EAGLE BANCORP/MT
Form 10QSB
November 12, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________________ to ________________.

Commission file number 0-29687

Eagle Bancorp
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| United States | 81-0531318 |
| (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)

(406) 442-3080
(Issuer's telephone number)

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

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [] No[]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common stock, par value $0.01 per share 1,205,172 shares outstanding
As of November 8, 2002

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

EAGLE BANCORP AND SUBSIDIARY

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | September 30, 2002 | June 30, 2002 |
|---|---|---|
| | (Unaudited) | (Audited) |
| ASSETS | | |
| Cash and due from banks | $ 3,014,300 | $ 2,836,853 |
| Interest-bearing deposits with banks | 7,886,647 | 7,786,136 |
| Total cash and cash equivalents | 10,900,947 | 10,622,989 |
| Investment securities available-for-sale, at market value | 58,193,714 | 50,153,872 |
| Investment securities held-to-maturity, at amortized cost | 3,568,632 | 3,875,124 |
| Federal Home Loan Bank stock, at cost | 1,610,100 | 1,586,200 |

| | | |
|---|---|---|
| Mortgage loans held-for-sale | 2,215,846 | 1,352,121 |
| Loans receivable, net of deferred loan fee and allowance for loan losses | 103,151,452 | 105,623,213 |
| Accrued interest and dividends receivable | 1,005,851 | 998,378 |
| Mortgage servicing rights | 1,691,547 | 1,588,318 |
| Property and equipment, net | 6,245,208 | 6,291,382 |
| Cash surrender value of life insurance | 2,270,510 | 2,244,453 |
| Real estate acquired in settlement of loans, net of allowance for losses | -- | -- |
| Other assets | 520,428 | 245,417 |
| Total assets | $191,374,235 | $184,581,467 |

See accompanying notes to consolidated financial statements.



EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Continued)

| | September 30, 2002 | June 30, 2002 |
|---|---|---|
| | (Unaudited) | (Audited) |
| LIABILITIES | | |
| Deposit accounts: | | |
| Noninterest bearing | $ 8,140,067 | $ 6,835,235 |
| Interest bearing | 148,905,276 | 144,769,504 |
| Advances from Federal Home Loan Bank | 9,318,889 | 9,343,889 |
| Accrued expenses and other liabilities | 2,664,738 | 1,929,962 |
| Total liabilities | 169,028,970 | 162,878,590 |
| EQUITY | | |
| Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding) | -- | -- |
| Common stock (par value $0.01per share; 10,000,000 shares authorized; 1,223,572 shares issued; 1,206,472 and 1,208,172 shares outstanding at September 30, 2002 and June 30, 2002, respectively) | 12,236 | 12,236 |
| Additional paid-in capital | 3,899,872 | 3,885,903 |
| Unallocated common stock held by employee stock ownership plan ("ESOP") | (266,848) | (276,048) |
| Treasury stock, at cost (17,100 and 15,400 shares at September 30, 2002 and June 30, 2002, respectively) | (214,100) | (180,950) |
| Retained earnings | 18,502,225 | 17,957,601 |
| Accumulated other comprehensive income | 411,880 | 304,135 |
| Total stockholders' equity | 22,345,265 | 21,702,877 |
| Total liabilities and stockholders' equity | $191,374,235 | $ 184,581,467 |

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended | |
|---|---|---|
| | Sept. 30 (unaudited) | Sept. 30 |
| | 2002 | 2001 |
| Interest and Dividend Income: | | |
| Interest and fees on loans | $2,070,579 | $2,376,020 |
| Interest on deposits with banks | 32,645 | 66,848 |
| Securites held-to-maturity | 49,320 | 90,831 |
| Securities available-for-sale | 608,517 | 303,136 |
| FHLB Stock dividends | 23,989 | 28,147 |
| Total interest and dividend income | 2,785,050 | 2,864,982 |
| Interest Expense: | | |
| Deposits | 978,026 | 1,224,689 |
| FHLB Advances | 147,082 | 178,809 |
| Total interest expense | 1,125,108 | 1,403,498 |
| Net Interest Income | 1,659,942 | 1,461,484 |
| Loan loss provision | -- | -- |
| Net interest income after loan loss provision | 1,659,942 | 1,461,484 |
| Noninterest income: | | |
| Net gain on sale of loans | 309,163 | 171,118 |
| Demand deposit service charges | 128,860 | 125,563 |
| Mortgage loan servicing fees | 96,072 | 15,332 |
| Net gain (loss) on sale of available for sale securities | -- | -- |
| Other | 100,920 | 92,209 |
| Total noninterest income | 635,015 | 404,222 |

