

EAGLE BANCORP/MT  
Form 10QSB  
February 11, 2008

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

**FORM 10-QSB**

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

For the quarterly period ended December 31, 2007

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  
(State or other jurisdiction of incorporation or  
organization)

81-0531318  
(I.R.S. Employer Identification No.)

1400 Prospect Avenue, Helena, MT 59601  
(Address of principal executive offices)

(406) 442-3080  
(Issuer's telephone number)

Website address: [www.americanfederalsavingsbank.com](http://www.americanfederalsavingsbank.com)

Check whether the issuer (1) filed all reports to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a shell company (defined in Rule 12b-2 of the Exchange Act). 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 1,078,822 shares outstanding  
As of February 1, 2008

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



## EAGLE BANCORP AND SUBSIDIARY

## TABLE OF CONTENTS

|                                      | <u>PAGE</u>   |
|--------------------------------------|---|
| <b>PART I. FINANCIAL INFORMATION</b> |   |
| <b>Item 1.</b>                       | <b>Financial Statements</b>   |
|                                      | Consolidated Statements of Financial Condition as of December 31, 2007 (unaudited) and June 30, 2007              |
|                                      | 1 and 2   |
|                                      | Consolidated Statements of Income for the three and six months ended December 31, 2007 and 2006 (unaudited)       |
|                                      | 3 and 4   |
|                                      | Consolidated Statements of Changes in Stockholders' Equity for the six months ended December 31, 2007 (unaudited) |
|                                      | 5   |
|                                      | Consolidated Statements of Cash Flows for the six months ended December 31, 2007 and 2006 (unaudited)             |
|                                      | 6 and 7   |
|                                      | Notes to Consolidated Financial Statements  |
|                                      | 8 to 12   |
| <b>Item 2.</b>                       | <b>Management's Discussion and Analysis of Financial Condition or Plan of Operations</b>                          |
|                                      | 13 to 19  |
| <b>Item 3.</b>                       | <b>Controls and Procedures</b>  |
|                                      | 20  |
| <b>PART II. OTHER INFORMATION</b>    |   |
| <b>Item 1.</b>                       | <b>Legal Proceedings</b>  |
|                                      | 21  |
| <b>Item 2.</b>                       | <b>Unregistered Sales of Equity Securities and Use of Proceeds</b>  |
|                                      | 21  |
| <b>Item 3.</b>                       | <b>Defaults Upon Senior Securities</b>  |
|                                      | 21  |
| <b>Item 4.</b>                       | <b>Submission of Matters to a Vote of Security-Holders</b>  |
|                                      | 22  |
| <b>Item 5.</b>                       | <b>Other Information</b>  |
|                                      | 22  |
| <b>Item 6.</b>                       | <b>Exhibits</b>   |
|                                      | 22  |
| <b>Signatures</b>                    | 23  |
| <b>Exhibit 31.1</b>                  |   |
| <b>Exhibit 31.2</b>                  |   |
| <b>Exhibit 32.1</b>                  |   |

## EAGLE BANCORP AND SUBSIDIARY

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

|  | December<br>31,<br>2007<br>(Unaudited) | June 30,<br>2007<br>(Audited) |
|--|--|-------------------------------|
| <b>ASSETS</b>  |  |                               |
| Cash and due from banks  | \$ 4,426                               | \$ 2,709                      |
| Interest-bearing deposits with banks   | 350                                    | 360                           |
| Total cash and cash equivalents  | 4,776                                  | 3,069                         |
| Investment securities FAS 159, at market value   | 1,401                                  | 0                             |
| Investment securities available-for-sale, at market value  | 61,280                                 | 64,774                        |
| Investment securities held-to-maturity, at cost  | 726                                    | 921                           |
| Investment in nonconsolidated subsidiary   | 155                                    | 155                           |
| Federal Home Loan Bank stock, at cost  | 1,315                                  | 1,315                         |
| Mortgage loans held-for-sale   | 748                                    | 1,175                         |
| Loans receivable, net of deferred loan fees and allowance for loan losses of \$515 at December 31, 2007 and \$518 at June 30, 2007 | 164,626                                | 158,140                       |
| Accrued interest and dividends receivable  | 1,352                                  | 1,333                         |
| Mortgage servicing rights, net   | 1,651                                  | 1,628                         |
| Property and equipment, net  | 6,419                                  | 5,806                         |
| Cash surrender value of life insurance   | 6,165                                  | 5,764                         |
| Real estate acquired in settlement of loans, net of allowance for losses   | 0                                      | 0                             |
| Other assets   | 372                                    | 606                           |
| Total assets   | \$ 250,986                             | \$ 244,686                    |

See accompanying notes to consolidated financial statements.

