EAGLE BANCORP/MT
Form 10QSB
May 09, 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 March 31, 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 1,208,172 shares outstanding
As of May 10, 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

	March 31, 2002 (Unaudited)	June 30, 2001 (Audited)
ASSETS		
Cash and due from banks	$ 2,850,003	$ 3,427,038
Interest-bearing deposits with banks	6,285,332	4,925,000
Total cash and cash equivalents	9,135,335	8,352,038

Investment securities available for sale, at market value	43,136,336	21,603,520
Investment securities held-to-maturity, at amortized cost	4,709,886	6,570,794
Federal Home Loan Bank stock, at cost	1,562,900	1,487,300
Mortgage loans held-for-sale	1,910,055	3,033,244
Loans receivable, net of deferred loan fee and allowance for loan losses	107,947,811	114,977,895
Accrued interest and dividends receivable	988,028	941,117
Mortgage servicing rights, net	1,492,085	1,315,819
Property and equipment, net	6,264,564	6,505,627
Cash surrender value of life insurance	2,218,114	2,140,524
Real estate acquired in settlement of loans, net of allowance for losses	--	--
Other assets	226,633	195,034
Total assets	$179,591,747	$167,122,912

See accompanying notes to consolidated financial statements.

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

	March 31, 2002 (Unaudited)	June 30, 2001 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposit accounts:		
Noninterest bearing	$ 5,919,159	$ 6,486,306
Interest bearing	141,574,275	127,564,024
Advances from Federal Home Loan Bank	9,368,889	11,443,889
Accrued expenses and other liabilities	1,831,390	1,926,450
Total liabilities	158,693,713	147,420,669
Stockholders' Equity:		
Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)		
Common stock (par value $0.01 per share; 10,000,000 shares authorized; 1,223,572 shares issued and 1,208,172 outstanding at March 31, 2002 and 1,203,572 outstanding at June 30, 2001)	12,236	12,236
Additional paid-in capital	3,872,793	3,845,908
Unallocated common stock held by employee stock ownership plan ("ESOP")	(285,248)	(312,848)

Treasury stock, at cost (15,400 shares at March 31, 2002 and 20,000 shares at June 30,2001)	(180,950)	(235,000)
Retained earnings	17,505,970	16,220,812
Accumulated other comprehensive income (loss)	(26,767)	171,135
Total equity	20,898,034	19,702,243
Total liabilities and stockholders' equity	$179,591,747	$167,122,912

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
QUARTERLY CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
	(unaudited)		(unaudited)	
Interest and dividend income:				
Interest and fees on loans	$2,165,050	$2,294,079	$6,905,858	$6,848,557
Interest on deposits with banks	27,851	46,859	138,673	74,458
FHLB Stock dividends	22,787	23,060	75,733	68,951
Securities available-for-sale	430,175	314,536	1,080,061	887,452
Securities held-to-maturity	67,377	126,495	237,638	433,539
Total interest and dividend income	2,713,240	2,805,029	8,437,963	8,312,957
Interest expense:				
Deposits	1,044,883	1,297,021	3,419,933	3,829,644
FHLB Advances	144,716	185,926	498,806	497,291
Total interest expense	1,189,599	1,482,947	3,918,739	4,326,935
Net Interest Income	1,523,641	1,322,082	4,519,224	3,986,022
Loan loss provision	--	--	--	--
Net interest income after loan loss provision	1,523,641	1,322,082	4,519,224	3,986,022
Noninterest income:				
Net gain on sale of loans	324,974	87,636	897,131	218,914
Demand deposit service charges	127,025	125,016	380,828	398,845
Mortgage loan servicing fees	83,542	74,163	177,705	219,524

Net gain (loss) on sale of available-for-sale securities ..	14,653	4,755	16,629	4,755
Other	102,647	108,350	289,125	302,563
Total noninterest income	652,841	399,920	1,761,418	1,144,601

