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EAGLE BANCORP/MT  
Form 10QSB  
November 15, 2004

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2004

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](http://www.americanfederalsavingsbank.com)  
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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 1,156,872 shares outstanding  
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As of November 8, 2004

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

EAGLE BANCORP AND SUBSIDIARY

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EAGLE BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2004 ---- (Unaudited)	June 30, 2004 ---- (Audited)
ASSETS		
Cash and due from banks	\$ 3,471,837	\$ 3,587,145
Interest-bearing deposits with banks	6,077,903	759,621
	-----	-----
Total cash and cash equivalents	9,549,740	4,346,766
Investment securities available-for-sale, at market value	85,541,147	88,547,458
Investment securities held-to-maturity, at amortized cost	1,399,017	1,565,692
Federal Home Loan Bank stock, at cost	1,589,700	1,672,200
Mortgage loans held-for-sale	888,042	1,436,747
Loans receivable, net of deferred loan fees and allowance for loan losses	93,903,742	92,456,589
Accrued interest and dividends receivable	1,083,937	1,079,815
Mortgage servicing rights, net	1,905,709	2,003,258
Property and equipment, net	6,535,836	6,557,883
Cash surrender value of life insurance	2,497,306	2,476,842
Real estate acquired in settlement of loans, net of allowance for losses	-	-
Other assets	403,875	870,001
	-----	-----
Total assets	\$ 205,298,051 =====	\$ 203,013,251 =====

See accompanying notes to consolidated financial statements.

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

September 30, 2004 ----	June 30, 2004 ----
-------------------------------	--------------------------

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	(Unaudited)	(Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposit accounts:		
Noninterest bearing	\$ 10,898,484	\$ 9,267,458
Interest bearing	162,134,686	160,801,422
Advances from Federal Home Loan Bank	5,760,185	7,450,000
Accrued expenses and other liabilities	2,032,620	1,469,832
	-----	-----
Total liabilities	180,825,975	178,988,712
	-----	-----
Stockholders' Equity:		
Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)	-	-
Common stock (par value \$0.01 per share; 9,000,000 shares authorized; 1,223,572 shares issued; 1,190,372 and 1,212,372 outstanding at September 30, 2004 and June 30, 2004, respectively)	12,236	12,236
Additional paid-in capital	4,100,848	4,072,947
Unallocated common stock held by employee stock ownership plan ("ESOP")	(193,248)	(202,448)
Treasury stock, at cost (33,200 and 11,200 shares at September 30, 2004 and June 30, 2004, respectively)	(914,765)	(198,665)
Retained earnings	21,510,257	21,250,088
Accumulated other comprehensive income (loss)	(43,252)	(909,619)
	-----	-----
Total stockholders' equity	24,472,076	24,024,539
	-----	-----
Total liabilities and stockholders' equity	\$ 205,298,051	\$ 203,013,251
	=====	=====

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY  
QUARTERLY CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,	
	2004	2003
	-----	-----
	(Unaudited)	
Interest and Dividend Income:		
Interest and fees on loans	\$1,464,407	\$1,673,289
Interest on deposits with banks	15,418	18,399
FHLB Stock dividends	13,965	22,314
Securities available-for-sale	695,738	560,367
Securities held-to-maturity	17,665	25,978
	-----	-----

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Total interest and dividend income	2,207,193	2,300,347
Interest Expense:		
Deposits	578,485	776,770
FHLB Advances	60,299	145,409
Total interest expense	638,784	922,179
Net Interest Income	1,568,409	1,378,168
Loan loss provision	-	-
Net interest income after loan loss provision	1,568,409	1,378,168
Noninterest income:		
Net gain on sale of loans	114,465	588,981
Demand deposit service charges	139,183	161,316
Mortgage loan servicing fees	84,423	495,696
Net gain on sale of available-for-sale securities	(193)	9,911
Other	94,449	91,897
Total noninterest income	432,327	1,347,801

