EAGLE BANCORP/MT
Form 10QSB
February 09, 2007

**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 December 31, 2006

o 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<br>(State or other jurisdiction of incorporation or organization) | 81-0531318<br>(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

Check whether the issuer (1) filed all reports to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a shell company (defined in Rule 12b-2 of the Exchange Act). Yes o No x

**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 | 1,085,357 shares outstanding |

As of February 1, 2007

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

EAGLE BANCORP AND SUBSIDIARY

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in Thousands, Except for Per Share Data)

| | December 31, 2006 (Unaudited) | June 30, 2006 (Audited) |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 4,421 | $ 2,844 |
| Interest-bearing deposits with banks | 509 | 27 |
| Total cash and cash equivalents | 4,930 | 2,871 |
| | | |
| Investment securities available-for-sale, at market value | 66,446 | 64,198 |
| Investment securities held-to-maturity, at amortized cost | 977 | 1,018 |
| Investment in Eagle Bancorp Statutory Trust I | 155 | 155 |
| Federal Home Loan Bank stock, at cost | 1,315 | 1,315 |
| Mortgage loans held-for-sale | 2,063 | 918 |
| Loans receivable, net of deferred loan fees and allowance for loan losses of $520 at December 31, 2006 and $535 at June 30, 2006 | 147,331 | 140,858 |
| Accrued interest and dividends receivable | 1,280 | 1,211 |
| Mortgage servicing rights, net | 1,682 | 1,722 |
| Property and equipment, net | 5,938 | 5,962 |
| Cash surrender value of life insurance | 5,664 | 5,230 |
| Real estate acquired in settlement of loans, net of allowance for losses | — | — |
| Other assets | 304 | 720 |
| | | |
| Total assets | $ 238,085 | $ 226,178 |

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)
(Dollars in Thousands, Except for Per Share Data)

| | December 31, 2006 (Unaudited) | June 30, 2006 (Audited) |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposit accounts: | | |
| Noninterest bearing | $ 12,575 | $ 12,575 |
| Interest bearing | 162,760 | 161,767 |
| Advances from Federal Home Loan Bank and Other Borrowings | 31,863 | 22,371 |
| Long-term subordinated debentures | 5,155 | 5,155 |
| Accrued expenses and other liabilities | 1,863 | 1,765 |
| Total liabilities | 214,216 | 203,633 |
| 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; 1,086,557 and 1,091,722 shares outstanding at December 31, 2006 and June 30, 2006, respectively) | 12 | 12 |
| Additional paid-in capital | 4,330 | 4,274 |
| Unallocated common stock held by employee stock ownership plan ("ESOP") | (110) | (129) |
| Treasury stock, at cost | (4,687) | (4,521) |
| Retained earnings | 24,746 | 24,056 |
| Accumulated other comprehensive income (loss) | (422) | (1,147) |
| Total stockholders' equity | 23,869 | 22,545 |
| Total liabilities and stockholders' equity | $ 238,085 | $ 226,178 |

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
QUARTERLY CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands, Except for Per Share Data)

| | Three Months Ended December 31, 2006 | Three Months Ended December 31, 2005 | Six Months Ended December 31, 2006 | Six Months Ended December 31, 2005 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| Interest and Dividend Income: | | | | |
| Interest and fees on loans | $ 2,378 | $ 1,897 | $ 4,689 | $ 3,687 |
| Interest on deposits with banks | 16 | 36 | 28 | 47 |
| FHLB stock dividends | 1 | — | 1 | — |
| Securities available-for-sale | 696 | 640 | 1,356 | 1,263 |
| Securities held-to-maturity | 11 | 13 | 22 | 27 |
| Total interest and dividend income | 3,102 | 2,586 | 6,096 | 5,024 |
| | | | | |
| Interest Expense: | | | | |
| Deposits | 1,042 | 717 | 1,976 | 1,383 |
| Advances and other borrowings | 355 | 104 | 686 | 204 |
| Subordinated debentures | 75 | 75 | 150 | 77 |
| Total interest expense | 1,472 | 896 | 2,812 | 1,664 |
| | | | | |
| Net interest income | 1,630 | 1,690 | 3,284 | 3,360 |
| Loan loss provision | — | — | — | — |
| Net interest income after loan loss provision | 1,630 | 1,690 | 3,284 | 3,360 |
| | | | | |
| Noninterest income: | | | | |
| Net gain on sale of loans | 190 | 128 | 309 | 301 |
| Demand deposit service charges | 128 | 136 | 263 | 279 |
| Mortgage loan servicing fees | 133 | 130 | 271 | 321 |
| Net gain on sale of available-for-sale securities | 1 | — | 1 | 1 |
| Other | 140 | 123 | 285 | 258 |
| Total noninterest income | 592 | 517 | 1,129 | 1,160 |

