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EAGLE BANCORP/MT
Form 10QSB
February 09, 2001

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2000

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 1,206,072 shares outstanding

As of January 31, 2001

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

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EAGLE BANCORP AND SUBSIDIARY

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | December 31, 2000 ---- | June 30, 2000 ---- |
|---|------------------------------|--------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Cash and due from banks | \$ 2,905,053 | \$ 3,477,650 |
| Interest-bearing deposits with banks | 2,750,000 | -- |
| | ----- | ----- |
| Total cash and cash equivalents | 5,655,053 | 3,477,650 |
| Investment securities available for sale, | 19,059,756 | 18,414,219 |
| at market value | | |

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| | | |
|---|---------------|---------------|
| Investment securities held-to-maturity, at amortized cost | 8,961,205 | 9,922,687 |
| Federal Home Loan Bank stock, at cost | 1,438,800 | 1,393,000 |
| Mortgage loans held-for-sale | 578,364 | 861,290 |
| Loans receivable, net of deferred loan fee | 113,158,978 | 107,447,437 |
| and allowance for loan losses | | |
| Accrued interest and dividends receivable | 914,109 | 832,204 |
| Mortgage servicing rights | 1,306,842 | 1,338,271 |
| Property and equipment, net | 6,733,891 | 6,962,081 |
| Cash surrender value of life insurance | 2,088,960 | 2,040,973 |
| Real estate acquired in settlement of loans, ... net of allowance for losses | -- | 121,006 |
| Other assets | 243,750 | 219,857 |
| | ----- | ----- |
| Total assets | \$160,139,708 | \$153,030,675 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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

| | December 31, 2000 ---- | June 30, 2000 ---- |
|--|------------------------------|--------------------------|
| | (Unaudited) | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposit accounts: | | |
| Noninterest bearing | \$ 5,032,172 | \$ 5,732,528 |
| Interest bearing | 122,015,805 | 118,780,477 |
| Advances from Federal Home Loan Bank | 12,174,444 | 8,682,778 |
| Accrued expenses and other liabilities | 1,738,799 | 1,505,750 |
| | ----- | ----- |
| Total liabilities | 140,961,220 | 134,701,533 |
| | ----- | ----- |
| Stockholders' 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 and outstanding | 12,236 | 12,236 |
| Additional paid-in capital | 3,836,553 | 3,831,887 |
| Unallocated common stock held by employee stock ownership plan ("ESOP") | (331,248) | (349,648) |
| Retained earnings | 15,653,034 | 15,158,415 |
| Accumulated other comprehensive gain (loss) | 7,913 | (323,748) |
| | ----- | ----- |
| Total equity | 19,178,488 | 18,329,142 |
| | ----- | ----- |
| Total liabilities and equity | \$ 160,139,708 | \$ 153,030,675 |
| | ===== | ===== |

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See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|------------------------------------|--------------|----------------------------------|--------------|
| | 2000 | 1999 | 2000 | 1999 |
| | ----- | ----- | ----- | ----- |
| | (unaudited) | | (unaudited) | |
| Interest and dividend income: | | | | |
| Interest and fees on loans | \$ 2,301,293 | \$ 2,036,020 | \$ 4,554,478 | \$ 4,018,320 |
| Interest on deposits with banks | 22,454 | 16,253 | 27,599 | 57,719 |
| FHLB stock dividends | 23,131 | 24,211 | 45,891 | 47,989 |
| Securities available for sale . | 285,677 | 258,223 | 572,916 | 503,833 |
| Securities held to maturity ... | 144,921 | 194,967 | 307,044 | 409,787 |
| | ----- | ----- | ----- | ----- |
| Total interest and dividend income | 2,777,476 | 2,529,674 | 5,507,928 | 5,037,648 |
| | ----- | ----- | ----- | ----- |
| Interest expense: | | | | |
| Deposits | 1,300,006 | 1,138,207 | 2,532,623 | 2,257,421 |
| FHLB advances | 166,431 | 139,233 | 311,365 | 308,023 |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 1,466,437 | 1,277,440 | 2,843,988 | 2,565,444 |
| | ----- | ----- | ----- | ----- |
| Net interest income | 1,311,039 | 1,252,234 | 2,663,940 | 2,472,204 |
| Loan loss provision | -- | -- | -- | 15,000 |
| | ----- | ----- | ----- | ----- |
| Net interest income after loan loss provision | 1,311,039 | 1,252,234 | 2,663,940 | 2,457,204 |
| | ----- | ----- | ----- | ----- |
| Noninterest income: | | | | |
| Net gain on sale of loans | 88,679 | 69,915 | 131,278 | 158,252 |
| Demand deposit service charges | 139,150 | 126,311 | 273,829 | 244,916 |
| Mortgage loan servicing fees .. | 72,767 | 76,471 | 145,361 | 150,579 |
| Net gain (loss) on sale of available for sale securities | -- | -- | -- | (30,355) |
| Other | 100,782 | 84,923 | 194,213 | 166,601 |
| | ----- | ----- | ----- | ----- |
| Total noninterest income .. | 401,378 | 357,620 | 744,681 | 689,993 |
| | ----- | ----- | ----- | ----- |