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY
QUARTERLY CONSOLIDATED STATEMENTS OF INCOME
(Continued)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
	(unaudited)		(unaudited)	
Noninterest expense:				
Salaries and employee benefits	$ 745,396	$ 741,461	$2,177,650	$2,103,716
Occupancy expenses	120,654	118,062	356,191	359,767
Furniture and equipment depreciation ..	71,554	82,523	210,924	247,769
In-house computer expense	55,614	44,461	153,992	133,370
Advertising expense	20,439	31,664	78,354	119,259
Amortization of mortgage servicing fees	76,820	33,704	250,612	89,806
Federal insurance premiums	6,221	6,077	18,435	18,471
Postage	34,752	34,771	86,524	81,967
Legal, accounting, and examination fees	33,769	36,048	105,938	134,964
Consulting fees	3,920	7,482	17,156	23,958
ATM processing	11,004	14,079	34,301	44,597
Other	182,819	150,037	567,585	507,852
Total noninterest expense	1,362,962	1,300,369	4,057,662	3,865,496
Income before provision for income taxes	813,520	421,633	2,222,980	1,265,127
Provision for income taxes	270,040	149,735	771,147	418,099
Net income	$ 543,480	$ 271,898	$1,451,833	$ 847,028
Earnings per share -- basic	$ 0.46	$ 0.23	$ 1.24	$ 0.72
Earnings per share -- diluted	$ 0.46	$ 0.23	$ 1.22	$ 0.72
Weighted average shares outstanding (basic eps)	1,171,683	1,169,701	1,167,517	1,177,178

Weighted average shares outstanding (diluted eps)	1,187,952	1,182,562	1,186,273	1,181,411

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Nine Months Ended March 31, 2002

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	R E
Balance, June 30, 2001	$ --	$12,236	$3,845,908	$(312,848)	$(235,000)	$16
Net income (unaudited)	--	--	--	--	--	1
Other comprehensive loss (unaudited)	--	--	--	--	--	
Total comprehensive income (unaudited)	--	--	--	--	--	
Dividends paid ($.30 per share) (unaudited)	--	--	--	--	--	
Restricted stock plan shares allocated (4,600 shares) (unaudited)	--	--	--	--	54,050	
ESOP shares allocated or committed to be released for allocation (3,450 shares) (unaudited)	--	--	26,885	27,600	--	
Balance, March 31, 2002 (unaudited)	$ --	$12,236	$3,872,793	$(285,248)	$(180,950)	$17

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended
March 31,

	2002	2001
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,451,833	$ 847,028
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	--	--
Provision for mortgage servicing rights valuation losses	58,433	--
Depreciation	356,304	390,835
Net amortization of marketable securities premium and discounts	99,564	28,846
Amortization of capitalized mortgage servicing rights	250,612	89,805
Gain on sale of loans	(897,131)	(218,914)
Gain on sale of real estate owned	--	(8,951)
Net realized (gain) loss on sale of available-for-sale securities	(16,629)	--
FHLB & other dividends reinvested	(124,880)	(68,800)
Increase in cash surrender value of life insurance	(77,590)	(73,910)
Gain on sale of property & equipment	(950)	--
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(46,911)	(157,161)
Loans held-for-sale	2,010,007	(1,506,627)
Other assets	(25,089)	43,603
Increase (decrease) in liabilities:		
Accrued expenses and other liabilities	148,737	(61,501)
Deferred compensation payable	18,232	17,305
Deferred income taxes payable	(82,736)	(7,108)
Net cash provided by (used in) operating activities	3,121,806	(685,550)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities:		
Investment securities held-to-maturity	(278,708)	(641,150)
Investment securities available-for-sale	(28,371,953)	(3,904,060)
Proceeds from maturities, calls and principal payments:		
Investment securities held-to-maturity	3,132,203	2,597,139
Investment securities available-for-sale	4,490,896	1,901,519

See accompanying notes to consolidated financial statements.

