EAGLE BANCORP/MT
Form 10QSB
November 12, 2003

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2003

[ ] 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)
Website address: www.americanfederalsavingsbank.com

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 1,209,772 shares outstanding

As of November 12, 2003

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

EAGLE BANCORP AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2003 (Unaudited)	June 30, 2003 (Audited)
ASSETS		
Cash and due from banks	$ 3,042,968	$ 2,966,202
Interest-bearing deposits with banks	7,693,430	7,263,841

Total cash and cash equivalents	10,736,398	10,230,043
Investment securities available-for-sale, at market value	86,181,495	76,855,280
Investment securities held-to-maturity, at amortized cost	1,942,504	2,280,736
Federal Home Loan Bank stock, at cost	1,708,600	1,686,300
Mortgage loans held-for-sale	5,266,116	6,908,373
Loans receivable, net of deferred loan fees and allowance for loan losses	90,751,900	93,521,165
Accrued interest and dividends receivable	1,075,588	913,101
Mortgage servicing rights, net	1,711,703	1,291,614
Property and equipment, net	6,530,107	6,392,625
Cash surrender value of life insurance	2,371,120	2,347,232
Real estate acquired in settlement of loans, net of allowance for losses	--	70,010
Other assets	572,783	561,924
Total assets	$ 208,848,314	$ 203,058,403

See accompanying notes to consolidated financial statements.

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

	September 30, 2003 (Unaudited)	June 30, 2003 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposit accounts:		
Noninterest bearing	$ 9,379,650	$ 7,868,012
Interest bearing	164,422,581	160,556,053
Advances from Federal Home Loan Bank	9,218,889	9,243,889
Accrued expenses and other liabilities	2,116,531	1,893,668
Total liabilities	185,137,651	179,561,622
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; 1,209,772 outstanding at September 30, 2003 and June 30, 2003, respectively)	12,236	12,236
Additional paid-in capital	3,976,953	3,954,432

Unallocated common stock held by employee stock ownership plan ("ESOP")	(230,048)	(239,248)
Treasury stock, at cost (13,800 shares at September 30, 2003 and June 30, 2003, respectively)	(188,715)	(188,715)
Retained earnings	20,211,959	19,532,409
Accumulated other comprehensive income	(71,722)	425,667
Total stockholders' equity	23,710,663	23,496,781
Total liabilities and stockholders' equity	$ 208,848,314	$ 203,058,403

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
QUARTERLY CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,	
	2003	2002
	(Unaudited)	
Interest and Dividend Income:		
Interest and fees on loans	$1,673,289	$2,070,579
Interest on deposits with banks	18,399	32,645
FHLB Stock dividends	25,978	49,320
Securities available-for-sale	560,367	608,517
Securities held-to-maturity	22,314	23,989
Total interest and dividend income	2,300,347	2,785,050
Interest Expense:		
Deposits	776,770	978,026
FHLB Advances	145,409	147,082
Total interest expense	922,179	1,125,108
Net Interest Income	1,378,168	1,659,942
Loan loss provision	--	--
Net interest income after loan loss provision	1,378,168	1,659,942
Noninterest income:		
Net gain on sale of loans	588,981	309,163
Demand deposit service charges	161,316	128,860
Mortgage loan servicing fees	495,696	96,072

Net gain (loss) on sale of available-for-sale securities	9,911	--
Other	91,897	100,920
Total noninterest income	1,347,801	635,015

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2003	2002
	(Unaudited)	
Noninterest expense:		
Salaries and employee benefits	720,005	723,224
Occupancy expenses	120,285	129,941
Furniture and equipment depreciation	61,106	53,297
In-house computer expense	59,583	54,836
Advertising expense	45,020	33,295
Amortization of mtg servicing fees	265,135	97,828
Federal insurance premiums	6,478	6,276
Postage	30,845	28,162
Legal, accounting, and examination fees	28,242	26,716
Consulting fees	7,560	5,880
ATM processing	13,777	11,589
Other	240,731	182,711
Total noninterest expense	1,598,767	1,353,755
Income before provision for income taxes	1,127,202	941,202
Provision for income taxes	357,847	323,820
Net income	$ 769,355	$ 617,382
Basic earnings per share	$ 0.65	$ 0.53
Diluted earnings per share	$ 0.64	$ 0.52
Weighted average shares outstanding (basic eps)	1,180,258	1,173,041