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See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Continued)

| | Three Months Ended December 31 | | Six Months Ended December 31 | |
|---|-----------------------------------|------------|---------------------------------|-------------|
| | 2000 | 1999 | 2000 | 1999 |
| | (unaudited) | | (unaudited) | |
| Noninterest expense: | | | | |
| Salaries and employee benefits | \$ 693,695 | \$ 662,290 | \$1,362,255 | \$1,304,363 |
| Occupancy expenses | 127,654 | 107,937 | 241,705 | 214,607 |
| Furniture and equipment depreciation .. | 83,430 | 79,763 | 165,246 | 159,229 |
| In-house computer expense | 45,558 | 38,994 | 88,909 | 77,837 |
| Advertising expense | 43,660 | 33,785 | 87,595 | 74,306 |
| Amortization of mortgage servicing fees | 25,095 | 25,015 | 56,102 | 61,776 |
| Federal insurance premiums | 5,322 | 17,711 | 12,394 | 34,577 |
| Postage | 25,529 | 18,863 | 47,196 | 42,499 |
| Legal, accounting, and examination fees | 51,228 | 16,209 | 98,916 | 34,118 |
| Consulting fees | 8,601 | 2,805 | 16,476 | 19,425 |
| ATM processing | 16,222 | 18,267 | 30,518 | 37,941 |
| Other | 190,760 | 183,049 | 357,815 | 352,674 |
| | ----- | ----- | ----- | ----- |
| Total noninterest expense | 1,316,754 | 1,204,688 | 2,565,127 | 2,413,352 |
| | ----- | ----- | ----- | ----- |
| Income before provision for income taxes | 395,663 | 405,166 | 843,494 | 733,845 |
| Provision for income taxes | 124,084 | 110,017 | 268,364 | 230,134 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 271,579 | \$ 295,149 | \$ 575,130 | \$ 503,711 |
| | ===== | ===== | ===== | ===== |
| Earnings per share | \$ 0.23 | n/a | \$ 0.49 | n/a |
| | ===== | ===== | ===== | ===== |
| Weighted average shares outstanding | 1,181,412 | n/a | 1,180,835 | n/a |
| | ===== | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | PREFERRED STOCK ----- | COMMON STOCK ----- | ADDITIONAL PAID-IN CAPITAL ----- | UNALLOCATED ESOP SHARES ----- | RETAINED EARNING ----- |
|--|-----------------------------|--------------------------|---|--|------------------------------|
| Balance, June 30, 2000 | \$-- | \$ 12,236 | \$ 3,831,887 | \$ (349,648) | \$ 15,158,4 |
| Net income (unaudited) | -- | -- | -- | -- | 575,1 |
| Other comprehensive income (unaudited) | -- | -- | -- | -- | |
| Total comprehensive income (unaudited) | -- | -- | -- | -- | |
| Dividends paid (\$.14 per share) (unaudited) | -- | -- | -- | -- | (80,5 |
| ESOP shares allocated or committed to be released for allocation (1,150 shares) (unaudited) | -- | -- | 4,666 | 18,400 | |
| Balance, December 31, 2000 (unaudited) | \$-- === | \$ 12,236 ===== | \$ 3,836,553 ===== | \$ (331,248) ===== | \$ 15,653,0 ===== |