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
QUARTERLY CONSOLIDATED STATEMENTS OF INCOME (Continued)
(Dollars in Thousands, Except for Per Share Data)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | (Unaudited) | | (Unaudited) | |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 914 | 906 | 1,752 | 1,738 |
| Occupancy expenses | 133 | 133 | 275 | 258 |
| Furniture and equipment depreciation | 68 | 78 | 147 | 157 |
| In-house computer expense | 70 | 68 | 141 | 135 |
| Advertising expense | 60 | 46 | 153 | 116 |
| Amortization of mtg servicing fees | 73 | 92 | 149 | 198 |
| Federal insurance premiums | 5 | 6 | 11 | 12 |
| Postage | 21 | 19 | 39 | 42 |
| Legal, accounting, and examination fees | 66 | 61 | 124 | 95 |
| Consulting fees | 20 | 12 | 36 | 30 |
| ATM processing | 10 | 12 | 22 | 24 |
| Other | 221 | 204 | 428 | 424 |
| Total noninterest expense | 1,661 | 1,637 | 3,277 | 3,229 |
| Income before provision for income taxes | 561 | 570 | 1,136 | 1,291 |
| Provision for income taxes | 100 | 125 | 253 | 347 |
| Net income | $ 461 | $ 445 | $ 883 | $ 944 |
| Basic earnings per share | $ 0.43 | $ 0.41 | $ 0.82 | $ 0.87 |
| Diluted earnings per share | $ 0.38 | $ 0.37 | $ 0.73 | $ 0.78 |
| Weighted average shares outstanding (basic eps) | 1,072,540 | 1,077,640 | 1,073,100 | 1,079,122 |
| Weighted average shares outstanding (diluted eps) | 1,209,012 | 1,204,412 | 1,208,435 | 1,203,835 |

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended December 31, 2006
(Dollars in Thousands, Except for Per Share Data)

| | PREFERRED STOCK | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | UNALLOCATED ESOP SHARES | TREASURY STOCK | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Balance, June 30, 2006 | $ — | $ 12 | $ 4,274 | $ (129) | $ (4,521) | $ 24,056 | $ (1,147) | $ 22,545 |
| Net income | — | — | — | — | — | 883 | — | 883 |
| Other comprehensive income | — | — | — | — | — | — | 725 | 725 |
| Total comprehensive income | | | | | | | | 1,608 |
| Dividends paid ($.44 per share) | — | — | — | — | — | (193) | — | (193) |
| Treasury stock purchased (3,100 shares @ $31.90; 1,065 shares @ $32.00; 1,000 shares @ $32.60 | — | — | — | — | (166) | — | — | (166) |
| ESOP shares allocated or committed to be released for allocation (2,300 shares) | — | — | 56 | 19 | — | — | — | 75 |
| Balance, December 31, 2006 | $ — | $ 12 | $ 4,330 | $ (110) | $ (4,687) | $ 24,746 | $ (422) | $ 23,869 |

See accompanying notes to consolidated financial statements.

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EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands, Except for Per Share Data)

| | Six Months Ended December 31, 2006 | 2005 |
|---|---|---|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 883 | $ 944 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Provision for mortgage servicing rights valuation losses | — | (46) |
| Depreciation | 249 | 256 |
| Net amortization of marketable securities premium and discounts | 318 | 546 |
| Amortization of capitalized mortgage servicing rights | 149 | 198 |
| Gain on sale of loans | (309) | (301) |
| Net realized (gain) loss on sale of available-for-sale securities | (1) | (1) |
| FHLB & other dividends reinvested | — | — |
| Increase in cash surrender value of life insurance | (91) | (92) |
| Loss on sale of real estate owned | — | 6 |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accrued interest and dividends receivable | (68) | (41) |
| Loans held-for-sale | (825) | 1,622 |
| Other assets | 432 | 31 |
| Increase (decrease) in liabilities: | | |
| Accrued expenses and other liabilities | (254) | 199 |
| Net cash provided by operating activities | 483 | 3,321 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of securities: | | |
| Investment securities held-to-maturity | — | — |
| Investment securities available-for-sale | (13,720) | (4,269) |
| Proceeds from maturities, calls and principal payments: | | |
| Investment securities held-to-maturity | 56 | 90 |
| Investment securities available-for-sale | 8,977 | 9,836 |
| FHLB stock redeemed | — | — |
| Proceeds from sales of investment securities available-for-sale | 3,316 | 505 |
| Net increase in loans receivable, excludes transfers to real estate acquired in settlement of loans | (6,610) | (15,426) |
| Purchase of stock in non-consolidated subsidiaries | — | (155) |

See accompanying notes to consolidated financial statements.

