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EAGLE BANCORP/MT
Form 10QSB
November 09, 2001

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2001

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE
ACT

For the transition period from _____ to _____.

Commission file number 0-29687

Eagle Bancorp

(Exact name of small business issuer as specified in its charter)

United States

81-0531318

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of
securities under a plan confirmed by a court. Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date:

Common stock, par value \$0.01 per share 1,203,572 shares outstanding

As of October 31, 2001

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

EAGLE BANCORP AND SUBSIDIARY

TABLE OF CONTENTS

	Page

PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Statements of Financial Condition (As of September 30, 2001 (unaudited) and June 30, 2001)	1 and 2
Consolidated Statements of Income (For the three months ended September 30, 2001 and 2000 (unaudited))	3 and 4
Consolidated Statements of Stockholders' Equity (For the three months ended September 30, 2001 (unaudited))	5
Consolidated Statements of Cash Flows (For the three months ended September 30, 2001 and 2000 (unaudited))	6 and 7
Notes to Consolidated Financial Statements	8 to 12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13 to 18
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	19
Item 2. Changes in Securities	19
Item 3. Defaults Upon Senior Securities	19
Item 4. Submission of Matters to a Vote of Security-Holders	19
Item 5. Other Information	19
Item 6. Exhibits and Reports on Form 8-K	19
Signatures	

EAGLE BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2001	June 30, 2001
	-----	-----
	(Unaudited)	(Audited)
ASSETS		
Cash and due from banks	\$ 3,072,714	\$ 3,427,038
Interest-bearing deposits with banks	4,688,163	4,925,000
Investment securities available for sale,		
at market value	23,518,358	21,603,520
Investment securities held-to-maturity	6,068,018	6,570,794

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Federal Home Loan Bank stock, at cost	1,513,500	1,487,300
Mortgage loans held-for-sale	4,663,042	3,033,244
Loans receivable, net of deferred loan fees and allowance for loan losses	117,723,169	114,977,895
Accrued interest and dividends receivable	1,024,632	941,117
Mortgage servicing rights	1,258,128	1,315,819
Property and equipment, net	6,399,567	6,505,627
Cash surrender value of life insurance	2,166,380	2,140,524
Real estate acquired in settlement of loans, net of allowance for losses	--	--
Other assets	289,865	195,034
	-----	-----
Total assets	\$172,385,536	\$167,122,912
	=====	=====

See accompanying notes to consolidated financial statements.

-1-

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

	September 30, 2001	June 30, 2001
	-----	-----
	(Unaudited)	(Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposit accounts:		
Noninterest bearing	\$ 7,115,177	\$ 6,486,306
Interest bearing	131,156,322	127,564,024
Advances from Federal Home Loan Bank	11,418,889	11,443,889
Accrued expenses and other liabilities	2,541,096	1,926,450
	-----	-----
Total liabilities	152,231,484	147,420,669
	-----	-----
Stockholders' Equity:		
Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)		
Common stock (par value \$0.01 per share; 10,000,000 shares authorized; 1,223,572 shares issued and 1,203,572 outstanding at Sept. 30, 2001)	12,236	12,236
Additional paid-in capital	3,853,445	3,845,908
Unallocated common stock held by employee stock ownership plan ("ESOP")	(303,648)	(312,848)
Treasury stock, at cost (20,000 shares)	(235,000)	(235,000)
Retained earnings	16,511,967	16,220,812
Accumulated other comprehensive loss	315,052	171,135
	-----	-----
Total stockholders' equity	20,154,052	19,702,243

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Total liabilities and stockholders' equity .	\$172,385,536	\$167,122,912
	=====	=====

See accompanying notes to consolidated financial statements.

-2-

EAGLE BANCORP AND SUBSIDIARY QUARTERLY STATEMENTS OF INCOME

	Three Months Ended September 30,	
	2001	2000
	-----	-----
	(unaudited)	
Interest and dividend income:		
Interest and fees on loans	\$2,376,020	\$2,253,185
Interest on deposits with banks	66,848	5,145
Securites held to maturity	90,831	162,123
Securities available for sale	303,136	287,239
FHLB stock dividends	28,147	22,760
	-----	-----
Total interest and dividend income	2,864,982	2,730,452
	-----	-----
Interest expense:		
Deposits	1,224,689	1,232,617
FHLB advances	178,809	144,934
	-----	-----
Total interest expense	1,403,498	1,377,551
	-----	-----
Net interest income	1,461,484	1,352,901
Loan loss provision	--	--
	-----	-----
Net interest income after loan loss provision	1,461,484	1,352,901
	-----	-----
Noninterest income:		
Net gain on sale of loans	171,118	42,599
Demand deposit service charges	125,563	134,679
Mortgage loan servicing fees	15,332	72,594
Other	92,209	93,431
	-----	-----
Total noninterest income	404,222	343,303
	-----	-----

See accompanying notes to consolidated financial statements.