See accompanying notes to consolidated financial statements



EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Continued)

| | Three Months Ended | |
|---|---|---|
| | Sept. 30 (unaudited) | Sept. 30 |
| | 2002 | 2001 |

| | | |
|---|---|---|
| Noninterest expense: | | |
| Salaries and employee benefits | 723,224 | 733,467 |
| Occupancy expenses | 129,941 | 113,749 |
| Furniture and equipment depreciation | 53,297 | 68,144 |
| Inhouse computer expense | 54,836 | 49,499 |
| Advertising expense | 33,295 | 31,526 |
| Amortization of mtg servicing fees | 97,828 | 68,709 |
| Federal insurance premiums | 6,276 | 6,126 |
| Postage | 28,162 | 29,753 |
| Legal,accounting, and examination fees | 26,716 | 22,992 |
| Consulting fees | 5,880 | 7,356 |
| ATM processing | 11,589 | 10,561 |
| Other | 182,711 | 181,920 |
| Total noninterest expense | 1,353,755 | 1,323,802 |
| Income before provision for income taxes | 941,202 | 541,904 |
| Provision for income taxes | 323,820 | 195,242 |
| Net income | $ 617,382 | $ 346,662 |
| Basic earnings per common share | $ 0.53 | $ 0.30 |
| Diluted earnings per common share | $ 0.52 | $ 0.29 |
| Weighted average shares outstanding (basic eps) | 1,173,041 | 1,164,857 |
| Weighted average shares outstanding (diluted eps) | 1,189,457 | 1,184,857 |

See accompanying notes to consolidated financial statements



EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended September 30, 2002
(Unaudited)

| | PREFERRED STOCK | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ESOP SHARES | UNALLOCATED TREASURY STOCK | RETA EARN |
|---|---|---|---|---|---|---|
| Balance, June 30, 2002 | $-- | $ 12,236 | $ 3,885,903 | $ (276,048) | $ (180,950) | $ 17,9 |
| Net income | -- | -- | -- | -- | -- | 6 |
| Other comprehensive income | -- | -- | -- | -- | -- | |
| Total comprehensive income | -- | -- | -- | -- | -- | |
| Dividends paid ($.13 per share) | -- | -- | -- | -- | -- | ( |
| Treasury stock purchased (1,700 | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| shares @ $19.50/sh) | -- | -- | -- | -- | (33,150) | |
| ESOP shares allocated or committed to be released for allocation (1,150 shares) | -- | -- | 13,969 | 9,200 | -- | |
| Balance, September 30, 2002 | $-- | $ 12,236 | $ 3,899,872 | $ (266,848) | $ (214,100) | $ 18,5 |

See accompanying notes to consolidated financial statements



EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Mont Septemb 2002 (unaudi | |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 617,382 | $ |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Provision for mortgage servicing rights valuation losses | -- | |
| Depreciation | 101,295 | |
| Net amortization of marketable securities premium and discounts | 121,982 | |
| Amortization of capitalized mortgage servicing rights | 97,828 | |
| Gain on sale of loans | (309,163) | |
| FHLB & other dividends reinvested | (60,084) | |
| Increase in cash surrender value of life insurance | (26,057) | |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accrued interest and dividends receivable | (7,473) | |
| Loans held-for-sale | (548,068) | |
| Other assets | (275,011) | |
| Increase (decrease) in liabilities: | | |
| Accrued expenses and other liabilities | 354,496 | |
| Deferred compensation payable | 12,306 | |
| Deferred income taxes payable | 323,819 | |
| Net cash provided by (used in) operating activities | 403,252 | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of securities: | | |
| Investment securities available-for-sale | (10,415,566) | |
| Proceeds from maturities, calls and principal payments: | | |
| Investment securities held-to-maturity | 303,595 | |
| Investment securities available-for-sale | 2,461,397 | |
| Net (increase) decrease in loan receivable, excludes transfers to real estate acquired in settlement of loans | 2,270,704 | |
| Purchase of property and equipment | (55,121) | |