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in Thousands, Except for Per Share Data)

| | Six Months Ended December 31, 2006 | 2005 |
|---|---|---|
| | (Unaudited) | |
| CASH FLOWS FROM INVESTING ACTIVITIES (CONTINUED): | | |
| Purchase of property and equipment | (225) | (138) |
| Purchase of bank owned life insurance | (342) | — |
| Proceeds from the sale of real estate acquired in the settlement of loans | — | 69 |
| Net cash used in investing activities | (8,548) | (9,488) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase (decrease) in checking and savings accounts | 993 | (394) |
| Net (decrease) increase in federal funds | (2,175) | 1,400 |
| Payments on FHLB advances | (9,334) | (584) |
| FHLB advances | 21,000 | 1,000 |
| Issue of subordinated debentures | — | 5,155 |
| Sale (purchase) of treasury stock | (166) | (285) |
| Dividends paid | (194) | (180) |
| Net cash provided by financing activities | 10,124 | 6,112 |
| Net increase (decrease) in cash and cash equivalents | 2,059 | (55) |
| CASH AND CASH EQUIVALENTS, beginning of period | 2,871 | 4,966 |
| CASH AND CASH EQUIVALENTS, end of period | $ 4,930 | $ 4,911 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | $ 2,926 | $ 1,724 |
| Cash paid during the period for income taxes | $ 322 | $ 387 |
| NON-CASH INVESTING ACTIVITIES: | | |
| (Increase) decrease in market value of securities available-for-sale | $ (957) | $ 642 |
| Mortgage servicing rights capitalized | $ 108 | $ 109 |

See accompanying notes to consolidated financial statements.

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

**NOTE 1: BASIS OF PRESENTATION**

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

The results of operations for the three and six month periods ended December 31, 2006 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2007 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, 2006.

**NOTE 2: INVESTMENT SECURITIES**

Investment securities are summarized as follows:
(Dollars in Thousands, Except for Per Share Data)

| | December 31, 2006 (Unaudited) | | | June 30, 2006 (Audited) | | |
|---|---|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS/(LOSSES) | FAIR VALUE | AMORTIZED COST | GROSS UNREALIZED GAINS/(LOSSES) | FAIR VALUE |
| **Available-for-sale:** | | | | | | |
| U.S. government and agency obligations | $ 4,145 | $ (54) | $ 4,091 | $ 7,448 | $ (152) | $ 7,296 |
| Municipal obligations | 18,237 | 89 | 18,326 | 17,471 | (328) | 17,143 |
| Corporate obligations | 14,986 | (200) | 14,786 | 16,059 | (442) | 15,617 |
| Mortgage-backed securities | 8,066 | (106) | 7,960 | 6,949 | (202) | 6,747 |
| Collateralized mortgage obligations | 19,917 | (239) | 19,678 | 16,330 | (513) | 15,817 |
| Corporate preferred stock | 1,800 | (195) | 1,605 | 1,800 | (222) | 1,578 |
| Total | $ 67,151 | $ (705) | $ 66,446 | $ 66,057 | $ (1,859) | $ 64,198 |
| **Held-to-maturity:** | | | | | | |
| Municipal obligations | $ 827 | $ 15 | $ 842 | $ 828 | $ 12 | $ 840 |
| Mortgage-backed securities | 150 | 1 | 151 | 190 | - | 190 |
| Total | $ 977 | $ 16 | $ 993 | $ 1,018 | $ 12 | $ 1,030 |

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

**NOTE 3: LOANS RECEIVABLE**

Loans receivable consist of the following:

| *(Dollars in Thousands)* | December 31, 2006 (Unaudited) | June 30, 2006 (Audited) |
|---|---|---|
| First mortgage loans: | | |
| Residential mortgage (1-4 family) | $ 78,665 | $ 75,913 |
| Commercial real estate | 20,395 | 18,648 |
| Real estate construction | 6,671 | 6,901 |
| Other loans: | | |
| Home equity | 23,836 | 20,191 |
| Consumer | 10,339 | 11,820 |
| Commercial | 7,877 | 7,861 |
| Total | 147,783 | 141,334 |
| Less: Allowance for loan losses | (520) | (535) |
| Deferred loan fees | 68 | 59 |
| Total | $ 147,331 | $ 140,858 |

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were $382 and $345 at December 31, 2006 and June 30, 2006, respectively. Classified assets, including real estate owned, totaled $692 and $700 at December 31, 2006 and June 30, 2006, respectively.