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Weighted average shares outstanding (diluted eps)	1,194,058	1,189,457
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See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended December 31, 2001

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLO ES SHA
Balance, June 30, 2003	$ --	$ 12,236	$ 3,954,432	$ (2
Net income (unaudited)	--	--	--	
Other comprehensive income (unaudited)	--	--	--	
Total comprehensive income (unaudited)	--	--	--	
Dividends paid ($.16 per share) (unaudited)	--	--	--	
ESOP shares allocated or committed to be released for allocation (1,150 shares) (unaudited)	--	--	22,521	
Balance, September 30, 2003 (unaudited)	$ --	$ 12,236	$ 3,976,953	$ (2

	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
Balance, June 30, 2003	$ 19,532,409	$ 425,667	$ 23,496,781
Net income (unaudited)	769,355	--	769,355
Other comprehensive income (unaudited)	--	(497,389)	(497,389)

Total comprehensive income (unaudited)	--	--	271,966
Dividends paid ($.16 per share) (unaudited)	(89,805)	--	(89,805)
ESOP shares allocated or committed to be released for allocation (1,150 shares) (unaudited)	--	--	31,721
Balance, September 30, 2003 (unaudited)	$ 20,211,959	$ (71,722)	$ 23,710,663

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30, 2003	200
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 769,355	$ 61
Adjustments to reconcile net income to net cash from operating activities:		
Provision for mortgage servicing rights valuation losses	(365,527)	
Depreciation	109,244	10
Net amortization of marketable securities premium and discounts	448,231	12
Amortization of capitalized mortgage servicing rights	265,135	9
Gain on sale of loans	(588,980)	(30
Net realized (gain) loss on sale of available-for-sale securities	(9,911)	
FHLB & other dividends reinvested	(41,050)	(6
Increase in cash surrender value of life insurance	(23,888)	(2
Gain on sale of real estate owned	(596)	
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(162,487)	(
Loans held-for-sale	2,174,839	(54
Other assets	(10,859)	(27
Increase (decrease) in liabilities:		
Accrued expenses and other liabilities	556,671	69
Net cash provided by operating activities	3,120,177	40

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of securities:		
Investment securities held-to-maturity	--	
Investment securities available-for-sale	(22,776,348)	(10,41
Proceeds from maturities, calls and principal payments:		
Investment securities held-to-maturity	336,703	30
Investment securities available-for-sale	12,220,462	2,46
Proceeds from sales of investment securities available-for-sale	68,556	

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2003	200
	(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES (CONTINUED):		
Net (increase) decrease in loan receivable, excludes transfers to real estate acquired in settlement of loans	2,449,567	2,27
Purchase of property and equipment	(246,726)	(5
Proceeds from the sale of real estate aquired in the settlement of loans	70,606	
Net cash used in investing activities	(7,877,180)	(5,43
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in checking and savings accounts	$ 5,378,163	$ 5,44
Payments on FHLB advances	(25,000)	(2
Sale (Purchase) of Treasury Stock	--	(3
Dividends paid	(89,805)	(7
Net cash provided by financing activities	5,263,358	5,30
Net increase in cash	506,355	27
CASH AND CASH EQUIVALENTS, beginning of period	10,230,043	10,62
CASH AND CASH EQUIVALENTS, end of period	$ 10,736,398	$ 10,90
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 920,869	$ 1,13

Cash paid during the period for income taxes	$ --	$
NON-CASH INVESTING ACTIVITIES:		
(Increase) decrease in market value of securities available-for-sale	$ 743,076	$ (16
Mortgage servicing rights capitalized	$ 319,697	$ 20

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 periods ended September 30, 2003 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2004 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, 2003.