| | | |
|---|---|---|
| Net cash used in investing activities | (5,434,991) | |

See accompanying notes to consolidated financial statements



EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

| | Three Months Ended September 30, 2002 | 2001 |
|---|---|---|
| | (unaudited) | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in checking and savings accounts | 5,440,605 | 4,221,168 |
| Payments on FHLB advances | (25,000) | (25,000) |
| Sale (Purchase) of Treasury Stock | (33,150) | |
| Dividends paid | (72,758) | (55,507) |
| Net cash provided by financing activities | 5,309,697 | 4,140,661 |
| Net increase (decrease) in cash | 277,958 | (591,161) |
| CASH AND CASH EQUIVALENTS, beginning of period | 10,622,989 | 8,352,038 |
| CASH AND CASH EQUIVALENTS, end of period | $ 10,900,947 | $ 7,760,877 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | $ 1,131,334 | $ 1,348,980 |
| Cash paid during the period for income taxes | $ 1,084 | $ 76,088 |
| NONCASH INVESTING ACTIVITIES: | | |
| (Increase) decrease in market value of securities available-for-sale | $ (168,572) | $ (206,079) |
| Mortgage servicing rights capitalized | $ 201,058 | $ 66,786 |

See accompanying notes to consolidated financial statements



EAGLE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions for Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, such information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for the unaudited interim periods.

The results of operations for the three month period ended September 30, 2002 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2003 or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle's Form 10-KSB dated June 30, 2002.



EAGLE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

| | September 30, 2002 (Unaudited) | | | June 30, 2 | |
|---|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS(LOSSES) | FAIR VALUE | AMORTIZED COST | G UNR GAIN |
| Available-for-sale: | | | | | |
| U.S. government and agency obligations | $ 6,859,505 | $ 161,297 | $ 7,020,802 | $ 6,963,730 | $ |
| Municipal obligations | 4,300,927 | 109,159 | 4,410,086 | 4,301,732 | |
| Corporate obligations | 8,029,009 | 231,001 | 8,260,010 | 8,548,317 | |
| Mortgage-backed securities | 13,843,244 | 38,990 | 13,882,234 | 6,505,009 | |
| Mutual Funds | 4,611,563 | 4,608 | 4,616,171 | 4,575,378 | |
| Collateralized mortgage obligations | 17,953,011 | 145,939 | 18,098,950 | 16,829,068 | |
| Corporate preferred stock | 1,952,458 | (46,997) | 1,905,461 | 1,955,215 | |
| Total | $57,549,717 | $ 643,997 | $58,193,714 | $49,678,449 | $ |
| Held-to-maturity: | | | | | |
| Municipal obligations | $ 1,353,784 | $ 67,482 | $ 1,421,266 | $ 1,354,531 | $ |
| Mortgage-backed securities | 2,214,848 | 91,045 | 2,305,893 | 2,520,593 | |
| Total | $ 3,568,632 | $ 158,527 | $ 3,727,159 | $ 3,875,124 | $ |

EAGLE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

| | September 30, 2002 (Unaudited) | June 30, 2002 (Audited) |
|---|---|---|
| First mortgage loans: | | |
| Residential mortgage (1-4 family) | $ 63,063,771 | $ 66,958,637 |
| Commercial real estate | 9,156,505 | 9,454,674 |
| Real estate construction | 3,159,484 | 2,931,032 |
| Other loans: | | |
| Home equity | 14,671,430 | 14,235,907 |
| Consumer | 10,697,251 | 10,023,869 |
| Commercial | 3,219,205 | 2,842,782 |
| Total | 103,967,646 | 106,446,901 |
| Less: | | |
| Allowance for loan losses | (697,481) | (702,705) |
| Deferred loan fees | (118,713) | (120,983) |
| Total | $ 103,151,454 | $ 105,623,213 |

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were $466,000 and $528,000 at September 30, 2002 and June 30, 2002, respectively. Classified assets, including real estate owned, totaled $1.33 million and $1.66 million at September 30, 2002 and June 30, 2002, respectively.