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended December 31, | |
|--|----------------------------------|--------------|
| | 2000 ---- | 1999 ---- |
| | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 575,130 | \$ 503,711 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Provision for loan losses | -- | 15,000 |
| Depreciation, accretion and amortization expense | 284,208 | 304,976 |
| Deferred loan fees | (5,958) | (46,528) |
| Amortization of capitalized mortgage servicing rights | 56,101 | 61,775 |

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| | | |
|--|-------------|-------------|
| Gain on sale of loans | (131,278) | (158,252) |
| Gain on sale of real estate owned | (8,951) | -- |
| Net realized (gain) loss on sale of available-for-sale securities | -- | 30,355 |
| Dividends reinvested | (45,800) | (47,900) |
| Increase in cash surrender value of life insurance | (47,987) | (45,813) |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accrued interest and dividends receivable | (81,905) | (69,355) |
| Loans held-for-sale | 414,204 | 599,781 |
| Other assets | (827) | (101,257) |
| Increase (decrease) in liabilities: | | |
| Accrued expenses and other liabilities | (56,576) | 174,210 |
| Deferred compensation payable | 12,231 | 4,850 |
| Deferred income taxes payable | 114,894 | (7,283) |
| | ----- | ----- |
| Net cash provided by operating activities | 1,077,486 | 1,218,270 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of securities: | | |
| Investment securities held-to-maturity | (501,150) | (449,936) |
| Investment securities available-for-sale | (1,173,415) | (3,062,973) |
| Proceeds from maturities, calls and principal payments: | | |
| Investment securities held-to-maturity | 1,474,445 | 4,017,137 |
| Investment securities available-for-sale | 1,032,845 | 253,455 |
| Proceeds from sales of investment securities available-for-sale | -- | 1,715,580 |

See accompanying notes to consolidated financial statements.

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

| | Six Months Ended December 31, | |
|--|----------------------------------|-------------|
| | 2000 | 1999 |
| | ---- | ---- |
| | (unaudited) | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (CONTINUED) | | |
| Net (increase) decrease in loan receivable, excludes transfers to real estate acquired in settlement of loans | (5,730,253) | (5,118,337) |
| Proceeds from the sale of real estate acquired in the settlement of loans | 129,957 | -- |
| Purchase of property and equipment | (33,908) | (267,183) |
| Proceeds from sale of equipment | -- | 221,274 |

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| | | |
|--|--------------|--------------|
| Net cash used in investing activities | (4,801,479) | (2,690,983) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in checking and savings accounts | 2,534,972 | 2,020,661 |
| Net increase in advances to borrowers for taxes and insurance | (44,731) | (249,431) |
| Proceeds from FHLB advances | 3,625,000 | -- |
| Payment on FHLB advances | (133,334) | (1,533,334) |
| Dividends paid | (80,511) | -- |
| Net cash provided by financing activities | 5,901,396 | 237,896 |
| Net increase (decrease) in cash | 2,177,403 | (1,234,817) |
| CASH AND CASH EQUIVALENTS, beginning of period | 3,477,650 | 6,741,171 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 5,655,053 | \$ 5,506,354 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | \$ 2,603,029 | \$ 2,447,872 |
| Cash paid during the period for income taxes | \$ 152,000 | \$ 140,000 |
| NON-CASH INVESTING ACTIVITIES: | | |
| (Increase) decrease in market value of securities available-for-sale | \$ (331,661) | \$ 165,127 |
| Mortgage servicing rights capitalized | \$ 24,672 | \$ 136,621 |

See accompanying notes to consolidated financial statements.

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

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared

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in accordance with instructions for Form 10-QSB. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles 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 six month periods ended December 31, 2000 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2001 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, 2000.