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2004	2003
	(Unaudited)	
Noninterest expense:		
Salaries and employee benefits	808,888	720,005
Occupancy expenses	125,610	120,285
Furniture and equipment depreciation	78,260	61,106
In-house computer expense	61,866	59,583
Advertising expense	39,844	45,020
Amortization of mtg servicing fees	95,620	265,135
Federal insurance premiums	6,219	6,478
Postage	25,546	30,845
Legal, accounting, and examination fees	34,700	28,242
Consulting fees	11,027	7,560
ATM processing	11,626	13,777
Other	200,181	240,731
Total noninterest expense	1,499,387	1,598,767
Income before provision for income taxes	501,349	1,127,202

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Provision for income taxes	143,642	357,847
Net income	\$ 357,707	\$ 769,355
Basic earnings per share	\$ 0.31	\$ 0.65
Diluted earnings per share	\$ 0.30	\$ 0.64
Weighted average shares outstanding (basic eps)	1,172,153	1,180,258
Weighted average shares outstanding (diluted eps)	1,198,658	1,194,058

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS' EQUITY For the Three Months  
Ended September 30, 2004

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNING
Balance, June 30, 2004	\$ -	\$12,236	\$4,072,947	\$ (202,448)	\$ (198,665)	\$21,250,0
Net income (unaudited)	-	-	-	-	-	357,7
Other comprehensive income (unaudited)	-	-	-	-	-	-
Total comprehensive income (unaudited)	-	-	-	-	-	-
Dividends paid (\$.18 per share) (unaudited)	-	-	-	-	-	(97,5
Treasury stock purchased (22,000 shares @ \$32.55) (unaudited)	-	-	-	-	(716,100)	
ESOP shares allocated or committed to be released for allocation (1,150 shares) (unaudited)	-	-	27,901	9,200	-	
Balance, September 30, 2004 (unaudited)	\$ -	\$12,236	\$4,100,848	\$ (193,248)	\$ (914,765)	\$21,510,

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Month September 2004 ----- (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 357,707
Adjustments to reconcile net income to net cash from operating activities:	
Provision for mortgage servicing rights valuation losses	58,605
Depreciation	126,850
Net amortization of marketable securities premium and discounts	395,908
Amortization of capitalized mortgage servicing rights	95,620
Gain on sale of loans	(114,465)
Gain on sale of real estate owned	-
Net realized (gain) loss on sale of available-for-sale securities	193
FHLB & other dividends reinvested	(13,900)
Increase in cash surrender value of life insurance	(20,464)
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accrued interest and dividends receivable	(4,122)
Loans held-for-sale	653,929
Other assets	103,694
Increase (decrease) in liabilities:	
Accrued expenses and other liabilities	436,931
Deferred compensation payable	-
Deferred income taxes payable	-
	-----
Net cash provided by operating activities	2,076,486
	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of securities:	
Investment securities available-for-sale	(3,939,351)
Proceeds from maturities, calls and principal payments:	
Investment securities held-to-maturity	165,764
Investment securities available-for-sale	5,910,857
Proceeds from sales of investment securities available-for-sale	2,040,611
Proceeds from the sale of real estate acquired settlement of loans	-

See accompanying notes to consolidated financial statements.

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

	Three Months September 2004
	----- (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES (CONTINUED):	
Net (increase) decrease in loan receivable, excludes transfers to real estate acquired in settlement of loans	(1,503,827)
FHLB stock redeemed	96,400
Purchase of property and equipment	(104,803)
	-----
Net cash used in investing activities	2,665,651
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase in checking and savings accounts	2,964,290
Net increase (decrease) in overnight FHLB advances	(1,450,000)
FHLB advances	-
Payments on FHLB advances	(239,815)
Sale (Purchase) of Treasury Stock	(716,100)
Dividends paid	(97,538)
	-----
Net cash provided by financing activities	460,837
	-----
Net increase (decrease) in cash and cash equivalents	5,202,974
CASH AND CASH EQUIVALENTS, beginning of period	4,346,766
	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 9,549,740
	=====
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid during the period for interest	\$ 633,396
	=====
Cash paid during the period for income taxes	\$ -
	=====
NON-CASH INVESTING ACTIVITIES:	
(Increase) decrease in market value of securities available-for-sale	\$(1,400,996)
	=====
Mortgage servicing rights capitalized	\$ 56,676
	=====

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

The results of operations for the three month period ended September 30, 2004 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2005 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 Bancorp's Form 10-KSB dated June 30, 2004.

