose subsidiary, Eagle Bancorp Statutory Trust I (the "Trust"), for the purpose of issuing trust preferred securities in the amount of $5.0 million. Our predecessor entity has issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the trust preferred securities. Upon the closing of the second-step conversion and reorganization, we assumed the obligations of our predecessor in connection with the subordinated debentures and trust preferred securities. For regulatory purposes, the securities qualify as Tier 1 Capital, while for accounting purposes they are recorded as long term debt. The securities have a 30 year maturity and carried a fixed coupon of 6.02% for the first five years, at which time the coupon became variable, at a spread of 142 basis points over 3 month LIBOR. At June 30, 2014 the rate was 1.651%.

The following table includes information related to concerning borrowings from the FHLB of Seattle and PNC:

	Years Ended June 30, 2014		2013	
	(Dollars in Thousands)			
FHLB advances:				
Average balance	$ 28,692		$ 31,962	
Maximum balance at any month-end	49,404		41,249	
Balance at period end	49,404		33,996	
Weighted average interest rate during the period	2.24	%	2.73	%
Weighted average interest rate at period end	1.20	%	2.23	%
Repurchase agreements:				
Average balance	$ -		$ 1,668	
Maximum balance at any month-end	-		5,000	
Balance at period end	-		-	
Weighted average interest rate during the period	0.00	%	4.89	%
Weighted average interest rate at period end	0.00	%	0.00	%
Other:				
Average balance	$ 3,926		$ 505	
Maximum balance at any month-end	12,070		865	
Balance at period end	2,050		865	
Weighted average interest rate during the period	0.51	%	1.00	%
Weighted average interest rate at period end	0.65	%	1.00	%
Total borrowings:				
Average balance	$ 32,618		$ 33,626	
Maximum balance at any month-end	51,454		41,249	
Balance at period end	51,454		34,861	
Weighted average interest rate during the period	2.04	%	2.70	%
Weighted average interest rate at period end	1.17	%	2.20	%

SUBSIDIARY ACTIVITY

We are permitted to invest in the capital stock of, or originate secured or unsecured loans to, subsidiary corporations. The following are subsidiaries of the Company: American Federal Savings Bank, Eagle Bancorp Statutory Trust I, and AFSB NMTC Investment Fund, LLC, which is a subsidiary of the Bank.

Personnel

As of June 30, 2014, we had 167 full-time employees and 10 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees to be good.

REGULATION

Set forth below is a brief description of certain laws and regulations applicable to Eagle and American Federal. These descriptions of laws and regulations as well as those contained elsewhere do not purport to be complete and are qualified in their entirety by reference to applicable laws and regulations. Legislative or regulatory changes in the future could adversely affect our operations or financial condition.

General

As a federally-chartered savings institution, American Federal is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC") which assumed jurisdiction over Eagle and American Federal after the close of Eagle's June 30, 2011 fiscal year as its primary federal regulator, and the FDIC, as the insurer of its deposits. American Federal is a member of the Federal Home Loan Bank, or FHLB, System, and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the FDIC. There are periodic examinations to evaluate American Federal's safety and soundness and compliance with various regulatory requirements. Under certain circumstances, the FDIC may also examine American Federal. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate allowance for loan losses for regulatory purposes. Eagle, as a savings and loan holding company, is required to file certain reports with, is subject to examination by, and otherwise comply with the rules and regulations of Federal Reserve Board. Eagle is also subject to the rules and regulations of the SEC under the federal securities laws. See "—Holding Company Regulation."

Dodd-Frank Act

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act has significantly changed the bank regulatory structure and affected the lending, investment, trading and operating activities of financial institutions and their holding companies. One important change was the transfer of regulatory jurisdiction over federal savings association regulation from the Office of Thrift Supervision to the OCC. The FDIC will regulate state-chartered savings associations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. This effect on operations cannot yet be assessed fully. However, there is a significant possibility that the Dodd-Frank Act will, in the long run, increase regulatory burden, compliance cost and interest expense for Eagle and the Bank.

On July 21, 2011, under the requirements of the Dodd-Frank Act, our primary federal regulator, the Office of Thrift Supervision, was merged with and into the Office of the Comptroller of the Currency (the primary federal regulator for national banks). As a result, shortly after the conclusion of Eagle's fiscal year of June 30, 2011, all federal savings associations (including American Federal) came under the principal jurisdiction of a different, federal bank regulatory agency, the OCC, which has historically regulated the national banks. The OCC has extensive experience in the regulation of community banks such as American Federal but it is unclear without more experience how the change in federal regulatory agencies will impact American Federal. American Federal will retain its federal thrift charter under the OCC, but may evaluate other charter options in the future. The Dodd-Frank Act also authorizes the Board of Governors of the Federal Reserve System to supervise and regulate all savings and loan holding companies like Eagle, in addition to bank holding companies which it currently regulates. As a result, the Federal Reserve Board's current regulations applicable to bank holding companies, including, in the future, holding company capital requirements, will apply to savings and loan holding companies like Eagle. The capital requirements are expected to take effect in five years. The Dodd-Frank Act will require the Federal Reserve Board to set minimum capital levels for depository institution holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as American Federal Savings Bank, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will continue to be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

The legislation also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. Lastly, the Dodd-Frank Act directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

Federal Regulation of Savings Institutions

The following description relates to both Eagle and American Federal's regulation through the completion of the fiscal year June 30, 2014, and a description of certain historical regulatory aspects.

