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EAGLE BANCORP INC
Form 10-Q
November 07, 2005

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

FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2005

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to_____.

Commission File Number 0-25923

EAGLE BANCORP, INC
(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Maryland | 52-2061461 |
| ----- (State or other jurisdiction of incorporation or organization) | ----- (I.R.S. Employer Identification No.) |
| 7815 Woodmont Avenue, Bethesda, Maryland | 20814 |
| ----- (Address of principal executive offices) | ----- (Zip Code) |

(301) 986-1800
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since
last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 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 No

Indicate by check mark whether the registrant is an accelerated filer
(as defined in Rule 12b-2 of the Exchange Act Yes No

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

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date.

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As of October 31, 2005, the registrant had 7,174,997 shares of Common Stock outstanding.

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ITEM 1 - FINANCIAL STATEMENTS

EAGLE BANCORP, INC.
Consolidated Balance Sheets
September 30, 2005 and December 31, 2004
(dollars in thousands)

| | September 30, 2005 |
|---|-----------------------|
| | ----- |
| ASSETS | |
| Cash and due from banks | \$ 17,639 |
| Interest bearing deposits with banks and other short term investments | 12,015 |
| Federal funds sold | 30,051 |
| Investment securities available for sale, at fair value | 63,887 |
| Loans held for sale | 2,327 |
| Loans | 504,290 |
| Less allowance for credit losses | (5,496) |
| | ----- |
| Loans, net | 498,794 |
| Premises and equipment, net | 5,744 |
| Accrued interest, taxes and other assets | 16,561 |
| | ----- |
| TOTAL ASSETS | \$ 647,019 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| LIABILITIES | |
| Deposits: | |
| Noninterest bearing demand | \$ 140,554 |
| Interest bearing transaction | 74,945 |
| Savings and money market | 133,320 |
| Time, \$100,000 or more | 135,427 |
| Other time | 61,316 |
| | ----- |
| Total deposits | 545,562 |
| Customer repurchase agreements | |
| and federal funds purchased | 31,470 |
| Other short-term borrowings | 4,000 |
| Other liabilities | 2,400 |
| | ----- |
| Total liabilities | 583,432 |
| | ----- |
| STOCKHOLDERS' EQUITY | |
| Common stock, \$.01 par value; shares authorized 20,000,000, shares | |
| issued and outstanding 7,174,343 (2005) and 5,421,730 (2004) | 72 |
| Additional paid in capital | 48,461 |
| Retained earnings | 15,355 |

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| | |
|---|------------|
| Accumulated other comprehensive (loss) gain | (301) |
| | ----- |
| Total stockholders' equity | 63,587 |
| | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 647,019 |
| | ===== |

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.
Consolidated Statements of Operations
For the Nine and Three Month Periods Ended September 30, 2005 and 2004
(unaudited)
(dollars in thousands, except per share data)

| | Nine months Ended Sept 30, 2005 | Nine months Ended Sept 30, 2004 |
|---|---------------------------------------|---------------------------------------|
| | ----- | ----- |
| INTEREST INCOME | | |
| Interest and fees on loans | \$23,808 | \$15,157 |
| Taxable interest and dividends on investment securities | 1,761 | 1,639 |
| Interest on balances with other banks & short term investments | 331 | 98 |
| Interest on federal funds sold | 220 | 241 |
| | ----- | ----- |
| Total interest income | 26,120 | 17,135 |
| | ----- | ----- |
| INTEREST EXPENSE | | |
| Interest on deposits | 4,808 | 2,689 |
| Interest on customer repurchase agreements and federal funds purchased | 189 | 61 |
| Interest on short-term borrowings | 187 | 112 |
| Interest on long-term borrowings | - | 266 |
| | ----- | ----- |
| Total interest expense | 5,184 | 3,128 |
| | ----- | ----- |
| NET INTEREST INCOME | 20,936 | 14,007 |
| PROVISION FOR CREDIT LOSSES | 1,311 | 457 |
| | ----- | ----- |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES | 19,625 | 13,550 |
| | ----- | ----- |
| NONINTEREST INCOME | | |
| Service charges on deposits | 865 | 1,014 |
| Gain on sale of loans | 925 | 561 |
| Gain (loss) on sale of investment securities | 281 | 193 |
| Bank owned life insurance | 301 | 280 |
| Other income | 793 | 556 |
| | ----- | ----- |

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| | | |
|----------------------------------|----------|----------|
| Total noninterest income | 3,165 | 2,604 |
| | ----- | ----- |
| NONINTEREST EXPENSE | | |
| Salaries and employee benefits | 7,695 | 6,016 |
| Premises and equipment expenses | 2,468 | 1,971 |
| Marketing and advertising | 344 | 212 |
| Outside data processing | 574 | 469 |
| Other expenses | 3,024 | 2,418 |
| | ----- | ----- |
| Total noninterest expense | 14,105 | 11,086 |
| | ----- | ----- |
| INCOME BEFORE INCOME TAX EXPENSE | 8,685 | 5,068 |
| INCOME TAX EXPENSE | 3,206 | 1,816 |
| | ----- | ----- |
| NET INCOME | \$ 5,479 | \$ 3,252 |
| | ===== | ===== |
| EARNINGS PER SHARE | | |
| Basic | \$ 0.77 | \$ 0.46 |
| Diluted | \$ 0.73 | \$ 0.44 |
| DIVIDENDS DECLARED PER SHARE | \$ 0.21 | \$ - |

See notes to consolidated financial statements

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EAGLE BANCORP, INC.
Consolidated Statements of Cash Flows
For the Nine Month Periods Ended September 30, 2005 and 2004 (unaudited)
(dollars in thousands)

| | Nine months Ended September 30, 2005 | Ni Se |
|--|---|----------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 5,479 | |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Decrease in deferred income taxes | - | |
| Provision for credit losses | 1,311 | |
| Depreciation and amortization | 811 | |
| Gains on sale of loans | (925) | |
| Origination of loans held for sale | (19,475) | |
| Proceeds from sale of loans held for sale | 20,281 | |
| Gain on sale of investment securities | (281) | |
| Increase in other assets | (1,897) | |
| Decrease in other liabilities | 84 | |
| | ----- | |
| Net cash provided by operating activities | 5,388 | |
| | ----- | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |

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| | |
|---|-----------|
| Increase in interest bearing deposits with other banks | (2,421) |
| Purchases of available for sale investment securities | (39,960) |
| Proceeds from maturities of available for sale securities | 27,536 |
| Proceeds from sale / call of available for sale securities | 12,276 |
| Increase in federal funds sold | (15,016) |
| Net increase in loans | (88,836) |
| Bank premises and equipment acquired | (829) |
| Purchase of BOLI | - |
| | ----- |
| Net cash used in investing activities | (107,251) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Increase in deposits | 83,275 |
| Increase (decrease) in customer repurchase agreements and federal funds purchased | 7,487 |
| Decrease in other short-term borrowings | (2,333) |
| Decrease in long-term borrowings | - |
| Issuance of common stock | 1,469 |
| Payment of dividends | (1,496) |
| | ----- |
| Net cash provided by financing activities | 88,402 |
| | ----- |
| NET (DECREASE) INCREASE IN CASH | (13,461) |
| CASH AND DUE FROM BANKS AT BEGINNING OF YEAR | 31,100 |
| | ----- |
| CASH AND DUE FROM BANKS AT END OF YEAR | \$ 17,639 |
| | ===== |
| SUPPLEMENTAL CASH FLOWS INFORMATION: | |
| Interest paid | \$ 4,805 |
| | ===== |
| Income taxes paid | \$ 3,825 |
| | ===== |

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.
Consolidated Statements of Changes in Stockholders' Equity
For the Nine Month Periods Ended September 30, 2005 and 2004 (unaudited)
(dollars in thousands)

| | Common Stock | Additional Paid in Capital | Retained Earnings |
|-----------------------------|-----------------|----------------------------------|----------------------|
| | ----- | ----- | ----- |
| Balance, January 1, 2005 | \$ 54 | \$ 47,014 | \$ 11,368 |
| Comprehensive Income | | | |
| Net Income | | | 5,479 |
| Other comprehensive income: | | | |