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

### NOTE 2. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	September 30, 2004 (Unaudited)			June 30, 2004 (Audited)	
	AMORTIZED COST	GROSS UNREALIZED GAINS (LOSSES)	FAIR VALUE	AMORTIZED COST	GROSS UNREALIZED GAINS (LOSSES)
Available-for-sale:					
U.S. government and agency obligations	\$ 9,179,043	\$ 13,542	\$ 9,192,585	\$ 11,071,378	\$ (159,926)
Municipal obligations	8,766,397	167,105	8,933,502	9,267,086	(194,580)
Corporate obligations	17,621,287	21,723	17,643,010	17,934,087	(338,757)
Mortgage-backed securities	15,763,830	(48,735)	15,715,095	16,755,411	(174,212)
Mutual Funds	-	-	-	99,693	477
Collateralized mortgage obligations	32,210,840	(61,844)	32,148,996	32,821,048	(405,785)
Common stock	128,908	4,892	133,800	128,908	(1,872)
Corporate preferred stock	1,950,000	(175,841)	1,774,159	1,950,000	(205,498)
Total	\$ 85,620,305	\$ (79,158)	\$ 85,541,147	\$ 90,027,611	\$ (1,480,153)

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Held-to-maturity:					
Municipal obligations	\$ 830,063	\$ 51,497	\$ 881,560	\$ 930,422	\$ 35,999
Mortgage-backed securities	568,954	27,595	596,549	635,270	28,849
Total	\$ 1,399,017	\$ 79,092	\$ 1,478,109	\$ 1,565,692	\$ 64,848

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EAGLE BANCORP AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

	September 30, 2004 (Unaudited)	June 30, 2004 (Audited)
First mortgage loans:		
Residential mortgage (1-4 family)	\$ 51,307,843	\$ 49,044,832
Commercial real estate	10,357,988	9,336,336
Real estate construction	2,860,368	5,101,591
Other loans:		
Home equity	15,073,130	14,874,279
Consumer	10,496,687	9,801,698
Commercial	4,342,225	4,840,045
Total	94,438,241	92,998,781
Less: Allowance for loan losses	(605,496)	(627,733)
Deferred loan fees	70,997	85,541
Total	\$ 93,903,742	\$ 92,456,589

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were \$601,000 and \$497,000 at September 30, 2004 and June 30, 2004, respectively. Classified assets, including real estate owned, totaled \$920,000 and \$924,000 at September 30, 2004 and June 30, 2004, respectively.

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

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	Three Months Ended September 30, 2004 (Unaudited)	Year ended June 30, 2004 (Audited)
	-----	-----
Balance, beginning of period	\$ 627,733	\$ 672,841
Reclassification to repossessed property reserve	(10,587)	(8,671)
Provision charged to operations	-	-
Charge-offs	(13,842)	(45,431)
Recoveries	2,192	8,994
	-----	-----
Balance, end of period	\$ 605,496	\$ 627,733
	=====	=====

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

NOTE 4. DEPOSITS

Deposits are summarized as follows:

	September 30, 2004 (Unaudited)	June 2003 (Audited)
	-----	-----
Noninterest checking	\$ 10,898,484	\$ 9,267,000
Interest-bearing checking	30,088,629	29,370,000
Passbook	26,692,111	25,862,000
Money market	30,256,188	30,332,000
Time certificates of deposit	75,097,758	75,235,000
	-----	-----
Total	\$ 173,033,170	\$ 170,068,000
	=====	=====

NOTE 5. EARNINGS PER SHARE

Basic earnings per share for the three months ended September 30, 2004 is computed using 1,172,153 weighted average shares outstanding. 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 1,198,658 for the three months ended September 30, 2004 and 1,194,058 for the three months ended September 30, 2003.

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### NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM

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This fiscal year Eagle has paid a dividend of \$0.18 per share on August 27, 2004. A dividend of \$0.18 per share was declared on October 21, 2004, payable November 19, 2004 to stockholders of record on November 5, 2004. Eagle Financial MHC, Eagle's mutual holding company, has waived the receipt of dividends on its 648,493 shares.

At their regular meeting of August 21, 2003, the Company's Board of Directors announced 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. As of November 10, 2004, 57,500 shares have been purchased, thereby completing the program.