-3-

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EAGLE BANCORP AND SUBSIDIARY QUARTERLY STATEMENTS OF INCOME (Continued)

	Three Months Ended September 30,	
	2001	2000
	(unaudited)	
Noninterest expense:		
Salaries and employee benefits	\$ 733,467	\$ 668,560
Occupancy expenses	113,749	114,051
Furniture and equipment depreciation	68,144	81,816
In-house computer expense	49,499	41,779
Advertising expense	31,526	43,935
Amortization of mortgage servicing fees	68,709	31,007
Federal insurance premiums	6,126	7,072
Postage	29,753	21,667
Legal, accounting, and examination fees	22,992	47,688
Consulting fees	7,356	9,447
ATM processing	10,561	14,296
Other	181,920	167,055
Total noninterest expense	1,323,802	1,248,373
Income before provision for income taxes	541,904	447,831
Provision for income taxes	195,242	144,280
Net income	\$ 346,662	\$ 303,551
Basic earnings per share	\$ 0.30	\$ 0.26
Diluted earnings per share	\$ 0.29	\$ 0.26
Weighted average shares outstanding (basic)	1,164,857	1,180,258
Weighted average shares outstanding (diluted)	1,184,857	1,180,258

See accompanying notes to consolidated financial statements.

-4-

EAGLE BANCORP AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	R E
Balance, June 30, 2001	\$ --	\$12,236	\$3,845,908	\$ (312,848)	\$ (235,000)	\$16
Net income	--	--	--	--	--	--
Other comprehensive income	--	--	--	--	--	--
Total comprehensive income	--	--	--	--	--	--
Dividends paid (\$.10 per share)	--	--	--	--	--	--
ESOP shares allocated or committed to be released for allocation (1,150 shares)	--	--	7,537	9,200	--	--
Balance, September 30, 2001	\$ --	\$12,236	\$3,853,445	\$ (303,648)	\$ (235,000)	\$16

See accompanying notes to consolidated financial statements.

-5-

EAGLE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,	
	2001	2000
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 346,662	\$ 303,551
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	--	--
Provision for mortgage servicing rights valuation losses	58,433	--
Depreciation	132,172	139,400
Deferred Loan Fees	--	20,328
Amortization of capitalized mortgage servicing rights ..	66,044	31,007
Gain on sale of loans	(171,118)	(42,599)
FHLB dividends reinvested	(26,200)	(22,700)
Increase in cash surrender value of life insurance	(25,856)	(23,924)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(83,515)	(111,059)
Loans held-for-sale	(1,430,918)	(1,140,308)
Other assets	(94,831)	(17,322)

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Increase (decrease) in liabilities:

Accrued expenses and other liabilities	589,954	129,870
Deferred compensation payable	6,242	6,340
Deferred income taxes payable	(54,735)	147,231
	-----	-----
Net cash used in operating activities	(687,666)	(580,185)
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of securities:

Investment securities held-to-maturity	--	(326,150)
Investment securities available-for-sale	(3,882,047)	--
Proceeds from maturities, calls and principal payments:		
Investment securities held-to-maturity	500,112	492,334
Investment securities available-for-sale	2,160,335	311,227
Increase in interest bearing deposits held at banks	236,837	--
Net (increase) decrease in loan receivable, excludes transfers to real estate acquired in settlement of loans .	(2,812,060)	(4,349,163)
Proceeds from the sale of real estate acquired in the settlement of loans	--	--
Purchase of property and equipment	(10,496)	(21,069)
	-----	-----
Net cash used in investing activities	(3,807,319)	(3,892,821)
	-----	-----

See accompanying notes to consolidated financial statements.