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| | | | |
|---|-------|-----------|-----------|
| Unrealized loss on securities available for sale (net of taxes) | | | |
| Less: reclassification adjustment for gains net of taxes of \$109 included in net income | | | |
| Total Comprehensive Income | | | |
| Cash Dividend (\$.21 per share) | | | (1,492) |
| 1.3 to one stock split in the form of a 30% stock dividend | 17 | (17) | |
| Cash paid in lieu of fractional shares | | (4) | |
| Exercise of options for 127,160 shares of common stock | 1 | 1,000 | |
| Tax benefit on non-qualified options exercise | | 468 | |
| Balance, September 30, 2005 | \$ 72 | \$ 48,461 | \$ 15,355 |
| Balance, January 1, 2004 | \$ 54 | \$ 46,406 | \$ 6,281 |
| Comprehensive Income | | | |
| Net Income | | | 3,252 |
| Other comprehensive income: | | | |
| Unrealized loss on securities available for sale (net of taxes) | | | |
| Less: reclassification adjustment for gains net of taxes of \$74 included in net income | | | |
| Total Comprehensive Income | | | |
| Exercise of options for 48,866 shares of common stock | | 396 | |
| Balance, September 30, 2004 | \$ 54 | \$ 46,802 | \$ 9,533 |

Eagle Bancorp, Inc
Notes to Consolidated Financial Statements
For the nine and three months ended September 30, 2005 and 2004 (unaudited)

1. BASIS OF PRESENTATION

General - The financial statements of Eagle Bancorp, Inc. (the "Company") included herein are unaudited; however, they reflect all adjustments consisting only of normal recurring accruals that, in the opinion of Management, are necessary to present fairly the results for the periods presented. The amounts as of December 31, 2004 were derived from audited consolidated financial

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statements. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. There have been no significant changes to the Company's Accounting Policies as disclosed in the 2004 Annual Report. The Company believes that the disclosures are adequate to make the information presented not misleading. The results of operations for the nine and three months ended September 30, 2005 are not necessarily indicative of the results of operations to be expected for the remainder of the year, or for any other period.

2. NATURE OF BUSINESS

The Company, through its bank subsidiary, provides domestic financial services primarily in Montgomery County, Maryland and Washington, DC. The primary financial services include real estate, commercial and consumer lending, as well as traditional deposit and repurchase agreement products. The Bank is also active in the origination and sale of residential mortgages and small business loans. A new noninterest income business was organized in the first quarter of 2005, which provides title and attendant services.

3. INVESTMENT SECURITIES

Amortized cost and estimated fair value of securities available for sale are summarized as follows:

(in thousands)

| SEPTEMBER 30, 2005 ----- | Amortized Cost ----- | Gross Unrealized Gains ----- | Gross Unrealized Losses ----- |
|--|----------------------------|---------------------------------------|--|
| U. S. Government agency securities | \$41,705 | \$ - | \$ - |
| GNMA mortgage backed securities | 18,975 | - | |
| Federal Reserve and Federal Home Loan Bank stock | 2,365 | - | |
| Other equity investments | 1,333 | 265 | |
| | ----- | ----- | ----- |
| | \$64,378 | \$ 265 | \$ - |
| | ===== | ===== | ===== |
| | | | |
| DECEMBER 31, 2004 ----- | Amortized Cost ----- | Gross Unrealized Gains ----- | Gross Unrealized Losses ----- |
| U. S. Government agency securities | \$34,478 | \$ - | \$ - |
| GNMA mortgage backed securities | 23,177 | 77 | |
| Federal Reserve and Federal Home Loan Bank stock | 1,956 | - | |
| Other equity investments | 4,339 | 555 | |
| | ----- | ----- | ----- |
| | \$63,950 | \$ 632 | \$ - |
| | ===== | ===== | ===== |

Gross unrealized losses and fair value by length of time that the individual available securities have been in a continuous unrealized loss position as of

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September 30, 2005 are as follows:

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| SEPTEMBER 30, 2005 (IN THOUSANDS) ----- | Estimated Fair Value ----- | Less than 12 months ----- | More 12 m ----- |
|--|-------------------------------------|---------------------------------|-----------------------|
| U. S. Government agency securities | \$41,272 | \$ 168 | \$ |
| GNMA mortgage backed securities | 18,652 | 33 | |
| Federal Reserve and Federal Home Loan Bank stock | 2,365 | - | |
| Other equity investments | 1,598 | - | |
| | ----- | ----- | ----- |
| | \$63,887 | \$ 201 | \$ |
| | ===== | ===== | ===== |

The unrealized losses that exist are the result of market changes in interest rates since the original purchases. All of the U.S. Government agency and mortgage backed securities are rated AAA. These factors coupled with the Company's ability and intent to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses are temporary in nature.

4. INCOME TAXES

The Company uses the liability method of accounting for income taxes as required by Statement of Financial Accounting Standards No. 109 (SFAS109), "Accounting for Income Taxes." Under the liability method, deferred-tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences reverse.

5. EARNINGS PER SHARE

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period, including any potential dilutive common shares outstanding, such as options and warrants. As of September 30, 2005 there were no option shares as compared to 54,360 option shares at September 30, 2004 that were excluded from the diluted net income per share computation because their inclusion would be anti-dilutive.

Earnings per share for the nine and three month periods ended September 30, 2004, have been adjusted to reflect a 1.3 for one stock split in the form of a 30% stock dividend affected on February 28, 2005.

6. STOCK BASED COMPENSATION

The Company has adopted the disclosure-only provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" and applies the intrinsic value method of recognition and measurement principles of Accounting Principles Board Opinion

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No.25 and related interpretations in accounting for its Plan. No compensation expense related to the Plan was recorded during the nine or three month periods ended September 30, 2005 and 2004. If the Company had elected to recognize compensation cost based on fair value at the grant dates for awards under the Plan consistent with the method prescribed by SFAS No. 123, net income and earnings per share would have been changed to the pro forma amounts as follows for the nine and three month periods ended September 30, 2005 and 2004.

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Stock Based Compensation

| (in thousands) | Nine Months Ended September 30, | | 2 |
|---|------------------------------------|----------|----|
| | 2005 | 2004 | |
| Net income, as reported | \$ 5,479 | \$ 3,252 | \$ |
| Less pro forma stock-based compensation expenses determined under the fair value method, net of related tax effects | (626) | (724) | |
| Pro forma net income | \$ 4,853 | \$ 2,528 | \$ |
| Net income per share: | | | |
| Basic - as reported | \$ 0.77 | \$ 0.46 | \$ |
| Basic - pro forma | \$ 0.68 | \$ 0.36 | \$ |
| Diluted - as reported | \$ 0.73 | \$ 0.44 | \$ |
| Diluted - proforma | \$ 0.64 | \$ 0.34 | \$ |

7. NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R (revised 2004), "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, "Statement of Cash Flows". Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure of compensation cost, which is contained in Note 6 on page 8 is applicable will no longer be permitted. The new standard is effective for the Company in the first annual reporting period beginning after June 15, 2005 (i.e. calendar year 2006). The impact of this Statement on the Company in periods subsequent to December 31, 2005 will depend on a number of factors, including compensation practices, new awards, modifications and cancellations of existing awards, and the application of alternative option pricing assumptions.