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

### NOTE 7. MORTGAGE SERVICING RIGHTS

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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 \$118,953 has been established. The following schedules show the activity in the mortgage servicing rights and the valuation allowance.

	Three months ended September 30, 2004 (Unaudited)	Twelve months ended June 30, 2004 (Audited)
	-----	-----
Mortgage Servicing Rights		
Beginning balance	\$ 2,063,606	\$ 2,048,
Servicing rights capitalized	56,676	643,
Servicing rights amortized	(95,620)	(628,
	-----	-----
Ending balance	2,024,662	2,063,
	-----	-----
Valuation Allowance		

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Beginning balance	60,348	756,
Provision	58,605	(696,
Adjustments		
	118,953	60,
	-----	-----
Net Mortgage Servicing Rights	\$ 1,905,709	\$ 2,003,
	=====	=====

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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 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, 2004.

Total assets increased by \$2.29 million, or 1.13%, to \$205.30 million at September 30, 2004, from \$203.01 million at June 30, 2004. Total liabilities increased by \$1.84 million to \$180.83 million at September 30, 2004, from \$178.99 million at June 30, 2004. Total equity increased \$450,000 to \$24.47 million at September 30, 2004 from \$24.02 million at June 30, 2004.

Interest-bearing deposits with banks increased \$5.32 million to \$6.08 million at September 30, 2004. Loans receivable increased \$1.44 million, or 1.56%, to \$93.90 million at September 30, 2004 from \$92.46 million at June 30, 2004. Single-family mortgage loans were the loan category with the largest increase, \$2.27 million, and most loan categories showed some increase. Total loan originations were \$20.22 million for the three months ended September 30, 2004,

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with single family mortgages (including \$885,000 of construction loans) accounting for \$13.61 million of the total. Home equity loan and consumer loan originations totaled \$2.19 million and \$1.58 million, respectively, for the same period. Commercial real estate and land loan originations totaled \$1.68 million. Loans held-for-sale decreased to \$888,000 at September 30, 2004 from \$1.44 million at June 30, 2004.

Growth in deposits funded asset growth. Deposits grew \$2.96 million, or 1.74%, to \$173.03 million at September 30, 2004 from \$170.07 million at June 30, 2004. Growth in non-interest checking and passbook savings accounts contributed to the increase in deposits. Interest bearing checking showed a modest increase, while certificates of deposit and money market accounts declined slightly.

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

#### Financial Condition (continued)

The growth in total equity was the result of earnings for the three months of \$358,000 and the decrease in the unrealized loss on securities available-for-sale of \$866,000, offset by the payment of an \$0.18 per share regular cash dividend and Company stock repurchases.

#### Results of Operations for the Three Months Ending September 30, 2004 and 2003

**Net Income.** Eagle's net income was \$358,000 and \$769,000 for the three months ended September 30, 2004, and 2003, respectively. The decrease of \$411,000, or 53.45%, was primarily due to a decrease in noninterest income of \$915,000, offset by an increase in net interest income of \$190,000 and decreases in noninterest expense of \$100,000 and income tax expense of \$214,000. Basic earnings per share were \$0.31 for the current period, compared to \$0.65 for the previous year's period.

**Net Interest Income.** Net interest income increased to \$1.57 million for the quarter ended September 30, 2004 from \$1.38 million for the quarter ended September 30, 2003. This increase of \$190,000 was the result of a decrease in interest expense of \$283,000, partially offset by the decrease in interest and dividend income of \$93,000.

**Interest and Dividend Income.** Total interest and dividend income was \$2.21 million for the quarter ended September 30, 2004, compared to \$2.30 million for the quarter ended September 30, 2003, representing a decrease of \$93,000, or 4.04%. Interest and fees on loans decreased to \$1.46 million for the three months ended September 30, 2004 from \$1.67 million for the same period ended September 30, 2003. This decrease of \$209,000, or 12.49%, was due primarily to the decrease in the average balances of loans receivable for the quarter ended September 30, 2004 and the decline in the average interest rate earned on loans. Average balances for loans receivable, net, for the quarter ended September 30, 2004 were \$93.45 million, compared to \$97.90 million for the previous period. This represents a decrease of \$4.45 million, or 4.55%. This decrease is smaller than previous quarters, and all loan categories except real estate construction and commercial real estate loans have shown increases from the previous year. Commercial real estate loans are down since last year as the government guaranteed portion of a large loan was sold during the past twelve months. The average interest rate earned on loans receivable decreased by 57 basis points,