-6-

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

	Three Months Ended September 30,	
	2001	2000
	-----	-----
	(unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in checking and savings accounts	\$ 4,221,168	\$ 567,054
Net increase in advances to borrowers for taxes and insurance	--	274,160
Net increase (decrease) in FHLB advances	--	3,083,333
Payment on FHLB advances	(25,000)	--
Purchase of Treasury Stock	--	--
Dividends paid	(55,507)	(40,256)
	-----	-----
Net cash provided by financing activities	4,140,661	3,884,291
	-----	-----
Net decrease in cash	(354,324)	(588,715)

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CASH AND CASH EQUIVALENTS, beginning of period	3,427,038	3,477,650
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 3,072,714	\$ 2,888,935
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 1,348,980	\$ 1,339,866
	=====	=====
Cash paid during the period for income taxes	\$ 76,088	\$ --
	=====	=====
NON-CASH INVESTING ACTIVITIES:		
(Increase) decrease in market value of securities		
available-for-sale	\$ (206,079)	\$ 109,773
	=====	=====
Mortgage servicing rights capitalized	\$ 66,786	\$ 6,317
	=====	=====

See accompanying notes to consolidated financial statements.

-7-

EAGLE BANCORP AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2000 (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 generally accepted accounting principles for complete financial statements. However, such information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for the unaudited interim periods.

The results of operations for the three months ended September 30, 2001 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2002 or any other period. The unaudited consolidated financial statements and notes presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Eagle's Form 10-KSB dated June 30, 2001.

-8-

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

NOTE 2. INVESTMENT SECURITIES

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Investment securities are summarized as follows:

	September 30, 2001			June 30, 2001	
	AMORTIZED COST	GROSS UNREALIZED (LOSSES)	FAIR VALUE	AMORTIZED COST	GROSS UNREALIZED (LOSSES)
Available-for-sale:					
U.S. government and agency obligations	\$ 3,505,375	\$ 54,915	\$ 3,560,290	\$ 4,566,644	\$ 42,694
Municipal obligations	4,303,022	(7,900)	4,295,122	4,303,574	(58,672)
Corporate obligations	8,169,923	299,926	8,469,849	7,114,917	190,667
Mortgage-backed securities .	5,622,502	81,705	5,704,207	4,029,519	73,726
Collateralized mortgage obligations	1,113,178	17,212	1,130,390	1,190,586	(4,304)
Corporate preferred stock ..	350,000	8,500	358,500	150,000	4,169
Total	\$23,064,000	\$ 454,358	\$23,518,358	\$21,355,240	\$ 248,280
Held-to-maturity:					
U.S. government and agency obligations	\$ 1,396,881	\$ 17,643	\$ 1,414,524	\$ 1,395,905	\$ 19,267
Municipal obligations	1,078,066	26,927	1,104,993	1,078,681	13,070
Mortgage-backed securities .	3,593,071	102,175	3,695,246	4,096,208	54,241
Total	\$ 6,068,018	\$ 146,745	\$ 6,214,763	\$ 6,570,794	\$ 86,578

-9-

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

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

	September 30, 2001	June 30, 2001
First mortgage loans:		
Residential mortgage (1-4 family)	\$ 76,722,679	\$ 75,961,742
Commercial real estate	10,495,848	9,062,769
Real estate construction	1,605,512	1,981,968
Other loans:		
Home equity	15,780,861	15,698,367
Consumer	11,251,030	10,362,135

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Commercial	2,677,024	2,720,740
	-----	-----
Total	118,532,954	115,787,721
Less:		
Allowance for loan losses	(684,583)	(688,282)
Deferred loan fees	(125,202)	(121,544)
	-----	-----
Total	\$117,723,169	\$114,977,895
	=====	=====

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were \$442,000 and \$407,000 at September 30, 2001 and June 30, 2001, respectively. Classified assets, including real estate owned, totaled \$1.33 million and \$1.50 million at September 30, 2001 and June 30, 2001, respectively.

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

	3 Months Ended September 30, 2001	12 Months Ended June 30, 2001
	-----	-----
Balance, beginning of period	\$688,282	\$712,165
Reclassification to REO reserve	--	(13,725)
Provision charged to operations	--	--
Charge-offs	(3,699)	(29,037)
Recoveries	--	18,879
	-----	-----
Balance, end of period	\$684,583	\$688,282
	=====	=====

-10-

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

NOTE 4. 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. An independent valuation of the mortgage servicing rights at September 30, 2001 showed a temporary decline in the fair value, resulting in a provision of \$58,433. There was no valuation allowance at June 30, 2001. The following schedules show the activity in the mortgage servicing rights and the valuation allowance.