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

Nine Months Ended
March 31,

	2002	2001
	(unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES: (CONTINUED)		
Proceeds from sales of investment securities available-for-sale	1,010,755	201,396
Increase in interest-bearing deposits held at banks	(1,360,332)	--
Net (increase) decrease in loan receivable, excludes transfers to real estate acquired in settlement of loans	6,538,263	(6,916,112)
Proceeds from the sale of real estate aquired in the settlement of loans	--	129,957
Purchase of property and equipment	(115,242)	(54,717)
Proceeds from sale of equipment	950	--
Net cash used in investing activities	(14,953,168)	(6,686,028)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in checking and savings accounts	13,443,102	6,973,408
Net increase (decrease) in advances to borrowers for taxes and insurance	--	243,994
Net increase (decrease) in FHLB advances	(2,075,000)	3,425,000
Sale (purchase) of treasury stock	52,900	(235,000)
Dividends paid	(166,675)	(119,542)
Net cash provided by financing activities	11,254,327	10,287,860
Net increase (decrease) in cash	(577,035)	2,916,282
CASH AND CASH EQUIVALENTS, beginning of period	3,427,038	3,477,650
CASH AND CASH EQUIVALENTS, end of period	$ 2,850,003	$ 6,393,932
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 3,889,652	$ 3,869,803
Cash paid during the period for income taxes	$ 873,950	$ 429,500
NON-CASH INVESTING ACTIVITIES:		
(Increase) decrease in market value of securities available-for-sale	$ 311,244	$ (457,731)
Mortgage servicing rights capitalized	$ 485,311	$ 64,655

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 and nine month periods ended March 31, 2002 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2002 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, 2001.

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

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	March 31, 2002			June 30	
	AMORTIZED COST	GROSS UNREALIZED GAINS (LOSSES)	FAIR VALUE	AMORTIZED COST	UNR GAINS
Available-for-sale:					
U.S. government and agency obligations	$ 5,985,578	$ 14,984	$ 6,000,562	$ 4,566,644	$
Municipal obligations	4,301,920	(165,227)	4,136,693	4,303,574	(
Corporate obligations	6,956,424	139,122	7,095,546	7,114,917	1
Mortgage-backed securities .	9,719,827	24,958	9,744,785	4,029,519	
Collateralized mortgage obligations	14,278,598	(14,938)	14,263,660	1,190,586	
Corporate preferred stock ..	1,956,953	(61,863)	1,895,090	150,000	
Total	$43,199,300	$ (62,964)	$43,136,336	$21,355,240	$ 2

Held-to-maturity:

U.S. government and agency obligations	$ 499,328	$ 2,857	$ 502,185	$ 1,395,905	$
Municipal obligations	1,355,283	6,705	1,361,988	1,078,681	
Mortgage-backed securities .	2,855,275	63,510	2,918,785	4,096,208	
Total	$ 4,709,886	$ 73,072	$ 4,782,958	$ 6,570,794	$

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

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2002 (Unaudited)	June 30, 2001 (Audited)
First mortgage loans:		
Residential mortgage (1-4 family)	$ 69,506,223	$ 75,961,742
Commercial real estate	9,929,715	9,062,769
Real estate construction	3,218,981	1,981,968
Other loans:		
Home equity	13,978,083	15,698,367
Consumer	9,894,624	10,362,135
Commercial	2,281,889	2,720,740
Total	108,809,515	115,787,721
Less:		
Allowance for loan losses	(709,071)	(688,282)
Deferred loan fees	(152,633)	(121,544)
Total	$107,947,811	$114,977,895

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were $505,000 and $407,000 at March 31, 2002 and June 30, 2001, respectively. Classified assets, including real estate owned, totaled $1.56 million and $1.50 million at March 31, 2002 and June 30, 2001, respectively.

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

	Nine Months Ended March 31, 2002 (Unaudited)	Year Ended June 30, 2001 (Audited)
Balance, beginning of period	$688,282	$712,165
Reclassification to REO reserve	--	(13,725)

Transfer from interest reserve	6,510	--
Provision charged to operations	--	--
Charge-offs	(20,144)	(29,037)
Recoveries	34,423	18,879
Balance, end of period	$709,071	$688,282

NOTE 4. DEPOSITS

Deposits are summarized as follows:

	March 31, 2002 (Unaudited)	June 30, 2001 (Audited)
Noninterest checking	$ 5,919,159	$ 6,486,306
Interest-bearing checking	24,399,061	22,535,586
Passbook	23,589,438	20,688,121
Money market	25,422,895	17,399,325
Time certificates of deposit	68,162,881	66,940,992
Total	$147,493,434	$134,050,330

NOTE 5. EARNINGS PER SHARE

Basic earnings per share for the three months ended March 31, 2002 is computed using 1,171,683 weighted average shares outstanding. Basic earnings per share for the nine months ended March 31, 2002 is computed using 1,167,517 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 1,187,952 for the three months ended March 31, 2002 and 1,186,273 for the nine months ended March 31, 2002. Earnings per share for the three months ended March 31, 2001 is computed using 1,169,701 weighted average shares outstanding. Earnings per share for the nine months ended March 31, 2001 is computed using 1,177,178 weighted average shares outstanding.

NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM

This fiscal year Eagle has paid three dividends of $0.10 per share, on August 24, 2001, November 16, 2001, and February 15, 2002. Another dividend of $0.10 per share was declared on April 18, 2002, payable May 17, 2002 to stockholders of record on May 3, 2002. Eagle Financial MHC, Eagle's mutual holding company, has waived the receipt of dividends on its 648,493 shares.

A stock repurchase program was announced on December 21, 2000, covering 4% of the Company's outstanding common stock. Through May 10, 2002, 20,000 shares had been repurchased. 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, respectively. The repurchase plan announced in December is intended to meet 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.

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 a valuation performed on September 30, 2001, a temporary decline in the fair value was determined to have occurred, and a valuation allowance of $58,333 was established. There was no valuation allowance at June 30, 2001. The following schedules show the activity in the mortgage servicing rights and the valuation allowance.

	Nine Months Ended March 31, 2002 (Unaudited)	Twelve Months Ended June 30, 2001 (Audited)
Mortgage Servicing Rights		
Beginning balance	$1,315,819	$1,338,271
Servicing rights capitalized	485,311	150,029
Servicing rights amortized	(250,612)	(172,481)
Ending balance	1,550,518	1,315,819

Valuation Allowance		
Beginning balance	--	--
Provision	58,433	--
Adjustments	--	--
Ending balance	58,433	--
Net Mortgage Servicing Rights	$1,492,085	$1,315,819

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 results in this section are between the nine months ended March 31, 2002 and June 30, 2001.

Total assets increased by $12.47 million, or 7.46%, to $179.59 million at March 31, 2002, from $167.12 million at June 30, 2001. Total liabilities increased by $11.27 million to $158.69 million at March 31, 2002, from $147.42 million at June 30, 2001. Total equity increased $1.2 million to $20.90 million at March 31, 2002 from $19.70 million at June 30, 2001.

Growth in the available-for-sale investment portfolio of $21.54 million accounted for the majority of the growth in total assets. The investment category with the largest increase was collateralized mortgage obligations, which increased $13.07 million. The loan portfolio decreased $7.03 million, or 6.11%, to $107.95 million at March 31, 2002 from $114.98 million at June 30,

2001. Heavy refinancing activity and the sale of practically all new originations contributed to the decline in single-family mortgage loan balances to $69.51 million at March 31, 2002 from $75.96 million at June 30, 2001. The commercial real estate and construction loan categories showed increased balances, while all other loan categories showed small decreases since June 30, 2001. Total loan originations were $94.20 million for the nine months ended March 31, 2002. Single-family mortgages accounted for $70.24 million of the total.

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

Financial Condition (continued)

Commercial real estate loan originations totaled $6.98 million (including a $1.5 million construction loan not fully funded). Home equity and consumer loan originations totaled $6.05 million and $6.01 million, respectively, for the same period.

Growth in deposits funded asset growth. Deposits have grown $13.44 million, or 10.03%, to $147.49 million at March 31, 2002 from $134.05 million at June 30, 2001. Growth in money market accounts and checking accounts contributed to the increase in deposits. The balances in Federal Home Loan Bank advances declined $2.07 million, as an advance matured in December 2001.

The growth in total equity was the result of earnings for the nine months of $1.45 million, offset by an increase in the unrealized loss on securities available for sale of $198,000 and the payment of three $0.10 per share regular cash dividends during the period.

Results of Operations for the Three Months Ending March 31, 2002 and 2001

Net Income. Eagle's net income was $543,000 and $272,000 for the three months ended March 31, 2002, and 2001, respectively. The increase of $271,000, or 99.63%, was primarily due to increases in non-interest income of $253,000 and net interest income of $202,000, partially offset by increases in noninterest expense of $63,000 and income tax expense of $120,000. Basic earnings per share were $0.46 for the current period, compared to $0.23 for the previous year's period.