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154 "Accounting Changes and Error Corrections" (Statement 154), which replaces APB Opinion No. 20 "Accounting Changes" and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements". This Statement changes the

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requirements for and reporting of a change in accounting principle, and all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, this statement requires retrospective application to prior periods' financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. When it is impractical to determine the effects of the change, the new accounting principle must be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and a correspondent adjustment must be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of the change, the new principle must be applied as if it were adopted prospectively from the earliest date practicable. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. This statement does not change the transition provisions of any existing pronouncements. The Company does not believe that the adoption of Statement No. 154 will have a significant impact on its consolidated statement of income or financial condition.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion provides information about the results of operations, and financial condition, liquidity, and capital resources of the Company and its subsidiary, the Bank. This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this report and the Management Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

This report contains forward looking statements within the meaning of the Securities Exchange Act of 1934, as amended, including statements of goals, intentions, and expectations as to future trends, plans, events or results of Company operations and policies and regarding general economic conditions. In some cases, forward looking statements can be identified by use of such words as "may", "will", "anticipate", "believes", "expects", "plans", "estimates", "potential", "continue", "should", and similar words or phrases. These statements are based upon current and anticipated economic conditions, nationally and in the Company's market, interest rates and interest rate policy, competitive factors and other conditions which, by their nature, are not susceptible to accurate forecast, and are subject to significant uncertainty. Because of these uncertainties and the assumptions on which this discussion and the forward looking statements are based, actual future operations and results in the future may differ materially from those indicated herein. Readers are cautioned against placing undue reliance on any such forward looking statements.

GENERAL

Eagle Bancorp, Inc. is a growth oriented, one-bank holding company headquartered in Bethesda, Maryland. We provide general commercial and consumer banking services through our wholly owned banking subsidiary EagleBank, a Maryland chartered bank which is a member of the Federal Reserve System. We were organized in October 1997, to be the holding company for the Bank. The Bank was organized as an independent, community oriented, full service banking alternative to the super regional financial institutions, which dominate our primary market area. Our philosophy is to provide superior, personalized service to our customers. We focus on relationship banking, providing each customer with

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a number of services, becoming familiar with and addressing customer needs in a proactive, personalized fashion. The Bank currently has five offices serving Montgomery County and three offices in the District of Columbia. In February 2004, the Company executed a lease for a new office to be opened in the second quarter 2006 in Chevy Chase, Montgomery County, Maryland. In February 2005, Eagle Land Title, LLC, a Bank subsidiary which performs title and attendant services commenced operations.

The Company offers a broad range of commercial banking services to our business and professional clients as well as full service consumer banking services to individuals living and/or working in the service area. We emphasize providing commercial banking services to sole proprietors, small and medium-sized businesses, partnerships, corporations, non-profit organizations and associations, and investors living and working in and near our primary service area. A full range of retail banking services are offered to accommodate the individual needs of both corporate customers as well as the community we serve. These services include the usual deposit functions of commercial banks, including business and personal checking accounts, "NOW" accounts and money market and savings accounts, business, construction, and commercial loans, equipment leasing, residential mortgages and consumer loans and cash management services. We have developed significant expertise and commitment as an SBA lender, have been designated a Preferred Lender by the Small Business Administration (SBA), and are the largest community bank SBA lenders in the Washington Metropolitan area.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

The allowance for credit losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two principles of accounting: (a) Statement on Financial Accounting Standards ("SFAS") 5, "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and are estimable and (b) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued when it is probable that the Company will not collect all principal and interest payments according to the contractual terms of the loan. The loss, if any, can be determined by the difference between the loan balance and the value of

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collateral, the present value of expected future cash flows, or values observable in the secondary markets.

Three components comprise our allowance for credit losses: a specific allowance, a formula allowance and a nonspecific or environmental factors allowance. Each component is determined based on estimates that can and do change when the actual events occur.

The specific allowance allocates an allowance to identified loans. A loan for which reserves are individually allocated may show deficiencies in the borrower's overall financial condition, payment record, support available from financial guarantors and or the fair market value of collateral. When a loan is identified as impaired, a specific reserve is established based on the Company's assessment of the loss that may be associated with the individual loan.

The formula allowance is used to estimate the loss on internally risk rated loans, exclusive of those identified as requiring specific reserves. Loans identified as special mention, substandard, doubtful and loss, are segregated from non-classified loans. Each loan type is assigned an allowance factor based on management's estimate of the risk, complexity and size of individual loans within a particular category. Classified loans are assigned higher allowance factors than non-classified loans due to management's concerns regarding collectibility or management's knowledge of particular elements regarding the borrower. Allowance factors relate to the level of the internal risk rating.

The nonspecific or environmental factors allowance is used to estimate the loss of remaining loans (those not identified as either requiring specific reserves or having classified risk ratings). The loss estimates are based on more global factors incident to the overall portfolio, such as delinquency trends, loss history, trends in the volume and size of individual credits, effects of changes in lending policy, the experience and depth of management, national and local economic trends, any concentrations of credit, the quality of the loan review system and the effect of external factors such as competition and regulatory requirements. The environmental factors allowance captures losses whose impact on the portfolio may have occurred but have yet to be recognized in either the formula or specific allowance.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for credit losses, including, in connection with the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors on the formula allowance and nonspecific allowance components of the allowance. The establishment of allowance factors is a continuing evaluation, based on management's ongoing assessment of the global factors discussed above and their impact on the portfolio. The allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based upon the same volume and classification of loans. Changes in allowance factors will have a direct impact on the amount of the provision, and a related, after tax effect on net income. Errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs. Alternatively, errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance being in excess of amounts necessary to cover losses in the portfolio, and may result in lower provisioning in the future. For additional information regarding the allowance for credit losses, refer to the discussion under the caption "Allowance for Credit Losses" below.

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RESULTS OF OPERATIONS OVERVIEW

The Company reported net income of \$5.5 million for the nine months ended September 30, 2005, as compared to net income of \$3.3 million for the nine months ended September 30, 2004. Earnings per basic share was \$0.77 for the nine month period ended September 30, 2005, as compared to \$0.46 for the same period in 2004. Earnings per diluted share was \$0.73 for the nine months ended September 30, 2005, as compared to \$0.44 for the same period in 2004. For the three months ended September 30, 2005, the Company reported net income of \$2.3 million as compared to \$1.0 million for the same period in 2004. Earnings per basic share was \$.32 and \$.30 per diluted share for the three months ended September 30, 2005, as compared to \$.14 per basic and diluted share for the same period in 2004.

Earnings per share for the three and nine months ended September 30, 2004 have been adjusted to reflect a 1.3 for one stock split in the form of a 30% stock dividend affected on February 28, 2005

The Company had an annualized return on average assets of 1.23% and an annualized return on average equity of 12.07% for the first nine months of 2005, as compared to returns on average assets and average equity of 0.92% and 7.91%, respectively, for the same nine months of 2004.

The increase in net income for the nine months ended September 30, 2005 as compared to the same period in 2004 can be attributed substantially to an increase of 49% in net interest income, resulting from an increase of 28% in average earning assets and an increase in the net interest spread of 57 basis points and the net interest margin of 74 basis points between the comparable periods. Since June 2004, the Federal Reserve Bank has increased the federal funds target rate by 275 basis points to 3.75% in eleven interest rate increases of 25 basis points each. The impact of these interest rate increases has contributed to the improvement in the Company's margin in the past several quarters. While the average rate on earning assets for the nine month period has risen by 102 basis points from 5.23% to 6.25%, the cost of interest bearing liabilities has increased by only 45 basis points from 1.31% to 1.76%. Additionally, the growth in average noninterest bearing funding sources for the nine months ended September 30, 2005 as compared to 2004 has been \$49 million or 32%. This significant growth in noninterest bearing funding sources has increased the benefit of noninterest sources funding earning assets from 35 basis points for the first nine months in 2004 to 52 basis points for the nine months ended September 30, 2005. Thus, the Company has been able to increase its primary source of funds (core deposits) at rates which have allowed its net interest spread and margin to increase in the first nine months of 2005 as compared to the same period in 2004.

As a result of competitive pressures, rates paid on deposits, which have not increased as much or as rapidly as interest rates on earning assets, may result in a higher cost of funding in future periods, which may not be offset by further increases in interest rates on earning assets. As a result of such potential margin compression, the Company's earnings could be adversely impacted.