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	Three Months Ended September 30, 2001	Twelve Months Ended June 30, 2001
Mortgage Servicing Rights		
Beginning balance	\$1,315,819	\$1,338,271
Servicing rights capitalized	66,786	150,029
Servicing rights amortized	(66,044)	(172,481)
Ending balance	1,316,561	1,315,819
Valuation Allowance		
Beginning balance	--	--
Provision	58,433	--
Adjustments	--	--
Ending balance	58,433	--
Net Mortgage Servicing Rights	\$1,258,128	\$1,315,819

-11-

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

NOTE 5. DEPOSITS

Deposits are summarized as follows:

	September 30, 2001	June 30, 2001
Noninterest checking	\$ 7,115,177	\$ 6,486,306
Interest-bearing checking	22,912,956	22,535,586
Passbook	20,670,553	20,688,121
Money market	20,950,268	17,399,325
Time certificates of deposit	66,622,545	66,940,992
Total	\$138,271,499	\$134,050,330

NOTE 6. EARNINGS PER SHARE

Earnings per share for the three months ended September 30, 2001 are calculated using 1,164,857 weighted average shares outstanding. Diluted earnings per share is computed by adjusting the number of shares outstanding by the shares purchased to fund the Company's restricted stock plan, for which stock was awarded in January 2001, as determined by the treasury stock method. The weighted average shares outstanding for the diluted earning per share calculations are 1,184,857 for the three months ended September 30, 2001.

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Earnings per share for the three months ended September 30, 2000 were calculated using 1,180,258 weighted average shares outstanding.

NOTE 7. DIVIDENDS AND STOCK REPURCHASE PROGRAM

Eagle paid a dividend of \$0.10 per share on August 24, 2001. A dividend of \$0.10 per share was declared on October 18, 2001, payable November 16, 2001 to stockholders of record on November 2, 2001. Eagle Financial MHC, Eagle's mutual holding company, has waived the receipt of dividends on its 648,493 shares.

A stock repurchase program was announced on December 21, 2000, covering 4% of the Company's outstanding common stock. Through October 18, 2001, 20,000 shares had been repurchased. At the annual meeting held October 19, 2000, shareholders approved stock option and restricted stock plans for the Company covering aggregate grants of up to 80,511 and 23,003, respectively. The repurchase plan announced in December is intended to meet the needs of the restricted stock plan.

-12-

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

Note Regarding Forward-Looking Statements

This report contains certain "forward-looking statements." Eagle Bancorp ("Eagle" or the "Company") desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all such forward-looking statements. These forward-looking statements, which are included in Management's Discussion and Analysis, describe future plans or strategies and include Eagle's expectations of future financial results. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements. Eagle's ability to predict results or the effect of future plans or strategies or qualitative or quantitative changes based on market risk is inherently uncertain. Factors which could affect actual results but are not limited to include (i) change in general market interest rates, (ii) general economic conditions, (iii) local economic conditions, (iv) legislative/regulatory changes, (v) monetary and fiscal policies of the U.S. Treasury and Federal Reserve, (vi) changes in the quality or composition of Eagle's loan and investment portfolios, (vii) demand for loan products, (viii) deposit flows, (ix) competition, and (x) demand for financial services in Eagle's markets. These factors should be considered in evaluating the forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements which speak only as of their dates.

Financial Condition

Comparisons of quarterly results in this section are between the three months ended September 30, 2001 and June 30, 2001.

Total assets increased by \$5.27 million, or 3.15%, to \$172.39 million at September 30, 2001, from \$167.12 million at June 30, 2001. Total liabilities

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increased by \$4.81 million to \$152.23 million at September 30, 2001, from \$147.42 million at June 30, 2001. Total equity increased \$450,000 to \$20.15 million at September 30, 2001 from \$19.70 million at June 30, 2001.

Growth in the loan portfolio of \$2.74 million accounted for the majority of the growth in total assets. The loan categories with the largest increase were commercial real estate loans, which increased \$1.44 million and consumer loans, which increased \$890,000. These represented increases over the balances at June 30, 2001 of 15.89% and 8.59%, respectively. Total loan originations were \$28.33 million for the three months ended September 30, 2001, with single family mortgages accounting for \$19.93 million of the total. Consumer loan and home equity loan originations totaled \$2.67 million and \$2.15 million, respectively, for the same period. Loans held for sale increased from \$3.03 million at June 30, 2001 to \$4.66 million at September 30, 2001.