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

| *(Dollars in Thousands)* | Six Months Ended December 31, 2006 (Unaudited) | Year Ended June 30, 2006 (Audited) |
|---|---|---|
| Balance, beginning of period | $ 535 | $ 573 |
| Reclassification to repossessed property reserve | — | (15) |
| Provision charged to operations | — | — |
| Charge-offs | (22) | (48) |
| Recoveries | 7 | 25 |
| Balance, end of period | $ 520 | $ 535 |

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

**NOTE 4: DEPOSITS**

Deposits are summarized as follows:

| *(Dollars in Thousands)* | December 31, 2006 (Unaudited) | June 30, 2006 (Audited) |
|---|---|---|
| Noninterest checking | $ 12,575 | $ 12,575 |
| Interest-bearing checking | 31,149 | 29,571 |
| Passbook | 22,400 | 24,438 |
| Money market | 26,205 | 29,129 |
| Time certificates of deposit | 83,006 | 78,629 |
| Total | $ 175,335 | $ 174,342 |

**NOTE 5: EARNINGS PER SHARE**

Basic earnings per share for the three months ended December 31, 2006 is computed using 1,072,540 weighted average shares outstanding. Earnings per share for the six months ended December 31, 2006 is computed using 1,073,100 weighted average shares outstanding. Basic earnings per share for the three months ended December 31, 2005 is computed using 1,077,640 weighted average shares outstanding. Earnings per share for the six months ended December 31, 2005 is computed using 1,079,122 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 1,209,012 for the three months ended December 31, 2006 and 1,208,435 for the six months ended December 31, 2006. Diluted earnings per share for the three months and six months ended December 31, 2005 is computed using 1,204,412 and 1,203,835 weighted average shares outstanding, respectively.

**NOTE 6: DIVIDENDS AND STOCK REPURCHASE PROGRAM**

This fiscal year Eagle has paid two dividends of $0.22 per share, on August 25, 2006 and November 17, 2006. A dividend of $0.22 per share was declared on January 18, 2007, payable February 9, 2007 to stockholders of record on January 26, 2007. Eagle Financial MHC, Eagle's mutual holding company, has waived the receipt of dividends on its 648,493 shares.

At their regular meeting of July 21, 2005, the Company's Board of Directors approved a stock repurchase program for up to 28,750 shares. This represents approximately 6% 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 February 1, 2007, 23,215 shares have been purchased under this program.

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

**NOTE 7: MORTGAGE SERVICING RIGHTS**

The Bank allocates its total cost in mortgage loans between mortgage servicing rights and loans, based upon their relative fair values, when loans are subsequently sold or securitized, with the servicing rights retained. Fair values are generally obtained from an independent third party. Impairment of mortgage servicing rights is measured based upon the characteristics of the individual loans, including note rate, term, underlying collateral, current market conditions, and estimates of net servicing income. If the carrying value of the mortgage servicing rights exceeds the estimated fair market value, a valuation allowance is established for any decline, which is viewed to be temporary. Charges to the valuation allowance are charged against or credited to mortgage servicing income. Periodic independent valuations of the mortgage servicing rights are performed. As a result of the most recent valuation, no temporary decline in the fair value was determined to have occurred, and no valuation allowance has been established. The following schedules show the activity in the mortgage servicing rights and the valuation allowance.

(Dollar amounts in thousands)

| *(Dollars in Thousands)* | Six months ended December 31, 2006 (Unaudited) | Twelve months ended June 30, 2006 (Audited) |
|---|---|---|
| Mortgage Servicing Rights | | |
| Beginning balance | $ 1,722 | $ 1,903 |
| Servicing rights capitalized | 109 | 174 |
| Servicing rights amortized | (149) | (355) |
| Ending balance | 1,682 | 1,722 |
| | | |
| Valuation Allowance | | |
| Beginning balance | — | 46 |
| Provision | — | (46) |
| Adjustments | — | — |
| Ending balance | — | — |
| | | |
| Net Mortgage Servicing Rights | $ 1,682 | $ 1,722 |

EAGLE BANCORP AND SUBSIDIARY

## ITEM 2: MANAGEMENT'S DISCUSSIONS 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. Eag 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.

### Overview

The Company's primary activity is its ownership of its wholly owned subsidiary, American Federal Savings Bank (the "Bank"). The Bank is a federally chartered savings bank, engaging in typical banking activities: acquiring deposits from local markets and investing in loans and investment securities. The Bank's primary component of earnings is its net interest margin (also called spread or margin), the difference between interest income and interest expense. The net interest margin is managed by management (through the pricing of its products and by the types of products offered and kept in portfolio), and is affected by moves in interest rates. Noninterest income in the form of fee income and gain on sale of loans adds to the Bank's income.