Net Interest Income. Net interest income increased to $1.52 million for the quarter ended March 31, 2002 from $1.32 million for the quarter ended March 31, 2001. This increase of $202,000 was the result of decreases in interest and dividend income of $91,000 and in interest expense of $293,000.

Interest and Dividend Income. Total interest and dividend income was $2.71 million for the quarter ended March 31, 2002, compared to $2.80 million for the quarter ended March 31, 2001, representing a decrease of $91,000, or 3.25%. Interest and fees on loans decreased to $2.16 million for 2002 from $2.29 million for 2001. This decrease of $130,000, or 5.68%, was due to a decrease in the average balances of loans receivable for the quarter ended March 31, 2002 and a decline in the average interest rate earned on loans. Average balances for loans receivable, net, for the quarter ended March 31, 2002 were $113.14 million, compared to $114.78 million for the previous year. This represents a decrease of $1.64 million, or 1.43%. Most loan categories had

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

Results of Operations for the Three Months Ended March 31, 2002 and 2001 (continued)

Interest and Dividend Income (continued)

shown decreases from the previous year. The average interest rate earned on loans receivable decreased by 34 basis points, from 7.99% at March 31, 2001 to 7.65% at March 31, 2002. Interest and dividends on investment securities available-for-sale (AFS) increased to $430,000 for the quarter ended March 31, 2002 from $315,000 for quarter ended March 31, 2001. Average balances on investments increased significantly, to $41.86 million for the quarter ended March 31, 2002, compared to $28.59 million for the quarter ended March 31, 2001. The average interest rate earned dropped to 4.75% from 6.17%. Interest on securities held-to-maturity (HTM) decreased to $67,000 from $126,000, as most of the new investment purchases are placed in the AFS portfolio. Interest earned from deposits held at other banks decreased to $28,000 for the quarter ended March 31, 2002 from $47,000 for the quarter ended March 31, 2001, due to the significant drop in short-term interest rates.

Interest Expense. Total interest expense decreased to $1.19 million for the quarter ended March 31, 2002, from $1.48 million for the quarter ended March 31, 2001, a decrease of $293,000, or 19.86%, due to a decrease in interest paid on deposits. Interest on deposits decreased to $1.05 million for the quarter ended March 31, 2002, from $1.30 million for the quarter ended March 31, 2001. This decrease of $252,000, or 19.38%, was the result of a decrease in average rates paid despite higher balances on deposit accounts. Money market accounts accounted for the largest gain in balances during the period from March 31, 2001 to March 31, 2002. The decline in interest rates over the past year combined with the poor performance of the stock market appears to have led consumers to invest in safe, short-term insured deposits. Average balances in money market accounts increased from $14.84 million for the quarter ended March 31, 2001 to $24.34 million for the quarter ended March 31, 2002. The average rate paid on money market accounts decreased, from 3.94% to 2.40% for the period. Average rates paid on all interest-bearing deposits declined from 2001 to 2002, with the average rate paid on all liabilities dropping 116 basis points from the quarter ended March 31, 2001 to the quarter ended March 31, 2002. The cost of deposits is expected to continue to decline in the coming quarter, as the interest rate on statement savings and passbook accounts will be lowered in May 2002. Interest paid on borrowings decreased to $145,000 for the quarter ended March 31, 2002 from $186,000 for the quarter ended March 31, 2001. The decrease in borrowing costs was due to a decrease in the average balance of Federal Home Loan Bank advances.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Results of Operations for the Three Months Ended March 31, 2002 and 2001 (continued)

Provision for Loan Losses (continued)

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 March 31, 2002 or the quarter ended March 31, 2001. This is a reflection of the continued strong asset quality of American Federal's loan portfolio. Total classified assets increased slightly to $1.56 million at March 31, 2002 from $1.50 million at June 30, 2001. The Bank currently has no foreclosed property.