## EAGLE BANCORP AND SUBSIDIARY

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

|   | December<br>31,<br>2007<br>(Unaudited) | June 30,<br>2007<br>(Audited) |
|---|--|-------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                               |
| <b>Liabilities:</b>   |  |                               |
| Deposit accounts:   |  |                               |
| Noninterest bearing   | \$ 12,967                              | \$ 13,694                     |
| Interest bearing  | 162,037                                | 165,953                       |
| Federal funds purchased   | 0                                      | 3,800                         |
| Advances from Federal Home Loan Bank and other borrowings   | 43,700                                 | 30,000                        |
| Long-term subordinated debentures   | 5,155                                  | 5,155                         |
| Accrued expenses and other liabilities  | 1,988                                  | 1,996                         |
| <b>Total liabilities</b>  | <b>225,847</b>                         | <b>220,598</b>                |
| <b>Stockholders' Equity:</b>  |  |                               |
| Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)   |  |                               |
| Common stock (par value \$0.01 per share; 9,000,000 shares authorized; 1,223,572 shares issued; 1,079,822 and 1,084,357 outstanding at December 31, 2007 and June 30, 2007, respectively) | 12                                     | 12                            |
| Additional paid-in capital  | 4,441                                  | 4,387                         |
| Unallocated common stock held by employee stock ownership plan ("ESOP")   | (74)                                   | (92)                          |
| Treasury stock, at cost (143,750 and 139,215 shares at December 31, 2007 and June 30, 2007, respectively)   | (4,908)                                | (4,759)                       |
| Retained earnings   | 25,805                                 | 25,448                        |
| Accumulated other comprehensive loss  | (137)                                  | (908)                         |
| <b>Total stockholders' equity</b>   | <b>25,139</b>                          | <b>24,088</b>                 |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 250,986</b>                      | <b>\$ 244,686</b>             |

See accompanying notes to consolidated financial statements.

## EAGLE BANCORP AND SUBSIDIARY

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

|   | Three Months Ended<br>December 31, |          | Six Months Ended<br>December 31, |          |
|---|------------------------------------|----------|----------------------------------|----------|
|   | 2007                               | 2006     | 2007                             | 2006     |
|   | (Unaudited)                        |          | (Unaudited)                      |          |
| <b>Interest and Dividend Income:</b>              |                                    |          |                                  |          |
| Interest and fees on loans                        | \$ 2,751                           | \$ 2,378 | \$ 5,419                         | \$ 4,689 |
| Interest on deposits with banks                   | 27                                 | 16       | 34                               | 28       |
| Securities held-to-maturity                       | 9                                  | 11       | 18                               | 22       |
| Securities available-for-sale                     | 704                                | 696      | 1,426                            | 1,356    |
| FHLB dividends                                    | 3                                  | 1        | 5                                | 1        |
| Total interest and dividend income                | 3,494                              | 3,102    | 6,902                            | 6,096    |
| <b>Interest Expense:</b>                          |                                    |          |                                  |          |
| Deposits  | 1,171                              | 1,042    | 2,356                            | 1,976    |
| FHLB advances and other borrowings                | 471                                | 355      | 910                              | 686      |
| Subordinated debentures                           | 75                                 | 75       | 150                              | 150      |
| Total interest expense                            | 1,717                              | 1,472    | 3,416                            | 2,812    |
| Net interest income                               | 1,777                              | 1,630    | 3,486                            | 3,284    |
| Loan loss provision                               | 0                                  | 0        | 0                                | 0        |
| Net interest income after loan loss provision     | 1,777                              | 1,630    | 3,486                            | 3,284    |
| <b>Noninterest income:</b>                        |                                    |          |                                  |          |
| Net gain on sale of loans                         | 183                                | 190      | 382                              | 309      |
| Demand deposit service charges                    | 190                                | 128      | 356                              | 263      |
| Mortgage loan servicing fees                      | 137                                | 133      | 270                              | 271      |
| Net gain on sale of available-for-sale securities | 0                                  | 1        | 0                                | 1        |
| Net loss on securities FAS 159                    | (390)                              | 0        | (431)                            | 0        |
| Other   | 149                                | 140      | 276                              | 285      |
| Total noninterest income                          | 269                                | 592      | 853                              | 1,129    |

See accompanying notes to consolidated financial statements.