The Bank has a strong mortgage lending focus, with the majority of its loans in single-family residential mortgages. This has led to successfully marketing home equity loans to its customers, as well as a wide range of shorter term consumer loans for various personal needs (automobiles, recreational vehicles, etc.). In recent years the Bank has focused on adding commercial loans to its portfolio, both real estate and non-real estate. The purpose of this diversification is to mitigate the Bank's dependence on the mortgage market, as well as to improve its ability to manage its spread. The Bank's management recognizes the need for sources of fee income to complement its margin, and the Bank now maintains a significant loan serviced portfolio, which provides a steady source of fee income. The gain on sale of loans also provides significant fee income in periods of high mortgage loan origination volumes. Fee income is also supplemented with fees generated from the Bank's deposit accounts. The Bank has a high percentage of non-maturity deposits, such as checking accounts and savings accounts, which allows management flexibility in managing its spread. Non-maturity deposits do not automatically reprice as interest rates rise, as do certificates of deposit.

For the past two years, management's focus has been on improving the Bank's core earnings. Core earnings can be described as income before taxes, with the exclusion of gain on sale of loans and adjustments to the market value of the Bank's loan serviced portfolio. Management believes that the Bank will need to continue to focus on increasing net interest margin, other areas of fee income, and control operating expenses to achieve earnings growth going forward. Management's strategy of growing the bank's loan portfolio and deposit base is expected to help achieve these goals:

loans typically earn higher rates of return than investments; a larger deposit base will yield higher fee income; increasing the asset base will reduce the relative impact of fixed operating costs. The biggest challenge to the strategy is funding the growth of the Bank's balance sheet in an efficient manner. Deposit growth will be difficult to maintain due to fierce competition and wholesale funding (which is usually more expensive than retail deposits) will likely be needed to supplement deposit growth.

The level and movement of interest rates impacts the Bank's earnings as well. The yield curve continues to be flat, i.e. short-term interest rates are approximately at the same level as long-term interest rates. This can have a negative impact on the Bank's net interest margin as its deposits are typically priced relative to short-term rates, while the majority of its loan products are priced relative to long-term rates. The Bank has been able to partially offset this effect by reinvesting investment proceeds in the loan portfolio, because as noted earlier, loans typically earn higher rates of return than investments. Additionally, many of the Bank's investments which mature in the coming year are at low (below current market) interest rates, affording an opportunity to reinvest the proceeds at the current higher rates and increasing interest income in the coming quarters.

EAGLE BANCORP AND SUBSIDIARY

**Financial Condition**

Comparisons of results in this section are between the six months ended December 31, 2006 and June 30, 2006.

Total assets increased by $11.91 million, or 5.27%, to $238.09 million at December 31, 2006, from $226.18 million at June 30, 2006. Total liabilities increased by $10.59 million to $214.22 million at December 31, 2006, from $203.63 million at June 30, 2006. Total equity increased $1.32 million to $23.87 million at December 31, 2006 from $22.55 million at June 30, 2006.

Loans receivable increased $6.47 million, or 4.59%, to $147.33 million at December 31, 2006 from $140.86 million at June 30, 2006. Home equity loans were the category with the largest increase, $3.65 million, and most other loan categories showed increases in the six month period. Total loan originations were $57.18 million for the six months ended December 31, 2006, with single family mortgages accounting for $32.28 million of the total. Home equity loan and construction loan originations totaled $9.75 million and $5.99 million, respectively, for the same period. Commercial real estate and land development loan originations totaled $4.75 million. Loans held for sale increased to $2.06 million at December 31, 2006 from $918,000 at June 30, 2006. Investment securities available-for-sale (AFS) increased $2.25 million, or 3.50%, to $66.45 million at December 31, 2006 from $64.20 million at June 30, 2006. The investment category with the largest increase was collateralized mortgage obligations, which increased $3.86 million.

Advances and other borrowings increased $9.49 million, to $31.86 million from $22.37 million, while deposits increased $1.00 million. Certificates of deposit and interest-bearing checking accounts showed the largest increases in deposit accounts, while money market and passbook savings accounts showed the largest decreases.

Total equity increased as a result of net income of $883,000, and a decrease in other comprehensive loss of $725,000 (due to a decrease in net unrealized loss on securities available-for-sale) offset by purchases of treasury stock and the payment of two quarterly $0.22 per share regular cash dividends.

**Results of Operations for the Three Months Ended December 31, 2006 and 2005**

*Net Income.* Eagle's net income was $461,000 and $445,000 for the three months ended December 31, 2006, and 2005, respectively. The increase of $16,000, or 3.60%, was due to an increase in noninterest income of $75,000, offset by a decrease in net interest income of $60,000 and an increase in noninterest expense of $24,000. Eagle's tax provision was $25,000 lower in the current quarter. Basic earnings per share were $0.43 for the current period, compared to $0.41 for the previous year's period.