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from 6.84% at September 30, 2003 to 6.27% at September 30, 2004. Interest and dividends on investment securities available-for-sale (AFS) increased to \$696,000 for the quarter ended September 30, 2004 from \$560,000 for the same quarter last year. Average balances on investments increased to \$88.04 million for the quarter ended September 30, 2004, compared to \$84.98 million for the quarter ended September 30, 2003. The average interest rate earned on investments increased to 3.24% from 2.76%. Interest on securities held to maturity (HTM) decreased from \$26,000 to \$18,000 as new purchases are placed in the AFS portfolio. Dividends on Federal Home Loan Bank (FHLB) stock decreased to \$14,000 for the quarter ended September 30, 2004 from \$22,000 for the quarter ended September 30, 2003, due to the decline in holdings of FHLB stock.

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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, 2004 and 2003  
(continued)

Interest Expense. Total interest expense decreased to \$639,000 for the quarter ended September 30, 2004, from \$922,000 for the quarter ended September 30, 2003, a decrease of \$283,000, or 30.69%. Interest on deposits decreased to \$579,000 for the quarter ended September 30, 2004, from \$777,000 for the quarter ended September 30, 2003. This decrease of \$198,000, or 25.48%, was the result of a decrease in average rates paid on deposit accounts. All deposit accounts showed decreases in average rates paid and two categories, certificates of deposit and money market accounts, had decreases in average balances in the current quarter compared to last year's quarter. Average balances in interest-bearing deposit accounts decreased to \$161.32 million for the quarter ended September 30, 2004, compared to \$162.92 million for the same quarter in the previous year. The average rate paid on liabilities decreased 61 basis points from the quarter ended September 30, 2003 to the quarter ended September 30, 2004. This is the result of the repricing of deposits in the current low interest rate environment. A decrease in the average balance of borrowings from the FHLB, as well as a decrease in average rate paid, resulted in a decrease in interest paid on borrowings to \$60,000 in the current quarter compared to \$145,000 in the previous year's quarter. This was mainly attributable to the Company paying off higher rate borrowings in June 2004. Another \$2.00 million of higher rate borrowings matured in early October, and will likely result in a further decrease in interest expense on borrowings.

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, 2004 or the quarter ended September 30, 2003. 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 slightly from \$924,000 at June 30, 2004 to \$920,000 at September 30, 2004 and total less than 1% of the total loan portfolio. The Bank currently has no foreclosed real estate.

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Noninterest Income. Total noninterest income decreased to \$432,000 for the quarter ended September 30, 2004, from \$1.35 million for the quarter ended September 30, 2003, a decrease of \$915,000. This was the result of a decline in net gain on sale of loans (due to a slowdown in mortgage refinance activity) and to the lower valuation of the Bank's mortgage servicing rights, which decreased \$59,000. The latter's decrease is reflected in mortgage loan servicing fees. Mortgage loan servicing fees decreased to \$84,000 for the current quarter from \$496,000 for the previous year's quarter. Last year's results included an increase in the Bank's mortgage servicing rights of \$366,000. Income from sale of loans decreased to \$114,000 from \$589,000. Demand deposit service charges decreased to \$139,000 for the quarter ended September 30, 2004 from \$161,000 for the quarter ended September 30, 2003. This was due to decreased income on overdraft charges.

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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, 2004 and 2003  
(continued)

Noninterest Expense. Noninterest expense decreased by \$100,000 or 6.25% to \$1.50 million for the quarter ended September 30, 2004, from \$1.60 million for the quarter ended September 30, 2003. This decrease was primarily due to a decrease in amortization of mortgage servicing fees of \$170,000. The decrease in amortization of mortgage servicing fees was related to decreased prepayment activity on mortgage loans. Excluding the mortgage servicing fee amortization expense produces an increase in expenses of 5.26%. Salaries and employee benefits increased \$89,000 due primarily to a reduction in the amount of salaries capitalized for SFAS 91 (as loan originations decline, the amount of capitalized salary expense declines, thereby increasing salary expense). Furniture and equipment depreciation expense increased \$17,000 due to the purchase of new computer equipment during the last twelve months. "Other" noninterest expense decreased \$41,000 due primarily to lower loan expenses, attributable to the decreased lending volume during the current quarter. Other expense categories showed minor changes.