## EAGLE BANCORP AND SUBSIDIARY

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

|   | Three Months Ended<br>December 31, |           | Six Months Ended<br>December 31, |           |
|---|------------------------------------|-----------|----------------------------------|-----------|
|   | 2007<br>(Unaudited)                | 2006      | 2007<br>(Unaudited)              | 2006      |
| Noninterest expense:                              |                                    |           |                                  |           |
| Salaries and employee benefits                    | 1,008                              | 914       | 1,954                            | 1,752     |
| Occupancy expenses                                | 130                                | 133       | 265                              | 275       |
| Furniture and equipment depreciation              | 70                                 | 68        | 141                              | 147       |
| In-house computer expense                         | 84                                 | 70        | 158                              | 141       |
| Advertising expense                               | 70                                 | 60        | 133                              | 153       |
| Amortization of mtg servicing fees                | 75                                 | 73        | 141                              | 149       |
| Federal insurance premiums                        | 5                                  | 5         | 10                               | 11        |
| Postage   | 33                                 | 21        | 56                               | 39        |
| Legal, accounting, and examination fees           | 65                                 | 66        | 121                              | 124       |
| Consulting fees                                   | 7                                  | 20        | 22                               | 36        |
| ATM processing                                    | 13                                 | 10        | 27                               | 22        |
| Other   | 227                                | 221       | 427                              | 428       |
| Total noninterest expense                         | 1,787                              | 1,661     | 3,455                            | 3,277     |
| Income before provision for income taxes          | 259                                | 561       | 884                              | 1,136     |
| Provision for income taxes                        | 40                                 | 100       | 201                              | 253       |
| Net income  | \$ 219                             | \$ 461    | \$ 683                           | \$ 883    |
| Basic earnings per share                          | \$ 0.20                            | \$ 0.43   | \$ 0.64                          | \$ 0.72   |
| Diluted earnings per share                        | \$ 0.18                            | \$ 0.38   | \$ 0.56                          | \$ 0.73   |
| Weighted average shares outstanding (basic eps)   | 1,070,862                          | 1,072,540 | 1,071,651                        | 1,073,100 |
| Weighted average shares outstanding (diluted eps) | 1,213,612                          | 1,209,012 | 1,213,035                        | 1,208,435 |

See accompanying notes to consolidated financial statements.

## EAGLE BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 For the Six Months Ended December 31, 2007 (Unaudited)  
 (Dollars in Thousands, Except for Per Share Data)

|  | PREFERRED<br>STOCK | COMMON<br>STOCK | ADDITIONAL<br>PAID-IN<br>CAPITAL | UNALLOCATED<br>ESOP<br>SHARES | TREASURY<br>STOCK | RETAINED<br>EARNINGS | ACCUMULATED<br>COMPREHENSIVE<br>INCOME |
|--|--------------------|-----------------|----------------------------------|-------------------------------|-------------------|----------------------|--|
| Balance, June<br>30, 2007  | \$ -               | \$ 12           | \$ 4,387                         | \$(92)                        | \$(4,759)         | \$ 25,448            |  |
| Net income   | -                  | -               | -                                | -                             | -                 | 683                  |  |
| Other<br>comprehensive<br>income   | -                  | -               | -                                | -                             | -                 | -                    |  |
| Total<br>comprehensive<br>income   | -                  | -               | -                                | -                             | -                 | -                    |  |
| Dividends paid<br>(\$0.24 per share)   | -                  | -               | -                                | -                             | -                 | (209)                |  |
| Treasury stock<br>purchased<br>(1,250 shares<br>@ \$33.00;<br>3,285 shares @<br>\$32.75)       | -                  | -               | -                                | -                             | (149)             | -                    |  |
| FAS 159<br>Adjustment  |                    |                 |                                  |                               |                   | (117)                |  |
| ESOP shares<br>allocated or<br>committed to<br>be released for<br>allocation<br>(1,150 shares) | -                  | -               | 54                               | 18                            | -                 | -                    |  |
| Balance,<br>December 31,<br>2007   | \$ -               | \$ 12           | \$ 4,441                         | \$(74)                        | \$(4,908)         | \$ 25,805            |  |

See accompanying notes to consolidated financial statements.