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

| | Three Months Ended September 30, 2002 (Unaudited) | Year Ended June 30, 2002 (Audited) |
|---|---|---|
| Balance, beginning of period | $ 702,705 | $ 688,282 |
| Transfer from interest reserve | - | 6,510 |
| Provision charged to operations | - | - |
| Charge-offs | (6,871) | (29,390) |
| Recoveries | 1,647 | 35,303 |
| Balance, end of period | $ 697,481 | $ 702,705 |

EAGLE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. DEPOSITS

Deposits are summarized as follows:

| | September 30, 2002 (Unaudited) | June 30, 2002 (Audited) |
|---|---|---|
| Noninterest checking | 8,140,067 | 6,835,235 |
| Interest-bearing checking | 25,564,201 | 24,908,989 |
| Passbook | 22,973,609 | 22,464,984 |
| Money market | 27,738,407 | 27,568,930 |
| Time certificates of deposit | 72,629,059 | 69,826,601 |
| Total | 157,045,343 | 151,604,739 |

NOTE 5. EARNINGS PER SHARE

Basic earnings per share for the three months ended September 30, 2002 is computed using 1,173,041 weighted average shares outstanding. Diluted earnings per share is computed by adjusting the number of shares outstanding by the shares purchased to fund the Company's restricted stock plan, for which stock was awarded in January 2001, as determined by the treasury stock method. The weighted average shares outstanding for the diluted earnings per share calculations are 1,189,457 for the three months ended September 30, 2002. Basic earnings per share for the three months ended September 30, 2001 is computed using 1,164,857 weighted average shares outstanding. Diluted earnings per share for the three months ended September 30, 2001 is computed using 1,184,857 weighted average shares outstanding.

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EAGLE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM

This fiscal year Eagle has paid one dividend of $0.13 per share, on August 23, 2002. A dividend of $0.13 per share was declared on October 17, 2002, payable November 15, 2002 to stockholders of record on November 1, 2002. Eagle Financial MHC, Eagle's mutual holding company, has waived the receipt of dividends on its 648,493 shares.

At the annual meeting held October 19, 2000, shareholders approved stock option and restricted stock plans for the Company covering aggregate grants of up to 80,511 and 23,003 shares, respectively. A stock repurchase program was announced on December 21, 2000, covering 4% of the Company's outstanding common stock, with the intent of meeting the needs of the restricted stock plan. On January 18, 2002, 4,600 shares of the restricted stock plan vested and were distributed to the participants. Through November 8, 2002, 23,000 shares had been repurchased, completing the repurchase program.

EAGLE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7. MORTGAGE SERVICING RIGHTS

The Bank allocates its total cost in mortgage loans between mortgage servicing rights and loans, based upon their relative fair values, when loans are subsequently sold or securitized, with the servicing rights retained. Fair values are generally obtained from an independent third party. Impairment of mortgage servicing rights is measured based upon the characteristics of the individual loans, including note rate, term, underlying collateral, current market conditions, and estimates of net servicing income. If the carrying value of the mortgage servicing rights exceeds the estimated fair market value, a valuation allowance is established for any decline, which is viewed to be temporary. Charges to the valuation allowance are charged against or credited to mortgage servicing income. Periodic independent valuations of the mortgage servicing rights are performed. As a result of valuations performed on September 30, 2001 and May 31, 2002, a temporary decline in the fair value was determined to have occurred, and a valuation allowance of $21,515 has been established. The following schedules show the activity in the mortgage servicing rights and the valuation allowance.

| | Three months ended September 30, 2002 (Unaudited) | Twelve months ended June 30, 2002 (Audited) |
|---|---|---|
| Mortgage Servicing Rights | | |
| Beginning balance | $ 1,609,833 | $ 1,315,819 |
| Servicing rights capitalized | 201,057 | 618,085 |
| Servicing rights amortized | (97,828) | (324,071) |
| Ending Balance | 1,713,062 | 1,609,833 |
| Valuation Allowance | | |
| Beginning balance | 21,515 | -- |
| Provision | -- | 21,515 |
| Adjustments | -- | -- |
| Ending balance | 21,515 | 21,515 |
| Net Mortgage Servicing Rights | $ 1,691,547 | $ 1,588,318 |



EAGLE BANCORP AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Note Regarding Forward-Looking Statements

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

Financial Condition

Comparisons of quarterly results in this section are between the three months ended September 30, 2002 and June 30, 2002.