-13-

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

Financial Condition (continued)

Growth in deposits funded asset growth. Deposits have grown \$4.22 million, or 3.15%, to \$138.27 million at September 30, 2001 from \$134.05 million at June 30, 2001. Growth in money market accounts contributed to the increase in deposits. Other liabilities increased to \$2.54 million at September 30, 2001 from \$1.93 million at June 30, 2001, primarily due to increases in the balances of deferred income taxes and escrow balances for borrowers' tax and insurance payments.

The growth in total stockholders' equity was the result of earnings for the three months of \$347,000 and an increase in the unrealized gain on securities available for sale of \$144,000. This was partially offset by the payment of a \$0.10 per share regular cash dividend.

Results of Operations for the Three Months Ending September 30, 2001 and 2000

Net Income

Eagle's net income was \$347,000 and \$304,000 for the three months ended September 30, 2001, and 2000, respectively. The increase of \$43,000, or 14.14%, was primarily due to increases in net interest income of \$109,000 and noninterest income of \$61,000, partially offset by an increase in noninterest expense of \$75,000. Basic earnings per share were \$0.30 for the current period, compared to \$0.26 for the previous year's period.

Net Interest Income

Net interest income increased to \$1.46 million for the quarter ended September 30, 2001 from \$1.35 million for the quarter ended September 30, 2000. This increase of \$109,000 was the result of an increase in interest and dividend income of \$135,000, partially offset by an increase in interest expense of \$26,000.

Interest and Dividend Income

Total interest and dividend income was \$2.86 million for the quarter ended

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September 30, 2001, compared to \$2.73 million for the quarter ended September 30, 2000, representing an increase of \$135,000, or 4.95%. Interest and fees on loans increased to \$2.38 million for the three months ended September 30, 2001 from \$2.25 million for the same period ended September 30, 2000. This increase of \$130,000, or 5.78%, was due primarily to an increase in the average balances of loans receivable for the quarter ended September 30, 2001. Average balances for loans receivable, net, for the quarter ended September 30, 2001 were \$119.94 million, compared to \$110.79 million for the previous year. This represents an increase of \$9.15 million, or 8.26%. All loan categories except real estate construction and commercial loans have shown increases from the previous year. The average interest rate earned on loans receivable decreased by 21 basis points, from 8.13% at September 30, 2000 to 7.92% at September 30, 2001. Interest and dividends on investment securities available-for-sale (AFS) increased from \$287,000 for the

-14-

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, 2001 and 2000
(continued)

Interest and Dividend Income (continued)

quarter ended September 30, 2000 to \$303,000 for the current quarter, while interest on securities held to maturity (HTM) decreased from \$162,000 to \$91,000. Interest earned from deposits held at other banks increased from \$5,000 for the quarter ended September 30, 2000 to \$67,000 for the quarter ended September 30, 2001.

Interest Expense

Total interest expense increased to \$1.40 million for the quarter ended September 30, 2001, from \$1.37 million for the quarter ended September 30, 2000, an increase of \$26,000, or 1.90%, due to an increase in interest paid on FHLB advances. Interest on deposits decreased to \$1.22 million for the quarter ended September 30, 2001, from \$1.23 million for the quarter ended September 30, 2000. This decrease of \$8,000, or 0.65%, was the result of a decrease in average rates paid on deposit accounts, even though balances increased significantly. All deposit accounts showed decreases in average rates paid and also had increases in average balances in the current quarter compared to last year's quarter. Certificates of deposit and money market accounts saw the largest increases in balances. The average rate paid on liabilities decreased 33 basis points from the quarter ended September 30, 2000 to the quarter ended September 30, 2001. Interest paid on borrowings increased from \$145,000 for the quarter ended September 30, 2000 to \$179,000 for the quarter ended September 30, 2001. The increase in borrowing costs was due to an increase in the average balance of Federal Home Loan Bank advances. The cost of deposits is expected to continue to decline in the coming quarter, as certificate of deposit accounts opened in previous quarters are renewed at lower rates.