## EAGLE BANCORP AND SUBSIDIARY

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

|   | Six Months Ended<br>December 31, |          |
|---|----------------------------------|----------|
|   | 2007                             | 2006     |
|   | (Unaudited)                      |          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                  |          |
| Net income  | \$ 683                           | \$ 883   |
| Adjustments to reconcile net income to net cash from operating activities:                          |                                  |          |
| Depreciation  | 228                              | 249      |
| Net amortization of marketable securities premium and discounts                                     | 113                              | 318      |
| Amortization of capitalized mortgage servicing rights   | 141                              | 149      |
| Gain on sale of loans   | (382)                            | (309)    |
| Net realized gain on sale of available-for-sale securities  | -                                | (1)      |
| Increase in cash surrender value of life insurance  | (101)                            | (91)     |
| Loss in investment securities, FAS 159  | 431                              | -        |
| Change in assets and liabilities:   |                                  |          |
| (Increase) decrease in assets:  |                                  |          |
| Accrued interest and dividends receivable   | (19)                             | (68)     |
| Loans held-for-sale   | 807                              | (825)    |
| Other assets  | 154                              | 432      |
| Increase (decrease) in liabilities:   |                                  |          |
| Accrued expenses and other liabilities  | (293)                            | (254)    |
| Net cash provided by operating activities   | 1,662                            | 483      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                  |          |
| Purchase of securities:   |                                  |          |
| Investment securities available-for-sale  | (3,990)                          | (13,720) |
| Proceeds from maturities, calls and principal payments:   |                                  |          |
| Investment securities held-to-maturity  | 195                              | 56       |
| Investment securities available-for-sale  | 6,630                            | 8,977    |
| Proceeds from sales of investment securities available-for-sale                                     | -                                | 3,316    |
| Net increase in loans receivable, excludes transfers to real estate acquired in settlement of loans | (6,651)                          | (6,610)  |
| Purchase of property and equipment  | (841)                            | (225)    |
| Purchase of bank owned life insurance   | (300)                            | (342)    |
| Net cash used in investing activities   | (4,957)                          | (8,548)  |

See accompanying notes to consolidated financial statements.

## EAGLE BANCORP AND SUBSIDIARY

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

|   | Six Months Ended<br>December 31, |          |
|---|----------------------------------|----------|
|   | 2007                             | 2006     |
|   | (Unaudited)                      |          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |                                  |          |
| Net increase in checking and savings accounts             | \$ (4,641)                       | \$ 993   |
| Net decrease in federal funds                             | (3,800)                          | (2,175)  |
| Payments on FHLB advances and other borrowings            | (5,000)                          | (9,334)  |
| FHLB advances and other borrowings                        | 18,700                           | 21,000   |
| Purchase of treasury stock                                | (148)                            | (166)    |
| Dividends paid  | (209)                            | (194)    |
| Net cash provided by financing activities                 | 4,902                            | 10,124   |
| Net increase in cash and cash equivalents                 | 1,707                            | 2,059    |
| CASH AND CASH EQUIVALENTS, beginning of period            | 3,069                            | 2,871    |
| CASH AND CASH EQUIVALENTS, end of period                  | \$ 4,776                         | \$ 4,930 |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                |                                  |          |
| Cash paid during the period for interest                  | \$ 3,385                         | \$ 2,926 |
| Cash paid during the period for income taxes              | \$ 530                           | \$ 322   |
| <b>NON-CASH INVESTING ACTIVITIES:</b>                     |                                  |          |
| Increase in market value of securities available-for-sale | \$ (1,093)                       | \$ (957) |
| Mortgage servicing rights capitalized                     | \$ 165                           | \$ 108   |

See accompanying notes to consolidated financial statements.

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

**NOTE 1. BASIS OF PRESENTATION**

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

The results of operations for the three and six month periods ended December 31, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2008 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, 2007.

**NOTE 2. INVESTMENT SECURITIES**

Investment securities are summarized as follows:

(Dollars in thousands)