Total assets increased by $6.79 million, or 3.68%, to $191.37 million at September 30, 2002, from $184.58 million at June 30, 2002. Total liabilities increased by $6.15 million to $169.03 million at September 30, 2002, from $162.88 million at June 30, 2002. Total equity increased $650,000 to $22.35 million at September 30, 2002 from $21.70 million at June 30, 2002.

The growth in assets was primarily in the available-for-sale (AFS) investment portfolio, which increased $8.04 million, or 16.03%, to $58.19 million at September 30, 2002 from $50.15 million at June 30, 2002. The investment category with the largest increase was mortgage-backed securities, which increased $7.31 million. The loan portfolio decreased $2.47 million, or 2.34%, to $103.15 million at September 30, 2002 from $105.62 million at June 30, 2002. Continued refinancing activity and the sale of predominantly all new originations contributed to the decline in single-family mortgage loans to $63.06 million at September 30, 2002 from $66.96 million at June 30, 2002. Commercial real estate loans declined slightly, while all other loan





Financial Condition (continued)

categories showed moderate increases. Total loan originations were $32.01 million for the three months ended September 30, 2002, with single family mortgages (including $1.33 million of construction loans) accounting for $25.53

million of the total. Consumer loan and home equity loan originations totaled $2.91 million and $2.61 million, respectively, for the same period. Loans held for sale increased to $2.22 million at September 30, 2002 from $1.35 million at June 30, 2002.

Growth in deposits funded asset growth. Deposits grew $5.44 million, or 3.59%, to $157.05 million at September 30, 2002 from $151.61 million at June 30, 2002. Growth in certificates of deposit and non-interest checking contributed to the increase in deposits. Other deposit types showed modest increases.

The growth in total equity was the result of earnings for the three months of $617,000 and an increase in the unrealized gain on securities available for sale of $108,000. This was partially offset by the payment of a $0.13 per share regular cash dividend.

Results of Operations for the Three Months Ended September 30, 2002 and 2001

Net Income. Eagle's net income was $617,000 and $347,000 for the three months ended September 30, 2002, and 2001, respectively. The increase of $270,000, or 77.81%, was primarily due to increases in noninterest income of $231,000 and net interest income of $198,000, partially offset by increases in noninterest expense of $30,000 and income tax expense of $129,000. Basic earnings per share were $0.53 for the current period, compared to $0.30 for the previous year's period.

Net Interest Income. Net interest income increased to $1.66 million for the quarter ended September 30, 2002 from $1.46 million for the quarter ended September 30, 2001. This increase of $198,000 was the result of a decrease in interest expense of $278,000, partially offset by the decrease in interest and dividend income of $80,000.

Interest and Dividend Income. Total interest and dividend income was $2.78 million for the quarter ended September 30, 2002, compared to $2.86 million for the quarter ended September 30, 2001, representing a decrease of $80,000, or 2.80%. Interest and fees on loans decreased to $2.07 million for the three months ended September 30, 2002 from $2.38 million for the same