Loans, which generally have higher yields than securities and other earning assets, increased from 78% of average earning assets in the first nine months of 2004 to 83% of average earning assets for the same period of 2005. Investment securities for the first nine months of 2005 amounted to 13% of average earning assets as compared to 16% for the first nine months in 2004. This decline in the proportion of investment securities was directly related to average loan growth over the past twelve month period exceeding the growth of average deposit and other funding sources.

The provision for credit losses was \$1.3 million for the first nine

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months in 2005 as compared to \$457 thousand for the same period in 2004. This increase was attributable to growth in the loan portfolio in the first nine months of 2005, which was very favorable. As discussed in the section on Allowance for Credit Losses, the Company had \$55 thousand of net charge-offs in the first nine months of 2005. This compared to net recoveries of \$39 thousand for the first nine months of 2004. At September 30, 2005, the allowance for credit losses was \$5.5 million or 1.09% of total loans, as compared to \$4.2 million or 1.15% of total loans at September 30, 2004 and \$4.2 million or 1.02% of total loans at December 31, 2004. The provision for credit losses was \$424 thousand for the three months ended September 30, 2005 as compared to \$227 thousand for the same period in 2004, the increase attributable primarily to growth in the level of outstanding loans.

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Total noninterest income was \$3.2 million for the first nine months of 2005 as compared to \$2.6 million for 2004, a 22% increase. These amounts include net investment gains of \$281 thousand for the first nine months of 2005 and \$193 thousand in 2004. Excluding gains on the sale of investment securities, noninterest income was \$2.9 million in 2005 versus \$2.4 million for 2004, an increase of 20%. This increase was due primarily to increased gains on the sale of SBA loans and SBA service fees which amounted to \$881 thousand for the first nine months in 2005 versus \$454 thousand for 2004. For the three months ended September 30, 2005, total noninterest income was \$1.2 million as compared to \$697 thousand for the same period in 2004. These amounts include net investment gains of \$269 thousand for the three months ended September 30, 2005 as compared to net investment losses of \$60 thousand for the same quarter in 2004. Excluding gains (losses) on the sale of investment securities, noninterest income was \$970 thousand for the third quarter of 2005, versus \$757 thousand for the third quarter of 2004, an increase of 28%. This increase was due substantially to an increase in gains on the sale of SBA loans and loan prepayment and commitment fees.

Noninterest expenses increased from \$11.1 million in the first nine months of 2004 to \$14.1 million for the first nine months of 2005, an increase of 27%. The increase was attributable primarily to increases in personnel and related benefit cost increases, higher amounts of incentive based compensation, increased premises and equipment expenses costs, due in part to new banking offices, and to higher marketing, outside data processing and professional fees associated with a larger organization. In spite of higher amounts of noninterest expenses, the Company's stronger growth in revenue as compared to noninterest expenses resulted in the efficiency ratio improving in the first nine months of 2005 to 58.52% as compared to 66.74% for the first nine months in 2004. For the three months ended September 30, 2005, total noninterest expenses were \$4.7 million, as compared to \$4.0 million for the same period in 2004, an increase of 19%. This increase was due to the same factors mentioned above which affected the increase for the nine month period.

The combination of increases in net interest income attributed to both increased volume and favorable interest rate effects and increases in noninterest income, offset in part by increases in the provision for credit losses due to growth, and increases in noninterest expenses, resulted in significant improvement in net income for the first nine months of 2005 versus 2004 of 68% and for the three months ended September 30, 2005 versus 2004 of 127%.

The following table sets out the annualized returns on average assets, returns on average equity and equity to assets (average) for the nine months ended September 30, 2005 and 2004 and the year ended December 31, 2004:

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| | September 2005 | September 2004 | December 2004 |
|----------------------------------|-------------------|-------------------|------------------|
| | ----- | ----- | ----- |
| Return on average assets | 1.23% | 0.92% | 1.04% |
| Return on average equity | 12.07% | 7.91% | 9.16% |
| Average equity to average assets | 10.22% | 11.68% | 11.38% |

NET INTEREST INCOME AND NET INTEREST MARGIN

Net interest income is the difference between interest income on earning assets and the cost of funds supporting those earning assets. Earning assets are composed primarily of loans and investment securities. The cost of funds represents interest expense on deposits, customer repurchase agreements and other borrowings, which comprise federal funds purchased and advances from the Federal Home Loan Bank of Atlanta. Noninterest bearing deposits and capital are other components representing funding sources. Changes in the volume and mix of assets and funding sources, along with the changes in yields earned and rates paid, determine changes in net interest income. Net interest income for the first nine months of 2005 was \$20.9 million compared to \$14.0 million for the first nine months of 2004, a 49% increase. For the three months ended September 30, 2005, net interest income amounted to \$7.5 million, as compared to \$5.0 million for the same period in 2004, also a 49% increase.

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The following table labeled "Average Balances, Interest Yields and Rates and Net Interest Margin" presents the average balances and rates of the various categories of the Company's assets and liabilities. Included in the table is a measurement of interest rate spread and margin. Interest spread is the difference (expressed as a percentage) between the interest rate earned on earning assets less the interest expense on interest bearing liabilities. While net interest spread provides a quick comparison of earnings rates versus cost of funds, management believes that the net interest margin provides a better measurement of performance, since the net interest margin includes the effect of noninterest bearing sources in its calculation, which are significant factors in the Company's financial performance. The net interest margin is net interest income (annualized) expressed as a percentage of average earning assets.

EAGLE BANCORP, INC.

AVERAGE BALANCES, INTEREST YIELDS AND RATES, AND NET INTEREST MARGIN

(dollars in thousands)

| | ----- Nine Months Ende ----- | | |
|---|------------------------------------|----------|-----------------------|
| | 2005 | | |
| | Average Balance | Interest | Average Yield/Rate |
| | ----- | ----- | ----- |
| ASSETS: | | | |
| Interest earning assets: | | | |
| Interest bearing deposits with other banks and other short-term investments | \$ 13,965 | \$ 331 | 3.17% |
| Loans (1) | 463,576 | 23,808 | 6.87% |
| Investment securities available for sale | 71,399 | 1,761 | 3.30% |

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| | | | |
|--|-----------|-----------|-------|
| Federal funds sold | 10,016 | 220 | 2.94% |
| | ----- | | |
| Total interest earning assets | 558,956 | 26,120 | 6.25% |
| | ----- | | |
| Noninterest earning assets | 39,362 | | |
| Less: allowance for credit losses | 4,822 | | |
| | ----- | | |
| Total noninterest earning assets | 34,540 | | |
| | ----- | | |
| TOTAL ASSETS | \$593,496 | | |
| | ===== | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Interest bearing liabilities: | | | |
| Interest bearing transaction | \$ 59,389 | \$ 79 | 0.18% |
| Savings and money market | 135,147 | 1,487 | 1.47% |
| Time deposits | 164,687 | 3,242 | 2.63% |
| Total interest bearing deposits | 359,223 | 4,808 | 1.79% |
| Customer repurchase agreements and funds purchased | 28,356 | 189 | 0.89% |
| Other short-term borrowings | 6,504 | 187 | 3.83% |
| Long term borrowings | - | - | |
| | ----- | | |
| Total interest bearing liabilities | 394,083 | 5,184 | 1.76% |
| | ----- | | |
| Noninterest bearing liabilities: | | | |
| Noninterest bearing demand | 136,095 | | |
| Other liabilities | 2,650 | | |
| | ----- | | |
| Total noninterest bearing liabilities | 138,745 | | |
| | ----- | | |
| Stockholders' equity | 60,668 | | |
| | ----- | | |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$593,496 | | |
| | ===== | | |
| Net interest income | | \$ 20,936 | |
| | | ===== | |
| Net interest spread | | | 4.49% |
| Net interest margin | | | 5.01% |

(1) includes Loans held for Sale

ALLOWANCE FOR CREDIT LOSSES

The provision for credit losses represents the amount of expense charged to earnings to fund the allowance for credit losses. The amount of the allowance for credit losses is based on many factors which reflect management's assessment of the risk in the loan portfolio. Those factors include economic conditions and trends, the value and adequacy of collateral, volume and mix of the portfolio, performance of the portfolio, and internal loan processes of the Company and Bank.