Noninterest Income. Total noninterest income increased to $653,000 for the quarter ended March 31, 2002, from $400,000 for the quarter ended March 31, 2001, an increase of $253,000 or 63.25%. This was the result of an increase in net gain on sale of loans of $237,000. Increased loan originations compared to a year ago contributed to the increase in income from sale of loans. Low interest rates contributed to unusually high levels of refinancing activity, which will likely decline in the coming quarter, resulting in lower loan originations and income from the sale of loans. Mortgage loan servicing fees increased to $84,000 in the quarter ended March 31, 2002 from $74,000 in the quarter ended March 31, 2001. A security was sold for a gain of $15,000 during the current quarter, compared to a gain of $5,000 in the previous year's quarter.

Noninterest Expense. Noninterest expense increased by $63,000 or 4.85% to $1.36 million for the quarter ended March 31, 2002, from $1.30 million for the quarter ended March 31, 2001. This increase was primarily due to an increase in amortization of mortgage service fees of $43,000. The increase was related to increased prepayment activity on mortgage loans. An increase in overall lending activity led to an increase in loan expenses of $15,000 over the previous period. Advertising expense decreased $11,000 due to decreased advertising for product promotions.

Income Tax Expense. Eagle's income tax expense was $270,000 for the quarter ended March 31, 2002, compared to $150,000 for the quarter ended March 31, 2001. The effective tax rate for the quarter ended March 31, 2002 was 33.19% and was 35.51% for the quarter ended March 31, 2001. Management expects Eagle's effective tax rate to be approximately 35%.

Results of Operations for the Nine Months Ending March 31, 2002 and 2001

Net Income. Eagle's net income was $1.45 million and $847,000 for the nine months ended March 31, 2002 and 2001, respectively. The increase of $603,000, or 71.19%, was primarily due to increases in noninterest income of $620,000 and net interest income of $530,000, partially offset by increases in non-interest expense of $190,000 and income tax expense of $353,000. Basic earnings per share for the period ended March 31, 2002 were $1.24, compared to $0.72 per share for the period ended March 31, 2001.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Results of Operations for the Nine Months Ending March 31, 2002 and 2001 (continued)

Net Interest Income. Net interest income increased to $4.52 million for the nine months ended March 31, 2002 from $3.99 million for the nine months ended March 31, 2001. This increase of $530,000 was the result of an increase in interest and dividend income of $120,000 and a decrease in interest expense of $410,000.

Interest and Dividend Income. Total interest and dividend income was $8.43 million for the nine months ended March 31, 2002, compared to $8.31 million for the same period ended March 31, 2001, representing an increase of $120,000, or 1.44%. Interest and fees on loans increased to $6.91 million for 2002 from $6.85 million for 2001. This increase of $60,000, or 0.87%, was due primarily to an increase in the average balances of loans receivable for the nine months ended March 31, 2002. Average balances for loans receivable, net, for this period were $117.22 million, compared to $113.01 million for the previous year. This is an increase of $4.21 million, or 3.72%. The average interest rate earned on loans receivable decreased by 22 basis points, to 7.86% from 8.08%. Interest and dividends on investment securities available-for-sale (AFS) increased to $1.08 million for the nine months ended March 31, 2002 from $887,000 for the same period ended March 31, 2001, while interest on securities held to maturity (HTM) decreased from $434,000 to $238,000. Most new purchases of securities are placed in the AFS portfolio, and the HTM portfolio will likely continue to shrink as the securities in it mature. Interest earned from deposits held at other banks increased to $139,000 for the nine months ended March 31, 2002 from $74,000 for the nine months ended March 31, 2001 due primarily to higher average balances in these accounts due to increased liquidity from deposit growth and higher loan sale volume.

Interest Expense. Total interest expense decreased to $3.92 million for the nine months ended March 31, 2002 from $4.33 million for the nine months ended March 31, 2001, a decrease of $410,000, or 9.46%, due to the decrease in interest paid on deposits. Interest on deposits decreased to $3.42 million for the nine months ended March 31, 2002 from $3.83 million for the nine months ended March 31, 2001. This decrease of $410,000, or 10.70%, was the result of a decrease in average rates paid on deposit accounts despite higher balances on deposit accounts. Money market accounts accounted for the largest gain in balances during the period from March 31, 2001 to March 31, 2002. Average balances in money market accounts increased from $14.80 million at March 31, 2001 to $22.48 million at March 31, 2002. The average rate paid on money market accounts decreased, from 4.02% to 2.97%. Average rates paid on all interest-bearing deposits declined from 2001 to 2002, with the average rate paid on all liabilities dropping by 78 basis points from the nine month period ended March 31, 2001 to the nine month period ended March 31, 2002. The cost of deposits is expected to continue to decline in the coming months, Results of Operations for the Nine Months Ending March 31, 2002 and 2001 (continued)

Interest Expense (continued)

as the interest rate on statement savings and passbook accounts will be lowered in May 2002. Interest paid on borrowings showed no change at $500,000 for the nine months ended March 31, 2002 and March 31, 2001.