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

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

| | December 31, 2000 (Unaudited) | | | |
|--|-------------------------------|--------------------------------------|---------------|----------------|
| | AMORTIZED COST | NET UNREALIZED GAINS/ (LOSSES) | FAIR VALUE | AMORTI COST |
| Available-for-sale: | | | | |
| U.S. government and agency obligations | \$ 4,226,834 | \$ 20,353 | \$ 4,247,187 | \$ 4,250,000 |
| Municipal obligations | 3,307,240 | (73,873) | 3,233,367 | 3,307,240 |
| Corporate obligations | 6,210,227 | 42,330 | 6,252,557 | 6,184,000 |
| Mortgage-backed securities | 4,781,144 | 25,935 | 4,807,079 | 4,623,000 |
| Collateralized mortgage obligations | 320,056 | (1,990) | 318,066 | 372,000 |
| Corporate preferred stock | 201,397 | 103 | 201,500 | 201,397 |
| Total | \$19,046,898 | \$ 12,858 | \$19,059,756 | \$18,940,000 |
| Held-to-maturity: | | | | |
| U.S. government and agency obligations | \$ 2,891,224 | \$ 8,434 | \$ 2,899,658 | \$ 2,888,000 |
| Municipal obligations | 940,629 | (8,338) | 932,291 | 1,069,000 |
| Mortgage-backed securities | 5,129,352 | (11,926) | 5,117,426 | 5,964,000 |
| Total | \$ 8,961,205 | \$ (11,830) | \$ 8,949,375 | \$ 9,921,000 |

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

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

| | December 31, 2000 (Unaudited) ----- | June 30, 2000 (Audited) ----- |
|---|--|--|
| First mortgage loans: | | |
| Residential mortgage (1-4 family) | \$ 76,425,564 | \$ 74,336,712 |
| Commercial real estate | 8,166,654 | 7,784,333 |
| Real estate construction | 1,912,597 | 1,453,371 |
| Other loans: | | |
| Home equity | 15,913,614 | 13,654,250 |
| Consumer | 8,874,635 | 8,279,049 |
| Commercial | 2,659,284 | 2,757,708 |
| Total | 113,952,348 | 108,265,423 |
| Less: | | |
| Allowance for loan losses | (693,508) | (712,165) |
| Deferred loan fees | (99,862) | (105,821) |
| Total | \$ 113,158,978 | \$ 107,447,437 |
| | ===== | ===== |

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were \$590,000 and \$504,000 at December 31, 2000 and June 30, 2000, respectively. Classified assets, including real estate owned, totaled \$1.47 million and \$1.58 million at December 31, 2000 and June 30, 2000, respectively.

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

| | Six Months Ended December 31, 2000 (Unaudited) ----- | Year Ended June 30, 2000 (Audited) ----- |
|---------------------------------------|--|--|
| Balance, beginning of period | \$ 712,165 | \$ 736,624 |
| Reclassification to REO reserve | (13,725) | (11,519) |
| Provision charged to operations | -- | 15,000 |
| Charge-offs | (9,683) | (30,623) |

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| | | |
|------------------------------|------------|------------|
| Recoveries | 4,751 | 2,683 |
| | ----- | ----- |
| Balance, end of period | \$ 693,508 | \$ 712,165 |
| | ===== | ===== |

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

NOTE 4. DEPOSITS

Deposits are summarized as follows:

| | December 31, 2000 (Unaudited) | June 30, 2000 (Audited) |
|------------------------------------|-------------------------------------|-------------------------------|
| | ----- | ----- |
| Noninterest checking | \$ 5,032,172 | \$ 5,732,528 |
| Interest-bearing checking | 24,064,889 | 22,849,549 |
| Passbook | 19,842,768 | 20,936,122 |
| Money market | 14,717,367 | 14,716,098 |
| Time certificates of deposit | 63,390,781 | 60,278,708 |
| | ----- | ----- |
| Total | \$127,047,977 | \$124,513,005 |
| | ===== | ===== |

NOTE 5. EARNINGS PER SHARE

Earnings per share for the three months ended December 31, 2000 is computed using 1,181,412 weighted average shares outstanding. Earnings per share for the six months ended December 31, 2000 is computed using 1,180,835 weighted average shares outstanding. No earnings per share information is given for the three and six month periods ending December 31, 1999 because shares of common stock were not issued until April 4, 2000.

NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM

Eagle paid its first dividend of \$0.07 per share on August 25, 2000. A second \$0.07 dividend was paid November 17, 2000, and a third dividend of the same amount was declared on January 19, 2001, payable February 16, 2001 to stockholders of record on February 2, 2001. 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 January 31, 2001, 17,500 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 for up to 80,511 and 23,003 shares, respectively. The repurchase plan announced in December is intended to meet the needs of the restricted stock plan.

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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 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) compensation, 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

Total assets increased by \$7.11 million, or 4.65%, from \$153.03 million at June 30, 2000, to \$160.14 million at December 31, 2000. Total liabilities increased by \$6.26 million from \$134.70 million at June 30, 2000, to \$140.96 million at December 31, 2000. Total equity increased \$850,000 from \$18.33 million at June 30, 2000 to \$19.18 million at December 31, 2000.

Growth in the loan portfolio of \$5.71 million accounted for the majority of the growth in total assets. The loan category with the largest increase was home equity loans, which increased \$2.26 million. This represented a 16.56% increase over the balance at June 30, 2000 of \$13.65 million. Total loan originations were \$33.52 million for the six months ended December 31, 2000, with single family mortgages accounting for \$19.94 million of the total. Consumer loan originations totaled \$7.83 million for the same period. Loans held for sale decreased from \$861,000 at June 30, 2000 to \$578,000 at December 31, 2000.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition (continued)

Asset growth was funded by Federal Home Loan Bank advances and deposits. Advances had grown to \$12.17 million by December 31, 2000, an increase of \$3.49 million, or 40.21%, from the balance of \$8.68 million at June 30, 2000. Deposits grew \$2.54 million, or 2.04%, from \$124.51 million at June 30, 2000 to \$127.05 million at December 31, 2000. Strong competition from local banks continues to limit deposit growth in all of our market areas. Other liabilities increased from \$1.51 million at June 30, 2000 to \$1.74 million at December 31, 2000, primarily due to an increase in the balance of deferred income taxes.

The growth in total equity was the result of earnings for the six months of \$575,000 and a decrease in the unrealized loss on securities available for sale of \$332,000, offset by the payment of two \$0.07 per share regular cash dividends during the period.

Results of Operations for the Three Months Ending December 31, 2000 and 1999

Net Income. Eagle's net income was \$272,000 and \$295,000 for the three months ended December 31, 2000, and 1999, respectively. The decrease of \$23,000, or 7.80%, was primarily due to an increase in non-interest expense of \$112,000, partially offset by increases in net interest income of \$59,000 and noninterest income of \$44,000. Earnings per share were \$0.23 for the current period. No earnings per share are available for the period ended December 31, 1999 as shares of common stock were not issued until April 4, 2000.

Net Interest Income. Net interest income increased from \$1.25 million for the quarter ended December 31, 1999 to \$1.31 million for the quarter ended December 31, 2000. This increase of \$59,000 was the result of an increase in interest and dividend income of \$248,000, partially offset by an increase in interest expense of \$189,000.

Interest and Dividend Income. Total interest and dividend income was \$2.78 million for the quarter ended December 31, 2000, compared to \$2.53 million for the quarter ended December 31, 1999, representing an increase of \$248,000, or 9.80%. Interest and fees on loans increased from \$2.04 million for 1999 to \$2.30 million for 2000. This increase of \$260,000, or 12.75%, was due primarily to an increase in the average balances of loans receivable for the quarter ended December 31, 2000. Average balances for loans receivable, net, for the quarter ended December 31, 2000 were \$113.47 million, compared to \$101.34 million for the previous year. This represents an increase of \$12.13 million, or 11.97%. All loan categories had shown increases from the previous year. The average interest rate earned on loans receivable also increased by 7 basis points, from 8.04% at December 31, 1999 to 8.11% at December 31, 2000. Interest and

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Results of Operations for the Three Months Ending December 31, 2000 and 1999
(continued)

dividends on investment securities available-for-sale (AFS) increased from \$258,000 for the quarter ended December 31, 1999 to \$286,000 for the quarter ended December 31, 2000, while interest on securities held to maturity (HTM) decreased from \$195,000 to \$145,000. Interest earned from deposits held at other banks increased from \$16,000 for the quarter ended December 31, 1999 to \$22,000 for the quarter ended December 31, 2000.