*Net Interest Income.* Net interest income decreased to $1.630 million for the quarter ended December 31, 2006, from $1.690 million for the previous year's quarter. This decrease of $60,000 was the result of an increase in interest expense of $576,000 partially offset by the increase in interest and dividend income of $516,000.

*Interest and Dividend Income.* Total interest and dividend income was $3.102 million for the quarter ended December 31, 2006, compared to $2.586 million for the quarter ended December 31, 2005, representing an increase of $516,000, or 19.95%. Interest and fees on loans increased to $2.378 million for the three months ended December 31, 2006 from $1.897 million for the same period ended December 31, 2005. This increase of $481,000, or 25.36%, was due primarily to the increase in the average balances on loans for the quarter ended December 31, 2006. Average balances for loans receivable, net, for the quarter ended December 31, 2006 were $147.86 million, compared to $120.50 million for the previous year. This represents an increase of $27.36 million, or 22.71%. The average interest rate earned on loans receivable increased by 13 basis points, from 6.30% to 6.43%. Interest and dividends on investment securities available-for-sale (AFS) increased to $696,000 for the quarter ended December 31, 2006 from $640,000 for the same quarter last year. Average balances on investments decreased to $67.06 million for the quarter ended December 31, 2006, compared to $70.39 million for the quarter ended December 31, 2005. The average interest rate earned on investments increased to 4.22% from 3.71%. Interest on deposits with banks decreased to $16,000 from $36,000, due to decreases in average balances.

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**Results of Operations for the Three Months Ended December 31, 2006 and 2005 - *continued***

*Interest Expense.* Total interest expense increased to $1.472 million for the quarter ended December 31, 2006, from $896,000 for the quarter ended December 31, 2005, an increase of $576,000, or 64.29%, due to increases in interest paid on borrowings and deposits. Interest on deposits increased to $1.042 million for the quarter ended December 31, 2006, from $717,000 for the quarter ended December 31, 2005. This increase of $325,000, or 45.33%, was the result of an increase in average rates paid on deposit accounts. Money market accounts and certificates of deposit showed increases in average rates paid, while passbook savings and checking accounts remained the same. Average balances in interest-bearing deposit accounts increased slightly to $163.02 million for the quarter ended December 31, 2006, compared to $161.40 million for the same quarter in the previous year. A significant increase in the average balance of borrowings, as well as an increase in the average rate paid, resulted in an increase in interest paid on borrowings to $430,000 in the current quarter compared to $179,000 in the previous year's quarter. The average rate paid on borrowings increased from 4.68% last year to 5.20% this year. The average rate paid on liabilities increased 97 basis points from the quarter ended December 31, 2005 to the quarter ended December 31, 2006.

*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 December 31, 2006 or the quarter ended December 31, 2005. This is a reflection of the continued strong asset quality of the Bank's loan portfolio. Total classified assets decreased slightly from $700,000 at June 30, 2006 to $692,000 at December 31, 2006, and total less than 1% of total loans. The Bank currently has no foreclosed real estate.

*Noninterest Income.* Total noninterest income increased to $592,000 for the quarter ended December 31, 2006, from $517,000 for the quarter ended December 31, 2005, an increase of $75,000 or 14.51%. This was the result of the increase in net gain on sale of loan income of $62,000, as the Bank chose to sell a higher percentage of its mortgage originations this quarter. Other noninterest income increased to $140,000 for the quarter ended December 31, 2006 from $123,000 for the quarter ended December 31, 2005. This was primarily due to increased fee income on electronic payments. The other categories of noninterest income had small changes.

*Noninterest Expense.* Noninterest expense increased by $24,000 or 1.47% to $1.661 million for the quarter ended December 31, 2006, from $1.637 million for the quarter ended December 31, 2005. This increase was primarily due to increases in other noninterest expense of $17,000 and advertising expense of $14,000. The increase in other noninterest expense was due to higher loan expenses and expenses related to checking accounts. Advertising expense was higher due to increased promotions. These were partially offset by a decrease in the amortization of mortgage servicing fees of $19,000, due to a slowdown in mortgage loan prepayments. Other expense categories showed minor changes.

*Income Tax Expense.* Eagle's income tax expense was $100,000 for the quarter ended December 31, 2006, compared to $125,000 for the quarter ended December 31, 2005. The effective tax rate for the quarter ended December 31, 2006 was 17.83% and was 21.93% for the quarter ended December 31, 2005. Tax refunds received during each quarter lowered the effective tax rates.

**Results of Operations for the Six Months Ended December 31, 2006 and 2005**

*Net Income.* Eagle's net income was $883,000 and $944,000 for the six months ended December 31, 2006 and 2005, respectively. The decrease of $61,000, or 6.46%, was the result of decreases in net interest income of $76,000 and noninterest income of $31,000, along with an increase in noninterest expense of $48,000. Eagle's tax provision was $94,000 lower in the current period. Basic earnings per share for the period ended December 31, 2006 were $0.82 compared to $0.87 per share for the period ended December 31, 2005.