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Management has developed a comprehensive process to monitor the adequacy of the allowance for credit losses. This process and guidelines were developed utilizing among other factors, the guidance from Federal banking regulatory agencies. The results of this process, in combination with conclusions of the Bank's outside loan review consultant, support management's assessment as to the adequacy of the allowance at the balance sheet date. Please refer to the discussion under the caption "Critical Accounting Policies" for an overview of the methodology management employs on a quarterly basis to assess the adequacy of the allowance and the provisions charged to expense.

Following are tables of comparative charge-offs and recoveries data as well as information on the Company's non-performing and potential problem loans.

During the first nine months of 2005, a provision for credit losses was made in the amount of \$1.3 million and the allowance for credit losses increased \$1.3 million, including the impact of a modest amount of net credit losses of \$55 thousand during the period. The provision for credit losses of \$1.3 million in the first nine months of 2005 compared to a provision for credit losses of \$457 thousand in the first nine months of 2004. The higher level of the provision in 2005 is attributable primarily to significant growth in the loan portfolio in the first nine months of 2005. For the three months ended September 30, 2005, a provision for credit losses was made in the amount of \$424 thousand, as compared to \$227 thousand for the same period in 2004, the higher provision being due to growth in the portfolio in the three months ended September 30, 2005 and to accommodate a higher level of net-charge offs. For the third quarter of 2005, net charge-offs amounted to \$83 thousand as compared to \$8 thousand for the same period in 2004.

At September 30, 2005, the Company had \$211 thousand of loans classified as nonaccrual as compared to \$156 thousand at December 31, 2004 and \$2.4 million at September 30, 2004, which included one large credit of \$2.2 million which was collected in full in the fourth quarter of 2004. The Company had no restructured loans or real estate owned at September 30, 2005, December 31, 2004 or September 30, 2004. Significant variation in these amounts may occur from period to period because the amount of nonperforming loans depends largely on the condition of a small number of individual credits and borrowers. The balance of impaired loans was \$211 thousand at September 30, 2005, with specific reserves against those loans of \$27 thousand, compared to \$156 thousand at December 31, 2004 with specific reserves of \$31 thousand. The allowance for credit losses represented 1.09% of total loans at September 30, 2005, as compared to 1.02% at December 31, 2004. This increase was due to an increase in the allocation factors contained in the allowance methodology and to modifications in the environmental factors allowance.

As part of its comprehensive loan review process, the Company's Board of Directors and the Bank's Director's Loan Committee and or Board of Director's Credit Review Committee carefully evaluates loans which are past due 30 days or more. The Committee(s) make a thorough assessment of the conditions and circumstances surrounding each delinquent loan. The Bank's loan policy requires that loans be placed on nonaccrual if they are ninety days past due, unless they are well secured and in the process of collection.

The maintenance of a high quality loan portfolio, with an adequate allowance for credit losses will continue to be a primary management objective of the Company.

The following table sets forth activity in the allowance for credit

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losses for the periods indicated.

| (dollars in thousands) | Nine Months ended | |
|---------------------------------|-------------------|----------|
| | September 30, | |
| | 2005 | 2004 |
| Balance at beginning of year | \$ 4,240 | \$ 3,680 |
| Charge-offs: | | |
| Commercial | (82) | (95) |
| Real estate - commercial | - | - |
| Construction | - | - |
| Home Equity | - | - |
| Other consumer | (11) | (18) |
| Total | (93) | (113) |
| Recoveries: | | |
| Commercial | 38 | 152 |
| Real estate - commercial | - | - |
| Construction | - | - |
| Home Equity | - | - |
| Other consumer | - | - |
| Total | 38 | 152 |
| Net (charge-offs) recoveries | (55) | 39 |
| Additions charged to operations | 1,311 | 457 |
| Balance at end of period | \$ 5,496 | \$ 4,176 |

The following table reflects the allocation of the allowance for credit losses at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses or charge-offs and does not restrict the use of the allowance to absorb losses in any category.

| | As of September 30, | | As of December | |
|---|---------------------|-------|----------------|------|
| | 2005 | | 2004 | |
| | Amount | % (1) | Amount | % |
| Commercial | \$ 2,455 | 23% | \$ 1,963 | |
| Real estate - commercial | 2,279 | 51% | 1,426 | |
| Real estate - residential mortgage | - | - | 105 | |
| Construction - commercial and residential | 491 | 15% | 431 | |
| Home equity | 169 | 10% | 223 | |
| Other consumer | 99 | 1% | 58 | |
| Unallocated | 3 | | 34 | |
| Total Loans | \$ 5,496 | 100% | \$ 4,240 | 100% |

(1) Represents the percent of loans in each category to total loans and not the allowance allocations

NON-PERFORMING ASSETS

The Company's non-performing assets, which are comprised of loans delinquent 90 days or more, non-accrual loans, restructured loans and other real estate owned, totaled \$211 thousand at September 30, 2005 compared to \$2.6 million at September 30, 2004 and \$156 thousand at December 31, 2004. The percentage of non-performing loans to total loans was 0.04% at September 30, 2005, compared to 0.17% at September 30, 2004, and 0.04% at December 31, 2004.

The following table shows the amounts of non-performing assets at the dates indicated.

| (dollars in thousands) | September 30, | | December 31, |
|---------------------------------|---------------|----------|--------------|
| | 2005 | 2004 | 2004 |
| Nonaccrual Loans: | | | |
| Commercial | \$ 211 | \$ 380 | \$ 156 |
| Consumer | - | - | - |
| Real estate | - | 2,200 | - |
| Accrual loans-past due 90 days: | | | |
| Commercial | - | - | - |
| Consumer | - | - | - |
| Real estate | - | - | - |
| Restructured loans | - | - | - |
| Real estate owned | - | - | - |
| | ----- | ----- | ----- |
| Total non-performing assets | \$ 211 | \$ 2,580 | \$ 156 |
| | ===== | ===== | ===== |

At September 30, 2005, there were \$626 thousand of performing loans considered potential problem loans, defined as loans which are not included in the 90 day past due, nonaccrual or restructured categories, but for which known information about possible credit problems causes management to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms which may in the future result in disclosure in the past due, non-accrual or restructured loan categories.

NONINTEREST INCOME

Noninterest income consists of deposit account service charges, gains on the sale of SBA and residential mortgage loans, investment gains and losses, other noninterest loan fees, income from bank owned life insurance ("BOLI") and other service fees. For the nine months ended September 30, 2005, noninterest income was \$3.2 million. This compared to \$2.6 million of noninterest income for the nine months ended September 30, 2004.

The Company is an active originator of SBA loans and its current practice is to sell the insured portion of those loans at a premium. Income from this source was \$729 thousand for the nine months ended September 30, 2005 compared to \$346 thousand for the nine months ended September 30, 2004, as the Company emphasized this lending activity in the first nine months of 2005. The Company also originates residential mortgage loans on a pre-sold basis, servicing released. Sales of these mortgage loans yielded gains of \$195 thousand

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in the first nine months of 2005 compared to \$215 thousand in the same period in 2004. Net investment gains amounted to \$281 thousand for the first nine months of 2005 as compared to \$193 thousand for the same period in 2004. Income for the nine months ended September 30, 2005 included \$866 thousand from deposit account service charges, \$153 thousand from SBA loan service fees and \$301 thousand from BOLI, versus \$1.0 million from deposit account service charges, \$109 thousand from SBA service fees and \$280 thousand from BOLI for the nine months ended September 30, 2004. Other noninterest income which comprises other service charges, title and settlement fees, and loan prepayment and commitment fees, amounted to \$640 thousand for the first nine months of 2005, as compared to \$447 thousand in the first nine months of 2004, the increase due in part to income from Eagle Land Title, which commenced operations in 2005. The decline in deposit service charges was primarily related to a decline in overdraft fees.