Interest Expense. Total interest expense increased from \$1.28 million for the quarter ended December 31, 1999, to \$1.47 million for the quarter ended December 31, 2000, an increase of \$189,000, or 14.76%, due primarily to an increase in interest paid on deposits. Interest on deposits increased from \$1.14 million for the quarter ended December 31, 1999, to \$1.30 million for the quarter ended December 31, 2000. This increase of \$160,000, or 14.04%, was the result of an increase in average rates paid and higher balances on deposit accounts. Time certificate of deposits (CD's) accounted for the largest gain in balances during the period from December 31, 1999 to December 31, 2000. Special certificate of deposit offerings contributed to the increase. Average balances in CD accounts increased from \$58.78 million for the quarter ended December 31, 1999 to \$62.17 million for the quarter ended December 31, 2000. The average rate paid on CD accounts also increased, from 5.10% to 5.93% for the period. Interest paid on borrowings increased from \$139,000 for the quarter ended December 31, 1999 to \$166,000 for the quarter ended December 31, 2000. The increase in borrowing costs was due to an increase in the average balance of Federal Home Loan Bank advances. Two factors will help to lower the cost of deposits in the coming quarter. First, in mid-December, management lowered the interest rate on checking accounts by 1/2%. Secondly, CD accounts opened in previous quarters under special offerings will be maturing in the coming quarter. As market rates have fallen, the Bank will be able to renew these certificates at lower rates.

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 December 31, 2000 or the quarter ended December 31, 1999. 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

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

Results of Operations for the Three Months Ending December 31, 2000 and 1999
(continued)

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\$1.58 million at June 30, 2000 to \$1.47 million at December 31, 2000. Both real estate owned (REO) properties that were previously on the Bank's books were sold during the current quarter with no additional loss incurred. The Bank currently has no foreclosed property.

Noninterest Income. Total noninterest income increased from \$358,000 for the quarter ended December 31, 1999, to \$401,000 for the quarter ended December 31, 2000, an increase of \$43,000 or 12.01%. This was the result of an increase in other noninterest income items of \$16,000, an increase in demand deposit service charges of \$13,000, and an increase in the net gain on sale of loans of \$19,000. The increase in other noninterest income was due to gains on the sale of REO properties and increased rental income. Increased loan originations compared to a year ago combined with management's decision late in the quarter to resume selling mortgage loans with maturities of 15 years or less contributed to the increase in income from sale of loans. Mortgage loan servicing fees declined slightly from \$76,000 in the quarter ended December 31, 1999 to \$73,000 in the quarter ended December 31, 2000.

Noninterest Expense. Noninterest expense increased by \$112,000 or 9.26% from \$1.21 million for the quarter ended December 31, 1999, to \$1.32 million for the quarter ended December 31, 2000. This increase was primarily due to an increase in legal and accounting fees of \$35,000 and in salaries and benefits of \$31,000. The increase in legal and accounting fees were related to the costs of being a public company, while the increase in salaries was due to merit raises. Occupancy expense increased \$20,000 due to higher property taxes and repairs. Advertising expense increased \$10,000 due to increased advertising for internet banking and CD promotions. These increases were partially offset by a decrease of \$12,000 in federal deposit insurance premiums.

Income Tax Expense. Eagle's income tax expense was \$110,000 for the quarter ended December 30, 1999, compared to \$124,000 for the quarter ended December 31, 2000. The effective tax rate for the quarter ended December 31, 1999 was 27.15% and was 31.36% for the quarter ended December 31, 2000. The effective tax rate is lower in the December 1999 quarter due to an adjustment made after the completion of the tax return for calendar year 1999. Management expects Eagle's effective tax rate to be approximately 32%.