Office of the Comptroller of the Currency. The Office of the Comptroller of the Currency, as a result of the Dodd-Frank Act, has assumed regulatory oversight over the Bank since the elimination of the Office of Thrift Supervision as a separate regulatory agency. American Federal is required to file periodic reports with the Office of the Comptroller of the Currency and is subject to periodic examinations. The Office of the Comptroller of the Currency has extensive enforcement authority over national banks and savings institutions such as the Bank. Authority over Eagle, which formerly resided with the Office of Thrift Supervision, has been transferred to the Federal Reserve Board as a result of enactment of the Dodd-Frank Act. Enforcement authority over Eagle includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders and initiate prompt corrective action orders. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with federal bank regulatory agencies. Except under certain circumstances, public disclosure of final enforcement actions is required.

In addition, the investment, lending and branching authority of American Federal also are prescribed by federal laws, which prohibit American Federal from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the Office of the Comptroller of the Currency. Federal savings institutions are generally authorized to branch nationwide. American Federal is in compliance with the noted restrictions.

American Federal pays assessments to the Office of the Comptroller of the Currency to fund its operations. The general assessments, paid on a semi-annual basis, are determined based on total assets, including consolidated subsidiaries.

American Federal's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and unimpaired surplus, if the loan is fully secured by certain readily marketable collateral, which is defined to include certain financial instruments and bullion, but generally does not include real estate.

The federal banking agencies, have adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to submit or implement an acceptable plan, the appropriate federal banking agency may issue an enforceable order requiring correction of the deficiencies.

Federal Home Loan Bank System. American Federal is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. As a member, American Federal is required to purchase and maintain a specified amount of shares of capital stock in the FHLB of Seattle.

The FHLBs have continued and continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of American Federal's FHLB stock may result in a corresponding reduction in American Federal's capital.

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

Savings institutions have authority to borrow from the Federal Reserve System “discount window”. American Federal maintains a “primary credit” facility at the Federal Reserve’s discount window.

Insurance of Deposit Accounts. Deposit accounts at American Federal are insured by the Federal Deposit Insurance Corporation, generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. American Federal’s deposits, therefore, are subject to Federal Deposit Insurance Corporation deposit insurance assessments. Assessments paid to the FDIC by American Federal and other banking institutions are used to fund the FDIC’s Federal Deposit Insurance Fund (“DIF”).

Insurance of Accounts and Regulation by the FDIC. As insurer of deposits in banks, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the Office of the Comptroller of the Currency an opportunity to take such action. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement with the FDIC. We are not aware of any practice, condition or violation that might lead to the termination of American Federal’s deposit insurance.

New Assessments Under Dodd-Frank. The FDIC assesses deposit insurance premiums on each insured institution quarterly based on annualized rates for one of four risk categories. As required by the Dodd-Frank Act, the FDIC adopted rules effective April 1, 2011, under which insurance premium assessments are based on an institution's total assets minus its tangible equity (defined as Tier I capital) instead of its deposits. Under these rules, an institution with total assets of less than $10 billion is assigned to a Risk Category and a range of initial base assessment rates applies to each category, subject to adjustment downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjustment upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Effective April 1, 2011, total base assessment rates will range from 2.5 to 9 basis points for Risk Category I, 9 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued by another FD1C-insured institution. The FDIC may increase or decrease its rates for each quarter by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

Minimum Reserve Ratios. The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio for the DIF. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act, The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset. In addition to the statutory minimum ratio, the FDIC must designate a reserve ratio, known as the designated reserve ratio, or DRR, which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future.

In addition to the assessment for deposit insurance, through 2019, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and as of the quarter ended March 31, 2012 was 0.66 basis points of assessable deposits.

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

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

On June 6, 2012, the Office of the Comptroller of the Currency and the other federal bank regulatory agencies issued a series of proposed rules to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" ("Basel III"). The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies ("banking organizations"). Among other things, the proposed rules establish a new common equity tier 1 minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The proposed rules also limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Adoption of the final rules has been delayed by the federal bank regulatory agencies based upon the volume of comments received on the proposed rules.

Prompt Corrective Action. Federal bank regulatory agencies are required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the Comptroller of the Currency is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." Regulations also require that a capital restoration plan be filed with the Comptroller of the Currency within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The Comptroller of the Currency also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. At June 30, 2014, American Federal's capital ratios met the "well capitalized" standards.

Limitations on Capital Distributions. Federal banking regulations impose various restrictions on institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as American Federal, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision may have its dividend authority restricted.

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

Qualified Thrift Lender Test. All savings institutions, including American Federal, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code ("Code"). Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. The Dodd-Frank Act made noncompliance with the QTL test also subject to agency enforcement action for a violation of law. As of June 30, 2014, American Federal met the qualified thrift lender test.

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

The Comptroller of the Currency may determine that the continuation by a savings institution of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the association or is inconsistent with sound banking practices or with the purposes of the FDIC. Based upon that determination, the FDIC or the Comptroller of the Currency has the a