*Net Interest Income.* Net interest income decreased to $3.284 million for the six months ended December 31, 2006 from $3.360 million for the six months ended December 31, 2005. This decrease of $76,000 was the result of an increase in interest expense of $1.148 million, partially offset by an increase in interest and dividend income of $1.072 million.

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**Results of Operations for the Six Months Ended December 31, 2006 and 2005 -** ***continued***

*Interest and Dividend Income.* Total interest and dividend income was $6.096 million for the six months ended December 31, 2006, compared to $5.024 million for the same period ended December 31, 2005, representing an increase of $1.072 million, or 21.34%. Interest and fees on loans increased to $4.689 million for 2006 from $3.687 million for 2005. This increase of $1.002 million, or 27.18%, was due to an increase in the average balances of loans receivable for the six months ended December 31, 2006. Average balances for loans receivable, net, for this period were $146.11 million, compared to $117.12 million for the previous year. This is an increase of $28.99 million, or 24.75%. The average interest rate earned on loans receivable increased by 12 basis points, to 6.42% from 6.30%. Interest and dividends on investment securities available-for-sale (AFS) increased to $1.356 million for the six months ended December 31, 2006 from $1.263 million for the same period ended December 31, 2005. Interest on deposits with banks decreased to $28,000 from $47,000.

*Interest Expense.* Total interest expense increased to $2.812 million for the six months ended December 31, 2006 from $1.664 million for the six months ended December 31, 2005, an increase of $1.148 million, or 68.99%. Interest on deposits increased to $1.976 million for the six months ended December 31, 2006 from $1.383 million for the six months ended December 31, 2005. This increase of $593,000, or 42.88%, was the result of an increase in average rates paid on deposit accounts accompanied by a small increase in average balances in deposit accounts. Average rates paid on money market accounts and certificates of deposit increased from 2005 to 2006, while the average rate paid on all liabilities increased by 99 basis points from the six month period ended December 31, 2005 to the six month period ended December 31, 2006. Average balances in interest-bearing deposits increased to $162.04 million for the six month period ended December 31, 2006 compared to $161.01 million for the same period in the previous year. Interest paid on borrowings increased to $836,000 for the six months ended December 31, 2006 from $281,000 for the same period ended December 31, 2005. The increase in borrowing costs was due to increases in the average balances as well as an increase in the average rate paid. Average balances of borrowings increased to $31.94 million in 2006 compared to $12.84 million in 2005. The average rate paid on borrowings increased 86 basis points from 2005 to 2006.

*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 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 of the six month periods ended December 31, 2006 or December 31, 2005. This is a reflection of the continued strong asset quality of the Bank's loan portfolio. Total classified assets decreased slightly to $692,000 at December 31, 2006 from $700,000 at June 30, 2006. The Bank currently has no foreclosed real estate.

*Noninterest Income.* Total noninterest income decreased to $1.129 million for the six months ended December 31, 2006, from $1.160 million for the six months ended December 31, 2005, a decrease of $31,000, or 2.67%. Mortgage loan servicing fees declined $50,000 due to an adjustment in 2005 to the valuation of Eagle's mortgage servicing rights in the amount of $46,000. Other categories of noninterest income showed minor changes.

*Noninterest Expense.* Noninterest expense increased by $48,000, or 1.49% to $3.277 million for the six months ended December 31, 2006, from $3.229 million for the six months ended December 31, 2005. This increase was primarily due to increases in advertising expense of $37,000 and legal and accounting fees of $29,000. Advertising expenses were higher due to increased promotion of deposit products. Legal and accounting fees were higher due to the outsourcing of the Bank's internal audit function and higher legal fees at the holding company level. The amortization of mortgage servicing fees declined $49,000 due to the slowdown of mortgage loan prepayments compared to a year ago. Other categories of noninterest expense showed modest changes.

*Income Tax Expense.* Eagle's income tax expense was $253,000 for the six months ended December 31, 2006, compared to $347,000 for the six months ended December 31, 2005. The effective tax rate for the six months ended December 31, 2006 was 22.27% and was 26.88% for the six months ended December 31, 2005.

**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 15.23% and 16.09% for the months ended December 31, 2006 and December 31, 2005, respectively.