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

Results of Operations for the Six Months Ending December 31, 2000 and 1999

Net Income. Eagle's net income was \$575,000 and \$504,000 for the six months ended December 31, 2000 and 1999, respectively. The increase of \$71,000, or 14.09%, was primarily due to increases in net interest income of \$192,000 and noninterest income of \$55,000, partially offset by an increase in non-interest expense of \$152,000. Earnings per share for the period ended December 31, 2000 were \$0.49. No earnings per share were available for the period ended December 31, 1999 as shares of common stock were not issued until April 4, 2000.

Net Interest Income. Net interest income increased from \$2.47 million for the six months ended December 31, 1999 to \$2.66 million for the six months ended

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December 31, 2000. This increase of \$192,000 was the result of an increase in interest and dividend income of \$470,000, partially offset by an increase in interest expense of \$278,000.

Interest and Dividend Income. Total interest and dividend income was \$5.51 million for the six months ended December 31, 2000, compared to \$5.04 million for the same period ended December 31, 1999, representing an increase of \$470,000, or 9.33%. Interest and fees on loans increased from \$4.02 million for 1999 to \$4.56 million for 2000. This increase of \$536,000, or 13.33%, was due primarily to an increase in the average balances of loans receivable for the six months ended December 31, 2000. Average balances for loans receivable, net, for this period were \$112.13 million, compared to \$100.13 million for the previous year. This is an increase of \$12.00 million, or 11.98%. All loan categories had shown increases from the previous year. The average interest rate earned on loans receivable also increased by 9 basis points, from 8.03% to 8.12%. Interest and dividends on investment securities available-for-sale (AFS) increased from \$504,000 for the six months ended December 31, 1999 to \$573,000 for the same period ended December 31, 2000, while interest on securities held to maturity (HTM) decreased from \$410,000 to \$307,000. Interest earned from deposits held at other banks decreased from \$58,000 for the six months ended December 31, 1999 to \$28,000 for the six months ended December 31, 2000 due primarily to lower average balances in these accounts from funding the increase in loans receivable.

Interest Expense. Total interest expense increased from \$2.57 million for the six months ended December 31, 1999 to \$2.84 million for the six months ended December 31, 2000, an increase of \$279,000, or 10.86%, due almost entirely to the increase in interest paid on deposits. Interest on deposits increased from \$2.26 million for the six months ended December 31, 1999 to \$2.53 million for the six months ended December 31, 2000. This increase of \$275,000, or 12.17%, was the result of an increase in average rates paid on deposit accounts. Time certificate of deposits (CD's) accounted for the largest gain in balances during the period from December 31, 1999 to December 31, 2000. Special certificate of deposit offerings contributed to the increase. Average

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

Results of Operations for the Six Months Ending December 31, 2000 and 1999
(continued)

balances in CD accounts increased from \$58.64 million at December 31, 1999 to \$61.02 million at December 31, 2000. The average rate paid on CD accounts also increased, from 5.08% to 5.80%. Interest paid on borrowings increased from \$308,000 for the six months ended December 31, 1999 to \$311,000 for the same period ended December 31, 2000. The increase in borrowing costs was due to an increase 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

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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 the six months ended December 31, 2000, compared to \$15,000 for the same period ended December 31, 1999. 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 \$1.58 million at June 30, 2000 to \$1.47 million at December 31, 2000. During the current six month period, a transfer of \$14,000 was made from the loan loss reserve to the real estate owned (REO) reserve. The transfer was made to write down the balances of the two foreclosed properties in Butte, Montana to their net realizable value. Both REO properties were sold during the current quarter with no additional loss incurred. The Bank currently has no foreclosed property.

Noninterest Income. Total noninterest income increased from \$690,000 for the six months ended December 31, 1999, to \$745,000 for the six months ended December 31, 2000, an increase of \$55,000 or 7.97%. This was the result of an increase in demand deposit service charges of \$29,000, an increase in other noninterest income items of \$27,000, and a decrease in the loss on sale of available for sale securities of \$30,000. These increases to income were offset by a decrease in gain on sale of loans of \$27,000. Demand deposit related fees were raised in late 1999, contributing to the increase in that category, while no securities were sold in the six months ended December 31, 2000. Mortgage loan servicing fees declined slightly from \$150,000 in the six months ended December 31, 1999 to \$145,000 in the six months ended December 31, 2000.