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Noninterest income was \$1.2 million for the three months ended September 30, 2005 compared to \$697 thousand for the three months ended September 30, 2004, an increase of 78%. These amounts include net investment gains of \$269 thousand for the three months ended September 30, 2005 as compared to net investment losses of \$60 thousand for the same quarter in 2004. Excluding gains (losses) on the sale of investment securities, noninterest income was \$970 thousand for the third quarter of 2005, versus \$757 thousand for the third quarter of 2004, an increase of 28%. This increase was due substantially to an increase in gains on the sale of SBA loans and loan prepayment and commitment fees.

NONINTEREST EXPENSES

Noninterest expense was \$14.1 million for the nine months ended September 30, 2005 compared to \$11.1 million for the nine months ended September 30, 2004, an increase of 27%.

Salaries and benefits were \$7.7 million for the first nine months of 2005, as compared to \$6.0 million for 2004, a 28% increase. This increase was due to staff additions and related benefit costs as well as to increases in incentive based compensation. At September 30, 2005 the Bank had 138 full time equivalent employees as compared to 111 at September 30, 2004.

Premises and equipment expenses amounted to \$2.5 million for the first nine months of 2005 versus \$2.0 million for the same period in 2004. This increase of 25% was due in part to a new banking office opened in January 2005 and one opened in the second quarter of 2004 and to ongoing operating expense increases associated with the Company's facilities, all of which are leased, and to increased equipment costs.

Marketing and advertising costs increased from \$212 thousand in the nine months ended September 30, 2004 to \$344 thousand in the same period in 2005, the increases associated primarily with increased advertising for deposit products and to special marketing efforts.

Outside data processing costs were \$574 thousand for the first nine months of 2005, as compared to \$469 thousand in 2004, or an increase of 22%. The higher costs were due to special charges associated with the Company's conversion of certain core processing systems to new operating platforms and to higher processing volumes.

Other expenses, increased from \$2.4 million in the first nine months of 2004 to \$3.0 million for the nine months ended September 30, 2005. The major components of costs in this category include professional and consulting fees,

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ATM expenses, telephone, courier, printing, business development, office supplies, charitable contributions, and dues. These costs increased by 25% in the first nine months of 2005 as compared to 2004.

Noninterest expenses were \$4.7 million for the three months ended September 30, 2005 compared to \$4.0 million for the three months ended September 30, 2004, an increase of 19%. The same factors which contributed to increased noninterest expense for the nine month period mentioned above also contributed to the increase in noninterest expenses for the three months ended September 30, 2005, as compared to the same period in 2004.

FINANCIAL CONDITION OVERVIEW

At September 30, 2005, total assets were \$647.0 million, loans were \$504.3 million, deposits were \$545.6 million and stockholders' equity was \$63.6 million. As compared to December 31, 2004, assets grew by \$93.6 million (17%), loans by \$88.8 million (21%), deposits by \$83.3 million (18%) and stockholders' equity by \$5.1 million (9%).

The Company paid a cash dividend of \$0.07 per share for the third quarter of 2005, which dividends commenced in the first quarter of 2005.

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LOANS

Loans, net of amortized deferred fees and costs, at September 30, 2005, December 31, 2004 and September 30, 2004 are summarized by major type as follows:

| (dollars in thousands) | As of September 30, | | As of December | |
|---|---------------------|------|----------------|------|
| | 2005 | | 2004 | |
| | Amount | % | Amount | % |
| Commercial | \$ 115,140 | 23% | \$ 101,911 | |
| Real estate - commercial (1) | 259,496 | 51% | 189,708 | |
| Real estate - residential mortgage | 1,627 | - | 9,230 | |
| Construction - commercial and residential | 75,380 | 15% | 62,745 | |
| Home equity | 48,474 | 10% | 49,632 | |
| Other consumer | 4,173 | 1% | 2,283 | |
| | | | | |
| Total loans | 504,290 | 100% | 415,509 | 100% |
| | | | | |
| Less: Allowance for Credit Losses | (5,496) | | (4,240) | |
| | | | | |
| Net Loans | \$ 498,794 | | \$ 411,269 | |
| | | | | |

(1) includes loans for land acquisition and development

DEPOSITS AND OTHER BORROWINGS

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The principal sources of funds for the Bank are core deposits, consisting of demand deposits, NOW accounts, money market accounts, savings accounts and certificates of deposits from the local market areas surrounding the Bank's offices. The deposit base includes transaction accounts, time and savings accounts and accounts which customers use for cash management and which provide the Bank with a source of fee income and cross-marketing opportunities as well as an attractive source of lower cost funds. Time and savings accounts, including money market deposit accounts, also provide a relatively stable and low-cost source of funding.

For the nine months ending September 30, 2005 deposits grew \$83.3 million, from \$462.3 million to \$545.6 million or 18%.

Approximately 36% of the Bank's deposits are made up of time deposits, which are generally the most expensive form of deposit because of their fixed rate and term. These deposits have shown good increases in the second and third quarters of 2005 as the Bank has more emphasized these funding sources. Time deposit in denominations of \$100 thousand or more can be more volatile and more expensive than time deposits of less than \$100 thousand. However, because the Bank focuses on relationship banking, its historical experience has been that large time deposits have not been more volatile or significantly more expensive than smaller denomination certificates. It has been the practice of the Bank to pay posted rates on its time deposit whether under or over \$100 thousand. From time to time, when appropriate in order to fund strong loan demand, the Bank accepts time deposits, generally in denominations of less than \$100 thousand from bank and credit union subscribers to a wholesale deposit rate line and may also accept brokered deposits. Wholesale deposits amounted to approximately \$12 million or 2% of total deposits at September 30, 2005, as compared to approximately \$29 million of deposits at September 30, 2004 and approximately \$25 million at December 31, 2004. The Bank has found rates on these deposits to be generally competitive with rates in our market given the speed and minimal noninterest cost at which deposits can be acquired. During the first nine months of 2005, the Bank reduced its wholesale deposits in favor of its core sources, which provided adequate funding and liquidity and was in accordance with planned amounts.

At September 30, 2005, the Company had approximately \$141 million in noninterest bearing demand deposits, representing 26% of total deposits. This compared to approximately \$130 million of these deposits at December 31, 2004 or 28% of total deposits. These are primarily business checking accounts on which the payment of interest is prohibited by regulations of the Federal Reserve. Proposed legislation has been introduced in each of the last several sessions of Congress which would permit banks to pay interest on checking and demand deposit accounts established by businesses. If legislation effectively permitting the payment of interest on business demand deposits is enacted, of which there can be no assurance, it is likely that we may be required to pay interest on some portion of our noninterest bearing deposits in order to compete with other banks. Payment of interest on these deposits could have a significant negative impact on our net interest income and net interest margin, net income, and the return on assets and equity.

As an enhancement to the basic noninterest bearing demand deposit account, the Company offers a sweep account, or "customer repurchase agreement", allowing qualifying businesses to earn interest on short term excess funds which are not suited for either a certificate of deposit or a money market account. The balances in these accounts were \$31.5 million at September 30, 2005 compared to \$24.0 million at December 31, 2004. Customer repurchase agreements are not deposits and are not insured but are collateralized by U.S. government agency

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securities. These accounts are particularly suitable to businesses with significant fluctuation in the levels of cash flows. Attorney and title company escrow accounts are an example of accounts which can benefit from this product, as are customers who may require collateral for deposits in excess of \$100 thousand but do not qualify for other pledging arrangements. This program requires the Company to maintain a sufficient investment securities level to accommodate the fluctuations in balances which may occur in these accounts.

At September 30, 2005, the Company had no outstanding balances under its lines of credit provided by correspondent banks. The Bank had \$4.0 million of borrowings from the Federal Home Loan Bank of Atlanta ("FHLB"), as compared to \$6.3 million at December 31, 2004. These advances are secured 50% by U.S. government agency securities and 50% by a blanket lien on qualifying loans in the Bank's commercial mortgage loan portfolio.