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

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

At September 30, 2006 (the most recent report available), the Bank’s measure of sensitivity to interest rate movements, as measured by the OTS, improved from the previous quarter. The Bank’s capital ratio as measured by the OTS decreased slightly during the same period. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of December 31, 2006, the Bank’s regulatory capital was in excess of all applicable regulatory requirements. At December 31, 2006, the Bank’s tangible, core, and risk-based capital ratios amounted to 10.73%, 10.73%, and 15.34%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

| | | (Unaudited) At December 31, 2006 | |
|---|---|---|---|
| | | Dollar Amount | For Capital Adequacy Purposes % of Assets |
| Tangible capital: | | | |
| Capital level | $ | 25,227 | 10.73% |
| Requirement | | 3,528 | 1.50 |
| Excess | $ | 21,699 | 9.23% |
| Core capital: | | | |
| Capital level | $ | 25,227 | 10.73% |
| Requirement | | 7,055 | 3.00 |
| Excess | $ | 18,172 | 7.73% |
| Risk-based capital: | | | |
| Capital level | $ | 25,711 | 15.34% |

| | | | |
|---|---|---|---|
| Requirement | | 13,413 | 8.00 |
| Excess | $ | 12,298 | 7.34% |

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**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.

**Application of Critical Accounting Policies**

There are a number of accounting estimates performed by the Company in preparing its financial statements. Some of the estimates are developed internally, while others are obtained from independent third parties. Examples of estimates using external sources are the fair market value of investment securities, fair value of mortgage servicing rights, deferred compensation, and appraised value of foreclosed properties. It is management's assertion that the external sources have access to resources, methodologies, and markets that provide adequate assurances that no material impact would occur due to changes in assumptions. The following accounting estimates are performed internally:

Allowance for Loan and Lease Losses (ALLL)- Management applies its knowledge of current local economic and real estate market conditions, historical experience, loan portfolio composition, and the assessment of delinquent borrowers' situations, to determine the adequacy of its ALLL reserve. These factors are reviewed by the Bank's federal banking regulator and the Company's external auditors on a regular basis. The current level of the ALLL reserve is deemed to be more than adequate given the above factors, with no material impact expected due to a difference in the assumptions.

Deferred Loan Fees - Management applies time study and statistical analysis to determine loan origination costs to be capitalized under FAS 91. The analysis is reviewed by the Company's external auditors for reasonableness. No material impact is expected if different assumptions are used, as many of our loans have a short duration.

Deferred Tax Assets - Management expects to realize the deferred tax assets due to the continued profitability of the Company.

Fair Value of Other Financial Instruments - Management uses an internal model to determine fair value for its loan portfolio and certificates of deposit. The assumptions entail spreads over the Treasury yield curve at appropriate maturity benchmarks. Assumptions incorporating different spreads would naturally deliver varying results, however due to short-term nature of the loan portfolio and certificates of deposit, changes in the results would be mitigated. Currently, the fair value is only presented as footnote information, and changes due to new assumptions would not, in management's opinion, affect the reader's opinion of the Company's financial condition.

Economic Life of Fixed Assets - Management determines the useful life of its buildings, furniture, and equipment for depreciation purposes. These estimates are reviewed by the Company's external auditors for reasonableness. No material impact is expected if different assumptions were to be used.

## ITEM 3: 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 December 31, 2006 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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## 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.) 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 Plans or Programs |
|---|---|---|---|---|
| October 2006 10-1-06 to 10-31-06 | None | N/A | N/A | N/A |
| November 2006 11-1-06 to 11-30-06 | 1,000 | $ 32.60 | 1,000 | 6,735 |
| December 2006 12-1-06 to 12-31-6 | None | N/A | N/A | N/A |
| Total | 1,000 | $ 32.60 | 1,000 | N/A |

*The Company publicly announced a stock repurchase program on July 21, 2005. The Company is authorized to acquire up to 28,750 shares of common stock with the price subject to market conditions. No expiration date was set for the repurchase program. As of February 1, 2007, 23,215 shares had been repurchased.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

The following matters were voted on at the annual meeting held on October 19, 2006:

a.) Election of directors for three-year terms expiring in 2009:

| | For: | Against: |
|---|---|---|

| | | |
|---|---|---|
| James A. Maierle | 1,028,303 | 3,202 |
| Thomas J. McCarvel | 1,027,303 | 4,202 |

b.) Ratification of appointment of Davis, Kinard & Co., P.C. as auditors for the fiscal year ended June 30, 2007:

| For: | Against: | Abstain: |
|---|---|---|
| 1,029,028 | 60 | 2,417 |

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**Part II - OTHER INFORMATION (continued)**

Item 5. Other Information.

None.

Item 6. 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 (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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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 8, 2007 | By: /s/ Larry A. Dreyer |
| | Larry A. Dreyer<br>Title: President/CEO |
| Date: February 8, 2007 | By: /s/ Peter J. Johnson |
| | Peter J. Johnson<br>Title: Executive Vice President/CFO |