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

NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	September 30, 2003 (Unaudited)			June 3	
	AMORTIZED COST	GROSS UNREALIZED GAINS (LOSSES)	FAIR VALUE	AMORTIZED COST	GA

Available-for-sale:					
U.S. government and agency obligations	$ 7,907,874	$ 74,435	$ 7,982,309	$ 5,039,764	$
Municipal obligations	8,074,014	(4,121)	8,069,893	6,851,051	
Corporate obligations	13,973,660	89,462	14,063,122	6,180,404	
Mortgage-backed securities	24,740,561	(49,368)	24,691,193	28,032,532	
Mutual Funds	4,720,397	(28,352)	4,692,045	4,696,019	
Collateralized mortgage obligations	24,803,818	(40,725)	24,763,093	23,461,474	
Common stock	168,856	3,665	172,521	58,645	
Corporate preferred stock	1,950,000	(202,681)	1,747,319	1,950,000	
Total	$ 86,339,180	$ (157,685)	$ 86,181,495	$ 76,269,889	$
Held-to-maturity:					
Municipal obligations	$ 931,383	$ 56,657	$ 988,040	$ 1,031,729	$
Mortgage-backed securities	1,011,121	35,094	1,046,215	1,249,007	
Total	$ 1,942,504	$ 91,751	$ 2,034,255	$ 2,280,736	$

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

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

	September 30, 2003 (Unaudited)	June 30, 2003 (Audited)
First mortgage loans:		
Residential mortgage (1-4 family)	$ 42,264,758	$ 45,404,699
Commercial real estate	18,514,814	18,819,234
Real estate construction	4,349,049	3,802,257
Other loans:		
Home equity	13,557,360	13,791,769
Consumer	9,917,838	9,278,219
Commercial	2,760,265	3,033,786
Total	91,364,084	94,129,964
Less: Allowance for loan losses	(675,238)	(672,841)
Deferred loan fees	63,054	64,042
Total	$ 90,751,900	$ 93,521,165

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were $542,000 and $610,000 at September 30, 2003 and June 30, 2003, respectively. Classified assets, including real estate owned, totaled $1.12 million and $1.57 million at September 30, 2003 and June 30, 2003, respectively. The following is a summary of changes in the allowance for loan losses:

	Three Months Ended September 30, 2003 (Unaudited)	Year ended June 30, 2003 (Audited)
Balance, beginning of period	$ 672,841	$ 702,705
Transfer from interest reserve	--	--
Provision charged to operations	--	--
Charge-offs	--	(37,118)
Recoveries	2,397	7,254
Balance, end of period	$ 675,238	$ 672,841

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

NOTE 4. DEPOSITS

Deposits are summarized as follows:

	September 30, 2003 (Unaudited)	June 30, 2003 (Audited)
Noninterest checking	$ 9,379,650	$ 7,868,012
Interest-bearing checking	27,823,437	27,125,488
Passbook	26,392,453	25,762,108
Money market	32,871,476	30,177,605
Time certificates of deposit	77,335,215	77,490,852
Total	$173,802,231	$168,424,065

NOTE 5. EARNINGS PER SHARE

Basic earnings per share for the three months ended September 30, 2003 is computed using 1,180,258 weighted average shares outstanding. Diluted earnings per share is computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations are 1,194,058 for the three months ended September 30, 2003. 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 for the three months ended September 30, 2002 is computed using 1,189,457 weighted average shares outstanding.

NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM

This fiscal year Eagle has paid one dividend of $0.16 per share, on August 22, 2003. A dividend of $0.16 per share was declared on October 16, 2003, payable November 14, 2003 to stockholders of record on October 31, 2003. 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, 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 and January 21, 2003, 4,600 shares of the restricted stock plan vested and were distributed to the participants. By October 24, 2002, 23,000 shares had been repurchased, completing the repurchase program.

NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM (CONTINUED)

At their regular meeting of August 21, 2003, the Company's Board of Directors approved a stock repurchase program for up to 57,500 shares. This represents approximately 10% of the outstanding common stock held by the public. The repurchased shares will be held as treasury stock and will be held for general corporate purposes and/or issuance pursuant to Eagle's benefit plans. Timing is at the discretion of management.

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 the valuations, a temporary decline in the fair value was determined to have occurred, and a valuation allowance of $391,193 has been established. The following schedules show the activity in the mortgage servicing rights and the valuation allowance.

	Three months ended September 30,	Twelve months ended June 30,

	2003 (Unaudited)	2003 (Audited)
Mortgage Servicing Rights		
Beginning balance	$ 2,048,334	$ 1,609,833
Servicing rights capitalized	319,697	1,183,848
Servicing rights amortized	(265,135)	(745,345)
Ending balance	2,102,896	2,048,334
Valuation Allowance		
Beginning balance	756,720	21,515
Provision	(365,527)	735,205
Adjustments	--	--
Ending balance	391,193	756,720
Net Mortgage Servicing Rights	$ 1,711,703	$ 1,291,614

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 in this section are for the three months ended September 30, 2003.

Total assets increased by $5.79 million, or 2.85%, to $208.85 million at

September 30, 2003, from $203.06 million at June 30, 2003. Total liabilities increased by $5.58 million to $185.14 million at September 30, 2003, from $179.56 million at June 30, 2003. Total equity increased $210,000 to $23.71 million at September 30, 2003 from $23.50 million at June 30, 2003.

The growth in assets was primarily in the available-for-sale (AFS) investment portfolio, which increased $9.32 million, or 12.13%, to $86.18 million at September 30, 2003 from $76.86 million at June 30, 2003. The investment category with the largest increase was corporate obligations, which increased $7.66 million. The loan portfolio decreased $2.77 million, or 2.96%, to $90.75 million at September 30, 2003 from $93.52 million at June 30, 2003. Continued refinancing activity and the sale of predominantly all new originations contributed to the decline in single-family mortgage loans to $42.26 million at September 30, 2003 from $45.40 million at June 30, 2003. Consumer loans and real estate construction loans increased slightly, while all other loan categories showed moderate declines in balances. Total loan originations were $47.05 million for the three months ended September 30, 2003, with single family mortgages (including $2.73 million of construction loans) accounting for $41.46 million of the total. Home equity loan and consumer loan originations totaled $2.78 million and $2.31 million, respectively, for the same period. Loans held-for-sale decreased to $5.27 million at September 30, 2003 from $6.91 million at June 30, 2003.

Financial Condition (continued)

Growth in deposits funded asset growth. Deposits grew $5.38 million, or 3.19%, to $173.80 million at September 30, 2003 from $168.42 million at June 30, 2003. Growth in money market accounts and non-interest checking contributed to the increase in deposits. Passbook savings accounts and interest bearing checking showed modest increases, while certificates of deposit declined slightly.

The growth in total stockholders' equity was the result of earnings for the three months of $769,000, offset by an increase in the unrealized loss on securities available-for-sale of $497,000 and the payment of a $0.16 per share regular cash dividend.

Results of Operations for the Three Months Ending September 30, 2003 and 2002

Net Income. Eagle's net income was $769,000 and $617,000 for the three months ended September 30, 2003, and 2002, respectively. The increase of $152,000, or 24.64%, was primarily due to an increase in noninterest income of $713,000, offset by a decrease in net interest income of $282,000 and increases in noninterest expense of $245,000 and income tax expense of $34,000. Basic earnings per share increased to $0.65 for the current period, compared to $0.53 for the previous year's period.

Net Interest Income. Net interest income decreased to $1.38 million for the quarter ended September 30, 2003 from $1.66 million for the quarter ended September 30, 2002. This decrease of $282,000 was the result of a decrease in interest and dividend income of $485,000, partially offset by the decrease in interest expense of $203,000.