period ended September 30, 2001. This decrease of $310,000, or 13.03%, was due primarily to the decrease in the average balances of loans receivable for the quarter ended September 30, 2002 and the decline in the average interest rate earned on loans. Average balances for loans receivable, net, for the quarter ended September 30, 2002 were $107.18 million, compared to $119.94 million for the previous year. This represents a decrease of $12.76 million, or 10.64%. All loan categories except real estate construction and commercial loans have shown decreases from the previous year. The average interest rate earned on loans receivable decreased by 19 basis points, from 7.92% at September 30, 2001 to 7.73% at September 30, 2002. Interest and dividends on investment securities available-for-sale (AFS) increased to $609,000 for the quarter ended September 30, 2002 from $303,000 for the same quarter last year. Average balances on investments increased significantly, to $57.66 million for the quarter ended September 30, 2002, compared to $28.01 million for the quarter ended September 30, 2001. The average interest rate earned on investments dropped to 4.57% from 5.63%. Interest on securities held to maturity (HTM) decreased from $91,000 to $49,000 as new purchases are placed in the AFS portfolio. Interest earned from deposits held at other banks decreased to $33,000 for the quarter ended September 30, 2002 from $67,000 for the quarter ended September 30, 2001, due to the significant drop in short-term interest rates.

Interest Expense. Total interest expense decreased to $1.12 million for the quarter ended September 30, 2002, from $1.40 million for the quarter ended September 30, 2001, a decrease of $278,000, or 19.86%, primarily due to a decrease in interest paid on deposits. Specifically, interest on deposits decreased to $978,000 for the quarter ended September 30, 2002, from $1.22 million for the quarter ended September 30, 2001. This decrease of $246,000, or 20.16%, was the result of a decrease in average rates paid on deposit accounts, despite higher balances. All deposit accounts showed decreases in average rates paid and also had increases in average balances in the current quarter compared to last year's quarter. Money market accounts and certificates of deposit incurred the largest increases in balances. The decline in interest rates over the past year combined with the poor performance of the stock market appears to have caused consumers to invest in safe, short-term insured deposits. Average balances in interest-bearing deposit accounts increased to $146.52 million for the quarter ended September 30, 2002, compared to $129.42 million for the same quarter in the previous year. The average rate paid on liabilities decreased 110 basis points from the quarter ended September 30, 2001 to the quarter ended September 30, 2002. Interest paid on borrowings decreased to $147,000 for the quarter ended September 30, 2002 from $179,000 for the quarter ended September 30, 2001. The decrease in borrowing costs was due to a decrease in the average balance of Federal Home Loan Bank advances.



EAGLE BANCORP AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended September 30, 2002 and 2001 (continued)

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by Eagle's subsidiary, American Federal Savings Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by American Federal, available peer group information, and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. No provision was made for loan losses for either the quarter ended September 30, 2002 or the quarter ended September 30, 2001. This is a reflection of the continued strong asset quality of American Federal's loan portfolio, as non-performing loan ratios continue to be below peer averages. Total classified assets declined from $1.66 million at June 30, 2002 to $1.33 million at September 30, 2002. The Bank currently has no foreclosed real estate.

Noninterest Income. Total noninterest income increased to $635,000 for the quarter ended September 30, 2002, from $404,000 for the quarter ended September

30, 2001, an increase of $231,000 or 57.18%. This was the result of an increase in net gain on sale of loans of $138,000. Increased loan originations compared to a year ago contributed to the increase in income from sale of loans. In addition, mortgage loan servicing fees increased to $96,000 for the current quarter from $15,000 for the previous year's quarter. An independent valuation of the Bank's mortgage servicing portfolio that was performed in September 2001 indicated a temporary decline in the value of the servicing rights in the amount of $58,000. A provision was made to a valuation allowance in that amount. Changes to the valuation allowance for mortgage servicing rights are charged against mortgage loan servicing fees, causing the lower amount of income in the quarter ended September 30, 2001. A subsequent valuation performed in May 2002 determined that the temporary decline had decreased to $21,515, and the valuation allowance was adjusted accordingly. The other categories of noninterest income registered small increases.

Noninterest Expense. Noninterest expense increased by $30,000 or 2.27% to $1.35 million for the quarter ended September 30, 2002, from $1.32 million for the quarter ended September 30, 2001. This increase was primarily due to an increase in amortization of mortgage servicing fees of $29,000. The increase in amortization of mortgage servicing fees was related to increased prepayment activity on mortgage loans. Occupancy expenses increased $16,000 due to higher maintenance costs. Furniture and equipment depreciation expense decreased $15,000 due to equipment becoming fully depreciated.