Income Tax Expense. Eagle's income tax expense was \$144,000 for the quarter ended September 30, 2004, compared to \$358,000 for the quarter ended September 30, 2003. The effective tax rate for the quarter ended September 30, 2004 was 28.65% and was 31.75% for the quarter ended September 30, 2003. Management expects Eagle's effective tax rate to be approximately 31%.

#### Liquidity, Interest Rate Sensitivity and Capital Resources

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 18.46% and 27.02% for the three months ended September 30, 2004 and September 30, 2003, respectively. Liquidity decreased due to the decreased investment balances and the pledging of



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certain securities as collateral for FHLB borrowings.

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 June 30, 2004 (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. The Bank's capital ratio as measured by the OTS also decreased slightly from the previous quarter, but improved from one year ago. The Bank's strong capital position mitigates its interest rate risk exposure. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of September 30, 2004, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2004, the Bank's tangible, core, and risk-based capital ratios amounted to 11.48%, 11.48%, and 18.94%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

	(Unaudited)	
	At September 30, 2004	
	Dollar Amount	For Capital Adequacy Purposes % of Assets
	-----	-----
Tangible capital:		
Capital level	\$ 23,477	11.48%
Requirement	3,068	1.50
	-----	-----
Excess	\$ 20,409	9.98%
	=====	=====

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Core capital:		
Capital level	\$ 23,477	11.48%
Requirement	6,135	3.00
	-----	-----
Excess	\$ 17,342	8.48%
	=====	=====
Risk-based capital:		
Capital level	\$ 24,049	18.94%
Requirement	10,159	8.00
	-----	-----
Excess	\$ 13,890	10.94%
	=====	=====

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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 generally accepted accounting principles, 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.

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EAGLE BANCORP AND SUBSIDIARY  
CONTROLS AND PROCEDURES

Based on their evaluation, the company's Chief Executive Officer, Larry A. Dreyer, and Chief Financial Officer, Peter J. Johnson, have concluded the company's disclosure controls and procedures are effective as of September 30, 2004 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.

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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. Unregistered Sales of Equity Securities Use of Proceeds.

c.) Small Business Issuer Purchases of Equity Securities.

Period	Total Number of Shares Purchased*	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Program
July 2004 7-1-04 to 7-31-04	22,000	\$32.55	24,000	33,500
August 2004 8-1-04 to 8-31-04	None	N/A	N/A	
September 2004 9-1-04 to 9-30-04	None	N/A	N/A	
Total	22,000	\$32.55	24,000	33,500

\*The Company publicly announced a stock repurchase program on August 21, 2003. The Company is authorized to acquire up to 57,500 shares of common stock with the price subject to market conditions. No expiration date was set for the repurchase program.

Item 3. Defaults Upon Senior Securities.  
Not applicable.

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Part II - OTHER INFORMATION (CONTINUED)

Item 4. Submission of Matters to a Vote of Security Holders. The proxy statement for the Annual Meeting of Stockholders was mailed on September 17, 2004. The following matters were voted on at the meeting held on October 21, 2004:

a.) Election of directors for three-year terms expiring in 2007:

	For	Against:
	-----	-----
Don O. Campbell	1,126,137	2,427
Charles G. Jacoby	1,126,262	2,302
Robert L. Pennington	1,126,262	2,302

b.) Ratification of appointment of Anderson ZurMuehlen & Co., P.C. as auditors for the fiscal year ended June 30, 2005:

For:	Against:	Abstain:
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1,127,479	885	200

Item 5. Other Information. None.

Item 6. Exhibits.

10.4 American Federal Savings Bank Split-Dollar Plan.

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 (a) 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 (a) 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.

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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 11, 2004

By: /s/ Larry A. Dreyer

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Larry A. Dreyer  
President/Chief Executive Officer

Date: November 11, 2004

By: /s/ Peter J. Johnson  
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Peter J. Johnson  
Chief Financial Officer

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