Interest and Dividend Income. Total interest and dividend income was $2.30 million for the quarter ended September 30, 2003, compared to $2.79 million for the quarter ended September 30, 2002, representing a decrease of $485,000, or 17.38%. Interest and fees on loans decreased to $1.67 million for the three months ended September 30, 2003 from $2.07 million for the same period ended September 30, 2002. This decrease of $397,000, or 19.18%, was due primarily to the decrease in the average balances of loans receivable for the quarter ended September 30, 2003 and the decline in the average interest rate earned on loans. Average balances for loans receivable, net, for the quarter ended September 30, 2003 were $97.90 million, compared to $107.18 million for the previous year. This represents a decrease of $9.28 million, or 8.66%. All loan categories except real estate construction and commercial real estate loans have shown decreases from the previous year. The average interest rate earned on loans receivable decreased by 89 basis points, from 7.73% at September 30, 2002 to 6.84% at September 30, 2003. Interest and dividends on investment securities available-for-sale (AFS) decreased to $560,000 for the quarter ended September 30, 2003 from $609,000 for the same quarter last year. Average balances on investments increased significantly, to $84.98 million for the quarter ended September 30, 2003, compared to $57.66 million for the quarter ended September 30, 2002. The average interest rate earned on investments dropped to 2.76% from 4.57%. Interest on securities held to maturity (HTM) decreased 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 September 30, 2003 and 2002 (continued)

$49,000 to $26,000 as new purchases are placed in the AFS portfolio. Interest earned from deposits held at other banks decreased to $18,000 for the quarter ended September 30, 2003 from $33,000 for the quarter ended September 30, 2002, due to the decline in short-term interest rates.

Interest Expense. Total interest expense decreased to $922,000 for the quarter ended September 30, 2003, from $1.12 million for the quarter ended September 30, 2002, a decrease of $203,000, or 18.13%, due to a decrease in interest paid on deposits. Interest on deposits decreased to $777,000 for the quarter ended September 30, 2003, from $978,000 for the quarter ended September 30, 2002. This decrease of $201,000, or 20.55%, 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 the comparable period last year. Passbook savings accounts and certificates of deposit saw the largest increases in average balances from the previous year. Average balances in interest-bearing deposit accounts increased to $162.92 million for the quarter ended September 30, 2003, compared to $146.52 million for the same quarter in the previous year. The average rate paid on liabilities decreased 75 basis points from the quarter ended September 30, 2002 to the quarter ended September 30, 2003. This is the result of the repricing of deposits as interest rates have declined. Management continues to look for additional opportunities to decrease interest expense, as the bank's net interest margin is squeezed due to the decline in interest income. The interest rate on passbook savings accounts will be lowered effective October 1, 2003, while the rates on other deposit account types are closely monitored.

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 (the Bank), to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, 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, 2003 or the quarter ended September 30, 2002. This is a reflection of the continued strong asset quality of the Bank's loan portfolio, as non-performing loan ratios continue to be below peer averages. Total classified assets declined from $1.57 million at June 30, 2003 to $1.12 million at September 30, 2003. The Bank currently has no foreclosed real estate.

Noninterest Income. Total noninterest income increased to $1.35 million for the quarter ended September 30, 2003, from $635,000 for the quarter ended September 30, 2002, an increase of $713,000 or 112.28%. This was the result of an increase in the value of the Bank's mortgage servicing rights, which increased $366,000. This increase is reflected in mortgage loan servicing fees. Mortgage loan servicing fees increased to $496,000 for the current quarter from $96,000 for the previous year's quarter. Increased loan originations compared to a year ago contributed to the increase in income from sale of loans to $589,000 from $309,000. Demand deposit service charges increased to $161,000 for the quarter ended September 30, 2003 from $129,000 for the quarter ended

Results of Operations for the Three Months Ending September 30, 2003 and 2002 (continued)

September 30, 2002, an increase of $32,000, or 24.81%. This was due to the implementation of higher fees introduced during the current quarter.