Provision for Loan Losses

Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by Eagle's subsidiary, American Federal Savings Bank, to provide for probable loan losses based on

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prior loss experience, volume and type of lending conducted by American Federal, available peer group information, and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. No provision was made for loan losses for either the quarter ended September 30, 2001 or the quarter ended September 30, 2000. This is a reflection of the continued strong asset quality of American Federal's loan portfolio, as non-performing loan ratios continue to be below peer averages. Total classified assets declined from \$1.50 million at June 30, 2001 to \$1.33 million at September 30, 2001. The Bank currently has no foreclosed real estate.

-15-

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, 2001 and 2000
(continued)

Noninterest Income

Total noninterest income increased to \$404,000 for the quarter ended September 30, 2001, from \$343,000 for the quarter ended September 30, 2000, an increase of \$61,000 or 17.78%. This was the result of an increase in net gain on sale of loans of \$128,000. Increased loan originations compared to a year ago contributed to the increase in income from sale of loans. Mortgage loan servicing fees declined to \$15,000 for the current quarter from \$73,000 for the previous year's quarter. An independent valuation of the Bank's mortgage servicing portfolio indicated a temporary decline in the value of the servicing rights in the amount of \$58,000. A provision was made to a valuation allowance in that amount. Changes to the valuation allowance for mortgage servicing rights are charged against mortgage loan servicing fees. The other categories of noninterest income registered small decreases.

Noninterest Expense

Noninterest expense increased by \$75,000 or 6.00% to \$1.32 million for the quarter ended September 30, 2001, from \$1.25 million for the quarter ended September 30, 2000. This increase was primarily due to an increase in salaries and benefits of \$65,000 and in amortization of mortgage servicing fees of \$38,000. The increase in salaries was due to merit raises and expenses related to the stock benefit plan, while the increase in amortization of mortgage servicing fees was related to increased prepayment activity on mortgage loans. Legal and accounting fees decreased \$25,000 due to lower costs for annual report preparation. Furniture and equipment depreciation expense decreased \$14,000 due to computer equipment and ATMs becoming fully depreciated during the current quarter.

Income Tax Expense

Eagle's income tax expense was \$195,000 for the quarter ended September 30, 2001, compared to \$144,000 for the quarter ended September 30, 2000. The effective tax rate for the quarter ended September 30, 2001 was 36.03% and was 32.22% for the quarter ended September 30, 2000. The effective tax rate is higher in the current quarter due to taxes paid for the previous fiscal year

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ended June 30, 2001. Management expects Eagle's effective tax rate to be approximately 35%.

-16-

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

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 recently 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 liquidity increased to \$21.96 million due to an increase in deposit balances of \$4.22 million for the three months ended September 30, 2001. Liquidity was \$19.24 million at June 30, 2001.

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 June 30, 2001 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS, worsened slightly from the previous quarter. The Bank's capital ratio as measured by the OTS increased during the same period, offsetting increased interest rate risk. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of September 30, 2001, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2001, the Bank's tangible, core, and risk-based capital ratios amounted to 10.88%, 10.88%, and 18.65%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

-17-

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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)

	September 30, 2001	
	Amount	% of Assets
Tangible capital:		
Capital level	\$18,599	10.88%
Requirement	2,564	1.50
Excess	16,035	9.38%
Core capital:		
Capital level	\$18,599	10.88%
Requirement	5,127	3.00
Excess	\$13,472	7.88%
Risk-based capital:		
Capital level	\$19,253	18.65%
Requirement	8,260	8.00
Excess	\$10,993	10.65%

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.

-18-

EAGLE BANCORP AND SUBSIDIARY

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

Neither the Company nor the Bank is involved in any pending legal proceedings other than non-material legal proceedings occurring in the ordinary course of business.

Item 2. Changes in Securities and Use of Proceeds

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Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

The proxy statement for the Annual Meeting of Stockholders was mailed on September 17, 2001. The following matters were voted on at the meeting held on October 18, 2001:

1. Election of directors for three-year terms expiring in 2004:

	For:	Abstain:
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Robert L. Pennington	1,119,392	1,575
Don O. Campbell	1,118,392	2,575
Charles G. Jacoby	1,119,367	1,600

2. Ratification of appointment of Anderson ZurMuehlen & Co., P.C. as auditors for the fiscal year ended June 30, 2002:

For:	Against:	Abstain:
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1,116,322	250	4,395

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

None

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 9, 2001

By: /s/ Larry A. Dreyer

Larry A. Dreyer
President/CEO

Date: November 9, 2001

By: /s/ Peter J. Johnson

Peter J. Johnson
Sr. VP/Treasurer