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 of the nine-month periods ended March 31, 2002 or March 31, 2001. This is a reflection of the continued strong asset quality of American Federal's loan portfolio. Total classified assets increased slightly to $1.56 million at March 31, 2002 from $1.50 million at June 30, 2001. The Bank currently has no foreclosed property.

Noninterest Income. Total noninterest income increased to $1.76 million for the nine months ended March 31, 2002, from $1.14 million for the nine months ended March 31, 2001, an increase of $620,000 or 54.38%. This was the result of an increase in net gain on sale of loans of $678,000. Increased loan originations contributed to the increase in income from sale of loans. Low interest rates over the past year have contributed to unusually high levels of refinancing activity, which will likely decline over the remainder of the year, resulting in lower loan originations and income from the sale of loans. Mortgage loan servicing fees declined to $178,000 for the current nine-month period compared to $220,000 for the previous year's period. An independent valuation of the Bank's mortgage portfolio 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. Demand deposit service charges declined by $18,000 from the previous year due to a decline in the volume of overdraft fees.

Noninterest Expense. Noninterest expense increased by $190,000 or 4.90% to $4.06 million for the nine months ended March 31, 2002, from $3.87 million for the nine months ended March 31, 2001. This increase was primarily due to an increase in amortization of mortgage servicing fees of $161,000 and in salaries and benefits of $80,000. The increase in amortization of mortgage servicing fees was related to increased prepayment activity on mortgage loans, while the

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Results of Operations for the Nine Months Ending March 31, 2002 and 2001 (continued)

Noninterest expense (continued)

increase in salaries was due to merit raises. These increases were partially offset by decreases of $41,000 in advertising expense and $37,000 in furniture and equipment depreciation. The decrease in advertising expense was due to decreased product promotional advertising, while a portion of the bank's equipment becoming fully depreciated led to the decline in depreciation expense.

Income Tax Expense. Eagle's income tax expense was $771,000 for the nine months ended March 31, 2002, compared to $418,000 for the nine months ended March 31, 2001. The effective tax rate for the nine months ended March 31, 2002 was 34.68% and 33.04% for the nine months ended March 31, 2001.

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 average was 20.82% and 17.06% for the months ended March 31, 2002 and March 31, 2001, respectively. Liquidity increased due to growth in deposits and the increased loan sale volume for the period ending March 31, 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

Liquidity, Interest Rate Sensitivity and Capital Resources (continued) the level desirable, based in part on commitments to make loans and management's assessment of the bank's ability to generate funds.

At December 31, 2001 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS, worsened slightly from the previous quarter. The Bank's capital position, when measured against its interest rate risk, remains very strong. The Bank is well within the guidelines set forth by its Board of Directors for interest rate risk sensitivity.

As of March 31, 2002, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At March 31, 2002, the Bank's tangible, core, and risk-based capital ratios amounted to 11.0%, 11.0%, and 20.2%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively.

	At March 31, 2001	
	Amount	% of Assets
Tangible capital:		
Capital level	$19,564	10.96%
Requirement	2,678	1.50
Excess	$16,886	9.46%
Core capital:		
Capital level	$19,564	10.96%
Requirement	5,356	3.00
Excess	$13,854	7.96%
Risk-based capital:		
Capital level	$20,242	20.23%
Requirement	8,003	8.00
Excess	$12,239	12.23%

EAGLE BANCORP AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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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, as demonstrated in the results of the current reporting period. 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

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

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

None

EAGLE BANCORP AND SUBSIDIARY

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: May 10, 2002 By: /s/ Larry A. Dreyer

Larry A. Dreyer
President/CEO

Date: May 10, 2002

By: /s/ Peter J. Johnson

Peter J. Johnson
Sr. VP/Treasurer