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

Results of Operations for the Six Months Ending December 31, 2000 and 1999
(continued)

Noninterest Expense. Noninterest expense increased by \$152,000 or 6.30% from \$2.41 million for the six months ended December 31, 1999, to \$2.56 million for the six months ended December 31, 2000. This increase was primarily due to an increase in legal and accounting fees of \$65,000 and in salaries and benefits of \$58,000. The increase in legal and accounting fees were related to the costs of being a public company, while the increase in salaries was due to merit raises. These increases were partially offset by decreases of \$22,000 in federal deposit insurance premiums and \$7,000 in ATM processing fees. The decrease in deposit insurance premiums was due to the FDIC lowering their assessment rate by 64%, while lower costs passed on from the Bank's ATM processor led to lower processing expense for ATMs and debit cards.

Income Tax Expense. Eagle's income tax expense was \$230,000 for the six months ended December 30, 1999, compared to \$268,000 for the six months ended December 31, 2000. The effective tax rate for the six months ended December 31, 1999 was 31.36% and was 31.82% for the six months ended December 31, 2000.

Liquidity, Interest Rate Sensitivity and Capital Resources

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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. This requirement, which varies from time to time depending upon economic conditions and deposit flows, is based upon a percentage of our deposits and short-term borrowings. The Bank's liquidity ratio average was 15.03% and 17.92% at December 31, 2000 and December 31, 1999, respectively. Liquidity declined due to an increase in loans receivable for the period ending December 31, 2000.

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.

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

Liquidity, Interest Rate Sensitivity and Capital Resources (continued)

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.

At September 30, 2000 (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. This was due to management's strategy of retaining assets with shorter maturities while emphasizing longer-term funding sources such as transaction accounts and FHLB advances. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of December 31, 2000, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At December 31, 2000, the Bank's tangible, core, and risk-based capital ratios amounted to 11.1%, 11.1%, and 19.1%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

| | At December 31, 2000 | |
|-------------------|----------------------|-------------|
| | Amount | % of Assets |
| Tangible capital: | ----- | ----- |

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| | | |
|---------------------|----------|--------|
| Capital level | \$17,693 | 11.13% |
| Requirement | 2,384 | 1.50 |
| | ----- | ----- |
| Excess | \$15,309 | 9.63% |
| | ===== | ===== |
| Core capital: | | |
| Capital level | \$17,693 | 11.13% |
| Requirement | 4,768 | 3.00 |
| | ----- | ----- |
| Excess | \$12,925 | 8.13% |
| | ===== | ===== |
| Risk-based capital: | | |
| Capital level | \$18,358 | 19.14% |
| Requirement | 7,675 | 8.00 |
| | ----- | ----- |
| Excess | \$10,683 | 11.14% |
| | ===== | ===== |

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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 Annual Meeting of Stockholders of the Company was held October 19, 2000 and the following matters were voted on:
- Election of directors for three-year terms expiring in 2003:

| | For: | Abstain: |
|--------------------|-----------|----------|
| | ---- | ----- |
| James A. Maierle | 1,111,376 | 775 |
| Thomas J. McCarvel | 1,111,476 | 675 |
 - Ratification of appointment of Anderson ZurMuehlen & Co., P.C. as auditors for the fiscal year ended June 30, 2001:

| For: | Against: | Abstain: |
|-----------|----------|----------|
| ---- | ----- | ----- |
| 1,108,701 | 2,725 | 725 |
 - Adoption of Eagle Bancorp 2000 Stock Incentive Plan:

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| For: | Against: | Abstain: |
|---------|----------|----------|
| ----- | ----- | ----- |
| 311,172 | 26,849 | 6,350 |

Item 5. Other Information.
None.

Item 6. Exhibits and Reports on Form 8-K
a. Exhibit 27 - Financial Data

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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: February 9, 2001 | By: /s/ Larry A. Dreyer ----- Larry A. Dreyer President/CEO |
| Date: February 9, 2001 | By: /s/ Peter J. Johnson ----- Peter J. Johnson Sr. VP/Treasurer |

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