LIQUIDITY MANAGEMENT

Liquidity is a measure of the Bank's ability to meet loan demand and to satisfy depositor withdrawal requirements in an orderly manner. The Bank's primary sources of liquidity consist of cash and cash balances due from correspondent banks, loan repayments, federal funds sold and other short term investments, maturities and sales of investment securities and income from operations. The Bank's entire investment securities portfolio is in an available for sale status which allows it maximum flexibility to generate cash from sales as needed to meet ongoing loan demand. These sources of liquidity are primary and are supplemented by the ability of the Company and Bank to borrow funds, which are termed secondary sources. The Company maintains secondary sources of liquidity, which includes a \$10 million line of credit with a correspondent bank, against which there were no outstandings at September 30, 2005. Additionally, the Bank can purchase up to \$37 million in federal funds on an unsecured basis from its correspondents, against which there were no borrowings outstanding at September 30, 2005 and may enter into repurchase agreements up to \$12.5 million, provided adequate collateral exists to secure the lending relationship. At September 30, 2005, the Bank was also eligible to take advances from the FHLB up to \$120 million, of which it had advances outstanding of \$4.0 million.

The loss of deposits, through disintermediation, is one of the greater risks to liquidity. Disintermediation occurs most commonly when rates rise and depositors withdraw deposits seeking higher rates than the Bank may offer. The Bank was founded under a philosophy of relationship banking and, therefore, believes that it has less of an exposure to disintermediation and resultant liquidity concerns than do many banks. There is, however, a risk that some deposits would be lost if rates were to increase and the Bank elected not to remain competitive with its deposit rates. Under those conditions, the Bank believes that it is well positioned to use other sources of funds such as FHLB borrowings, customer repurchase agreements and Bank lines of credit to offset a decline in deposits in the short run. Over the long term, an adjustment in assets and change in business emphasis could compensate for a loss of deposits. The Bank also maintains a marketable investment portfolio to provide flexibility in the event of significant liquidity needs. The Bank's Asset Liability Board Committee recently adopted policy guidelines which emphasize the importance of core deposits and their continued growth.

At September 30, 2005, under the Bank's liquidity formula, it had \$187 million of primary and secondary liquidity sources, which was deemed adequate to meet current and projected funding needs.

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The following is a schedule of significant funding commitments at September 30, 2005:

| | (in thousands) |
|------------------------------------|----------------|
| Unused lines of credit (consumer) | \$ 52,929 |
| Other commitments to extend credit | 167,671 |
| Standby letters of credit | 3,959 |
| | ----- |
| | \$ 224,559 |
| | ===== |

ASSET/LIABILITY MANAGEMENT AND QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

A fundamental risk in banking is exposure to market risk, or interest rate risk, since a bank's net income is largely dependent on net interest income. The Bank's Asset Liability Committee (ALCO) of the Board of Directors formulates and monitors the management of interest rate risk through policies and guidelines established by it and the full Board of Directors. In its consideration of risk limits, the ALCO considers the impact on earnings and capital, the level and direction of interest rates, liquidity, local economic conditions, outside threats and other factors. Banking is generally a business of managing the maturity mismatch inherent in its asset and liability cash flows and to provide net interest income growth consistent with the Company's profit objectives.

The Company, through its ALCO, monitors the interest rate environment in which it operates and adjusts the rates and maturities of its assets and liabilities to remain competitive and to achieve its overall financial objectives subject to established risk limits. In the current interest rate environment, the Company is managing its assets to be either variably priced or with relatively short maturities, so as to mitigate the risk to earnings and capital should interest rates increase from current levels. At the same time, the Bank seeks to acquire longer-term core deposits to lock in relatively lower cost funds. In the current market, due to competitive factors and customer preferences, the effort to attract longer term fixed priced liabilities has not been as successful as the Company's best case asset liability mix would prefer. There can be no assurance that the Company will be able to successfully carry out this intention, as a result of competitive pressures, customer preferences and the inability to perfectly forecast future interest rates.

One of the tools used by the Company to manage its interest rate risk is a static GAP analysis presented below. The Company also uses an earnings simulation model on a quarterly basis to closely monitor interest sensitivity and to model its balance sheet cash flows and its income statement effects in different interest rate scenarios. The model is based on current Bank and Company data and is adjusted for assumptions as to growth, noninterest income and noninterest expense and interest rate sensitivity, based on historical data, for both assets and liabilities. The data is then subjected to a "shock test", which assumes a simultaneous change in interest rate up 200 basis points or down 200 basis points, along the entire yield curve, but not below zero. The results are analyzed as to the impact on net interest income, net income over the next twelve months and to the market value of equity. The Company analysis at September 30, 2005 shows a positive effect on income when interest rates are shocked up 200 basis points, due to the significant level of variable rate loans. A negative impact occurs if rates were to decline. With rates at a relative low level, further interest rate declines would reduce income on earning assets, which could not be offset by a corresponding reduction in the cost of funds, potentially resulting in significant net interest margin

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contraction. The Company concluded in the second quarter of 2005, based on market factors, that larger increases in its retail deposit rate assumptions are probable in a rising interest rate environment and modified its model assumptions to reflect more rate sensitivity within the core deposit base. While the impact of higher interest rates continues to be viewed as positive to future net interest income and market values of equity, this change in assumptions moderates the benefits of such higher interest rates as compared to earlier analysis.

The following table reflects the result of a shock simulation on the September 30, 2005 balances.

| Change in interest rates (basis points) | Percentage change in net interest income | Percentage change in net income | Percentage cha in Market Valu Portfolio Equ |
|---|--|------------------------------------|---|
| +200 | + 4.5% | + 11.7% | + .7% |
| +100 | + 2.3% | + 6.0 % | + .6% |
| 0 | - | - | - |
| -100 | - 3.4% | - 8.8% | - 2.9% |
| -200 | - 8.6% | - 22.5.% | - 8.8% |

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Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features that limit changes in interest rates on a short-term basis and over the life of the loan. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their debt may decrease in the event of a significant interest rate increase.

GAP POSITION

Banks and other financial institutions earnings are significantly dependent upon net interest income, which is the difference between interest earned on earning assets and interest expense on interest bearing liabilities.

In falling interest rate environments, net interest income is maximized with longer term, higher yielding assets being funded by lower yielding short-term funds, or what is referred to as a negative mismatch or GAP. Conversely, in a rising interest rate environment, net interest income is maximized with shorter term, higher yielding assets being funded by longer-term liabilities or what is referred to as a positive mismatch or GAP.

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The current interest rate environment is signaling higher interest rates. Management has been emphasizing the acquisition of variable rate and shorter term assets and has been attempting to secure longer-term core deposits. While management believes that this overall position creates a good balance in managing its interest rate risk and maximizing its net interest margin within plan objectives, there can be no assurance as to actual results.

The GAP position, which is a measure of the difference in maturity and re-pricing volume between assets and liabilities, is a means of monitoring the sensitivity of a financial institution to changes in interest rates. The chart below provides an indication of the rate sensitivity of the Company. A negative GAP indicates the degree to which the volume of repriceable liabilities exceeds repriceable assets in given time periods. At September 30, 2005, the Company had a positive GAP of 19% out to three months and a cumulative negative GAP of 5% out to twelve months, as compared to a three month positive GAP of 38% and a cumulative twelve month positive GAP of 8% at December 31, 2004. The change in the GAP position at September 30, 2005 as compared to December 31, 2004 relates primarily to a change in the re-pricing assumption for money market deposits to a shorter time-frame, adopted in the second quarter of 2005. This change was made to recognize the Company's actual practices and experience over the first six months of 2005.

If interest rates continue to rise at a measured pace, as forecasters are predicting, the Bank's interest income and margin are expected to be stable to slightly up because of the present positive mismatch position. Because competitive market behavior does not necessarily track the trend of interest rates but at times moves ahead of financial market influences, the rise in the cost of liabilities may be greater than anticipated by the GAP model. If this were to occur, the benefits of a rising interest rate environment would not be as significant as management is expecting. Management has carefully considered its strategy to maximize interest income by reviewing interest rate levels, economic indicators and call features within its investment portfolio. These factors have been discussed with the Board of Directors Asset Liability Committee and management believes that current strategies are appropriate to current economic and interest rate trends.