EAGLE BANCORP AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended September 30, 2002 and 2001 (continued)

Income Tax Expense. Eagle's income tax expense was $324,000 for the quarter ended September 30, 2002, compared to $195,000 for the quarter ended September 30, 2001. The effective tax rate for the quarter ended September 30, 2002 was 34.43% and was 35.98% for the quarter ended September 30, 2001. Management expects Eagle's effective tax rate to be approximately 35%.

Liquidity, Interest Rate Sensitivity and Capital Resources

The company's subsidiary, American Federal Savings Bank (the Bank), is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision (OTS) regulations. The OTS has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OTS states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses the previous regulatory definitions of liquidity. The Bank's average liquidity ratio was 23.39% and 16.60% for the months ended September 30, 2002 and September 30, 2001, respectively. Liquidity increased due to growth in deposits and the increased loan sale volume for the period ended September 30, 2002.

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

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





Liquidity, Interest Rate Sensitivity and Capital Resources (continued)

At June 30, 2002 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS, improved from the previous quarter.

The Bank's capital ratio as measured by the OTS also increased during the same period. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of September 30, 2002, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2002, the Bank's tangible, core, and risk-based capital ratios amounted to 10.88%, 10.88%, and 19.82%, respectively, compared to minimum regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

| | At September 30, 2002 | |
|---|---|---|
| | Dollar Amount | % of Assets |
| Tangible capital: | | |
| Capital level | $ 20,622 | 10.88% |
| Requirement | 2,844 | 1.50 |
| Excess | $ 17,778 | 9.38% |
| Core capital: | | |
| Capital level | 20,622 | 10.88% |
| Requirement | 5,688 | 3.00 |
| Excess | $ 14,934 | 7.88% |
| Risk-based capital: | | |
| Capital level | 21,292 | 19.82% |
| Requirement | 8,596 | 8.00 |

| | | |
|---|---|---|
| Excess | $ 12,696 | 11.82% |



EAGLE BANCORP AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Impact of Inflation and Changing Prices

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



EAGLE BANCORP AND SUBSIDIARY
CONTROLS AND PROCEDURES

Based on their evaluation as of a date within 90 days prior to the filing of this Form 10-QSB, the company's Chief Executive Officer, Larry A. Dreyer, and Treasurer, Peter J. Johnson, have concluded the company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in the company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.



EAGLE BANCORP AND SUBSIDIARY

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.
Neither the Company nor the Bank is involved in any pending legal proceedings other than non-material legal proceedings occurring in the ordinary course of business.

Item 2. Changes in Securities and Use of Proceeds
Not applicable.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

The proxy statement for the Annual Meeting of Stockholders was mailed on September 13, 2002. The following matters were voted on at the meeting held on October 17, 2002:

1. Election of directors for three-year terms expiring in 2005:

| | For: | Against: |
|---|---|---|
| Larry A. Dreyer | 1,122,165 | 1,033 |
| Teresa L. Hartzog | 1,122,640 | 558 |

2. Ratification of appointment of Anderson ZurMuehlen & Co., P.C. as auditors for the fiscal year ended June 30, 2003:

| For: | Against: | Abstain: |
|---|---|---|
| 1,122,083 | 775 | 340 |

Item 5. Other Information.
None.

Item 6. Exhibits and Reports on Form 8-K

a.) Exhibits
Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b.) Reports on Form 8-K
None.



SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EAGLE BANCORP

Date: November 8, 2002

By: ____________________________
Larry A. Dreyer
President/CEO

Date: November 8, 2002

By: ____________________________
Peter J. Johnson
Sr. VP/Treasurer

EAGLE BANCORP AND SUBSIDIARY
CERTIFICATION PURSUANT TO
SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Larry A. Dreyer, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Eagle Bancorp;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal

controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

Larry A. Dreyer
President and Chief Executive Officer



EAGLE BANCORP AND SUBSIDIARY
CERTIFICATION PURSUANT TO
SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Peter J. Johnson, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Eagle Bancorp;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusion about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the

equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and



6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

Peter J. Johnson
Sr. VP/Treasurer and Chief Financial Officer