Noninterest Expense. Noninterest expense increased by $245,000 or 18.15% to $1.60 million for the quarter ended September 30, 2003, from $1.35 million for the quarter ended September 30, 2002. This increase was primarily due to an increase in amortization of mortgage servicing fees of $167,000. The increase in amortization of mortgage servicing fees was related to increased prepayment activity on mortgage loans. Excluding the mortgage servicing fee, amortization expense produces an increase in expenses of 6.19%. "Other" noninterest expense increased $58,000 due primarily to higher loan expenses, attributable to the increased lending volume during the current quarter. Advertising expense increased $12,000 due to increased advertising for consumer loans. Other expense categories showed minor changes.

Income Tax Expense. Eagle's income tax expense was $358,000 for the quarter ended September 30, 2003, compared to $324,000 for the quarter ended September 30, 2002. The effective tax rate for the quarter ended September 30, 2003 was 31.77% compared to 34.43% for the year ended June 30, 2003. Management expects Eagle's effective tax rate to be approximately 33%.

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 27.02% and 23.39% for the months ended September 30, 2003 and September 30, 2002, respectively. Liquidity increased due to growth in deposits and the increased loan sale volume for the period ended September 30, 2003.

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, 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 June 30, 2003 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS, worsened from the previous quarter, but improved slightly from one year ago. The Bank's capital ratio as measured by the OTS also decreased slightly from the previous quarter. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of September 30, 2003, the Bank exceeds all applicable regulatory capital requirements. At September 30, 2003, the Bank's tangible, core, and risk-based capital ratios amounted to 10.86%, 10.86%, and 18.64%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (dollar amounts in thousands):

	At September 30, 2003	
	Dollar	For Capital Adequacy Purposes

	Amount	% of Assets
Tangible capital:		
Capital level	$ 22,559	10.86%
Requirement	3,117	1.50
Excess	$ 19,442	9.36%
Core capital:		
Capital level	$ 22,559	10.86%
Requirement	6,235	3.00
Excess	$ 16,324	7.86%
Risk-based capital:		
Capital level	$ 23,214	18.64%
Requirement	9,962	8.00
Excess	$ 13,252	10.64%

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
EAGLE BANCORP AND SUBSIDIARY
CONTROLS AND PROCEDURES

As of September 30, 2003, an evaluation was performed under the supervision and with the participation of the company's Chief Executive Officer, Larry A. Dreyer, and Chief Financial Officer, Peter J. Johnson. Based on their evaluation, they have concluded that the company's disclosure controls and procedures are effective as of September 30, 2003 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. During the last fiscal quarter, there have been no significant changes in the company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

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.
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 15, 2003. The following matters were voted on at the meeting held on October 16, 2003:

1. Election of directors for three-year terms expiring in 2006:

	For:	Against:
Thomas J. McCarvel	1,144,618	1,792
James A. Maierle	1,144,618	1,792

2. Ratification of appointment of Anderson ZurMuehlen & Co., P.C. as auditors for the fiscal year ended June 30, 2004:

For:	Against:	Abstain:
1,145,250	700	460

Item 5. Other Information.
None.

Item 6. Exhibits and Reports on Form 8-K.
a.) Exhibits

31.1 Certification by Larry A. Dreyer, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Peter J. Johnson, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Larry A. Dreyer, Chief Executive Officer, and Peter J. Johnson, Chief Financial Officer, 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.

No current reports on Form 8-K were filed during the first quarter of the 2004 fiscal year. On July 17, 2003, the Company furnished under Item 9 of Form 8-K a press release announcing its earnings for the fourth quarter of the 2003 fiscal year and earnings for the year ended June 30, 2003. The information contained in the Form 8-K was intended to be furnished pursuant to Item 12, "Disclosure of Results of Operations and Financial Condition," and was included under Item 9 in accordance with Securities and Exchange Commission Release No. 33-8216.

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: November 12, 2003 By: /s/ Larry A. Dreyer

Larry A. Dreyer
President/CEO

Date: November 12, 2003 By: /s/ Peter J. Johnson

Peter J. Johnson
Sr. VP/Treasurer