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GAP ANALYSIS
 SEPTEMBER 30, 2005
 (dollars in thousand)

| Repriceable in: | 0-3 mos | 4-12 mos | 13-36 mos | 37-60 m |
|---------------------------------------|------------|-----------|-----------|----------|
| ASSETS: | | | | |
| Investments and bank deposits | \$ 9,674 | \$ 14,236 | \$ 26,548 | \$ 8,3 |
| Loans (*) | 264,572 | 17,965 | 56,936 | 97,8 |
| Fed funds/ equivalents/other equities | 37,075 | - | - | |
| Total repriceable assets | \$ 311,321 | \$ 32,201 | \$ 83,484 | \$ 106,1 |
| LIABILITIES: | | | | |
| Interest Bearing Transaction Accounts | \$ - | \$ 29,978 | \$ - | \$ 44,9 |
| Money Market Accounts | 129,554 | - | - | |

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| | | | | |
|--------------------------------|------------|--------------|-----------|---------|
| Time Deposits | 28,902 | 145,425 | 22,416 | |
| Savings | 3,766 | - | - | |
| Customer repurchase agreements | 31,470 | - | - | |
| Other short-term borrowings | 4,000 | - | - | |
| Total repriceable liabilities | \$ 197,692 | \$ 175,403 | \$ 22,416 | \$ 44,9 |
| GAP | \$ 113,629 | \$ (143,202) | \$ 61,068 | \$ 61,1 |
| Cumulative GAP | \$ 113,629 | \$ (29,573) | \$ 31,495 | \$ 92,6 |
| Interval gap/earnings assets | 18.55% | (23.38%) | 9.97% | 9. |
| Cumulative gap/earning assets | 18.55% | (4.83%) | 5.14% | 15. |

(*) includes Loans Held for Sale

Although NOW accounts are subject to immediate repricing, the Bank's GAP model has incorporated a repricing schedule to account for a lag in rate changes based on our experience, as measured by the amount of those deposit rate changes relative to the amount of rate change in assets.

CAPITAL RESOURCES AND ADEQUACY

The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, changing competitive conditions and economic forces, and the overall level of growth. The adequacy of the Company's current and future capital needs is monitored by management on an ongoing basis. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses.

The capital position of both the Company and the Bank continues to exceed regulatory requirements to be considered well-capitalized. The primary indicators used by bank regulators in measuring the capital position are the tier 1 risk-based capital ratio, the total risk-based capital ratio, and the tier 1 leverage ratio. Tier 1 capital consists of common and qualifying preferred stockholders' equity less intangibles. Total risk-based capital consists of Tier 1 capital, qualifying subordinated debt, and a portion of the allowance for credit losses. Risk-based capital ratios are calculated with reference to risk-weighted assets. The tier 1 leverage ratio measures the ratio of tier 1 capital to total average assets for the most recent three month period.

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The ability of the Company to continue to grow is dependent on its earnings and the ability to obtain additional funds for contribution to the Bank's capital, through additional borrowing, the sale of additional common stock, the sale of preferred stock, or through the issuance of additional qualifying equity equivalents, such as subordinated debt or trust preferred securities.

The actual capital amounts and ratios for the Company and Bank as of September 30, 2005 and September 30, 2004 are presented in the table below:

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| Dollars in thousands | Company Actual Amount ----- | Company Actual Ratio ----- | Bank Actual Amount ----- | Bank Actual Ratio ----- | For Ade Pur R --- |
|---|--------------------------------------|-------------------------------------|-----------------------------------|----------------------------------|-------------------------------|
| As of September 30, 2005 | | | | | |
| Total capital to risk-weighted assets | \$69,384 | 12.57% | \$60,012 | 11.02% | 8 |
| Tier 1 capital to risk-weighted assets | \$63,888 | 11.58% | \$54,534 | 10.01% | 4 |
| Tier 1 capital to average assets (leverage) | \$63,888 | 10.18% | \$54,534 | 8.85% | 3 |
| As of September 30, 2004 | | | | | |
| Total capital to risk-weighted assets | \$60,565 | 14.50% | \$43,431 | 10.7% | 8 |
| Tier 1 to risk-weighted assets | \$56,389 | 13.50% | \$39,300 | 9.7% | 4 |
| Tier 1 capital to average assets (leverage) | \$56,389 | 12.00% | \$39,300 | 8.4% | 3 |

** Applies to Bank only

Bank and holding company regulations, as well as Maryland law, impose certain restrictions on dividend payments by the Bank, as well as restricting extension of credit and transfers of assets between the Bank and the Company. At September 30, 2005, the Bank could pay dividends to the parent to the extent of its earnings so long as it maintained required capital ratios.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to Item 2 of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the caption "Asset/Liability Management and Quantitative and Qualitative Disclosure About Market Risk".

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated as of the last day of the period covered by this report the effectiveness of the operation of the Company's disclosure controls and procedures, as defined in Rule 13a-14 under the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended September 30, 2005 that has materially affected, or is 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

From time to time the Company may become involved in legal proceedings. At the present time there are no proceedings which the Company believes will have a material adverse impact on the financial condition or earnings of the Company.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- | | |
|---------------------------------------|-----------------|
| (a) Sales of Unregistered Securities. | None |
| (b) Use of Proceeds. | Not Applicable. |
| (c) Issuer Purchases of Securities. | None |

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 - OTHER INFORMATION

- | | |
|--|------|
| (a) Required 8-K Disclosures | None |
| (b) Changes in Procedures for Director Nominations | None |

ITEM 6 - EXHIBITS

| Exhibit No. | Description of Exhibit |
|-------------|--|
| 3(a) | Certificate of Incorporation of the Company, as amended (1) |
| 3(b) | Bylaws of the Company (2) |
| 10.1 | 1998 Stock Option Plan (3) |
| 10.2 | Employment Agreement between Michael Flynn and the Company (4) |
| 10.3 | Employment Agreement between Thomas D. Murphy and the Bank (4) |
| 10.4 | Employment Agreement between Ronald D. Paul and the Company (4) |
| 10.5 | Director Fee Agreement between Leonard L. Abel and the Company (4) |
| 10.6 | Employment Agreement between Susan G. Riel and the Bank (4) |
| 10.7 | Employment Agreement between Martha F. Tonat and the Bank (4) |
| 10.8 | Employment Agreement between Wilmer L. Tinley and the Bank (4) |
| 10.9 | Employee Agreement for James H. Langmead (5) |
| 10.10 | Employee Stock Purchase Plan (6) |
| 11 | Statement Regarding Computation of Per Share Income |
| 21 | Subsidiaries of the Registrant |
| 31.1 | Rule 13a-14(a) Certification of Ronald D. Paul |
| 31.2 | Rule 13a-14(a) Certification of Wilmer L. Tinley |
| 31.3 | Rule 13a-14(a) Certification of Michael T. Flynn |
| 31.4 | Rule 13a-14(a) Certification of James H. Langmead |

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| | |
|------|---|
| 32.1 | Section 1350 Certification of Ronald D. Paul |
| 32.2 | Section 1350 Certification of Wilmer L. Tinley |
| 32.3 | Section 1350 Certification of Michael T. Flynn |
| 32.4 | Section 1350 Certification of James H. Langmead |

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- (1) Incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-QSB for the period ended September 30, 2002.
- (2) Incorporated by reference to Exhibit 3(b) to the Company's Registration Statement on Form SB-2, dated December 12, 1997.
- (3) Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1998. (4) Incorporated by reference to exhibits of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2003.
- (5) Incorporated by reference to exhibits of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2004
- (6) Incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 (No. 333-116352)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EAGLE BANCORP, INC.

Date: November 4, 2005

By: /s/ Ronald D. Paul

Ronald D. Paul, President and CEO

Date: November 4, 2005

By: /s/ Wilmer L. Tinley

Wilmer L. Tinley, Senior Vice President
and Chief Financial Officer

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