|  | December 31, 2007 (Unaudited) |                                       |                  | June 30, 2007 (Audited) |                                       |                  |
|--|-------------------------------|---------------------------------------|------------------|-------------------------|---------------------------------------|------------------|
|  | AMORTIZED<br>COST             | GROSS<br>UNREALIZED<br>GAINS/(LOSSES) | FAIR<br>VALUE    | AMORTIZED<br>COST       | GROSS<br>UNREALIZED<br>GAINS/(LOSSES) | FAIR<br>VALUE    |
| <b>Available-for-sale:</b>                   |                               |                                       |                  |                         |                                       |                  |
| U.S. government<br>and agency<br>obligations | \$ 3,079                      | \$ (16)                               | \$ 3,063         | \$ 3,690                | \$ (47)                               | \$ 3,643         |
| Municipal<br>obligations                     | 22,046                        | (144)                                 | 21,902           | 21,198                  | (470)                                 | 20,728           |
| Corporate<br>obligations                     | 11,722                        | 8                                     | 11,730           | 13,847                  | (224)                                 | 13,623           |
| Mortgage-backed<br>securities                | 7,457                         | (17)                                  | 7,440            | 8,107                   | (235)                                 | 7,872            |
| Collateralized<br>mortgage<br>obligations    | 17,192                        | (47)                                  | 17,145           | 17,408                  | (333)                                 | 17,075           |
| Corporate preferred<br>stock                 | 0                             | 0                                     | 0                | 2,000                   | (167)                                 | 1,833            |
| <b>Total</b>                                 | <b>\$ 61,496</b>              | <b>\$ (216)</b>                       | <b>\$ 61,280</b> | <b>\$ 66,250</b>        | <b>\$ (1,476)</b>                     | <b>\$ 64,774</b> |
| <b>Held-to-maturity:</b>                     |                               |                                       |                  |                         |                                       |                  |
| Municipal<br>obligations                     | \$ 675                        | \$ 15                                 | \$ 690           | \$ 826                  | \$ 9                                  | \$ 835           |
| Mortgage-backed<br>securities                | 51                            | -                                     | 51               | 95                      | -                                     | 95               |
| <b>Total</b>                                 | <b>\$ 726</b>                 | <b>\$ 15</b>                          | <b>\$ 741</b>    | <b>\$ 921</b>           | <b>\$ 9</b>                           | <b>\$ 930</b>    |

Beginning July 1, 2007 the Company elected to account for its preferred stock under SFAS No. 159 *Fair Value Option for Financial Assets and Financial Liabilities*, which allows an entity the irrevocable option to elect fair value

for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these assets are recognized in earnings when incurred. The market value of preferred stock was \$1,401,000, \$1,792,000, and \$1,833,000 at December 31, 2007, September 30, 2007 and July 1, 2007, respectively, resulting in a loss in value of \$390,000 and \$431,000 for the three and six month periods ending December 31, 2007, respectively, and is included in noninterest income.

-8-

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

**NOTE 3. LOANS RECEIVABLE**

Loans receivable consist of the following:

|  | December<br>31,<br>2007<br>(Unaudited) | June 30,<br>2007<br>(Audited) |
|--|--|-------------------------------|
| <i>(Dollars in Thousands)</i>          |  |                               |
| <b>First mortgage loans:</b>           |  |                               |
| Residential mortgage (1-4 family)      | \$ 86,136                              | \$ 81,958                     |
| Commercial real estate                 | 29,012                                 | 25,621                        |
| Real estate construction               | 6,103                                  | 8,253                         |
| <b>Other loans:</b>                    |  |                               |
| Home equity                            | 26,508                                 | 24,956                        |
| Consumer                               | 11,108                                 | 11,438                        |
| Commercial                             | 6,186                                  | 6,366                         |
| <b>Total</b>                           | <b>165,053</b>                         | <b>158,592</b>                |
| <b>Less: Allowance for loan losses</b> | <b>(515)</b>                           | <b>(518)</b>                  |
| <b>Add: Deferred loan fees, net</b>    | <b>88</b>                              | <b>66</b>                     |
| <b>Total</b>                           | <b>\$ 164,626</b>                      | <b>\$ 158,140</b>             |

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were \$29 and \$21 at December 31, 2007 and June 30, 2007, respectively. Classified assets, including real estate owned, totaled \$147 and \$391 at December 31, 2007 and June 30, 2007, respectively.

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

|  | Six Months<br>Ended<br>December<br>31,<br>2007<br>(Unaudited) | Year Ended<br>June 30,<br>2007<br>(Audited) |
|--|---|---|
| <i>(Dollars in Thousands)</i>                    |   |   |
| Balance, beginning of period                     | \$ 518  | \$ 535                                      |
| Reclassification to repossessed property reserve | 0   | 0   |
| Provision charged to operations                  | 0   | 0   |
| Charge-offs                                      | (7)   | (29)  |
| Recoveries                                       | 4   | 12  |
| Balance, end of period                           | \$ 515  | \$ 518                                      |



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

**NOTE 4. DEPOSITS**

Deposits are summarized as follows:

|                              | December<br>31,<br>2007<br>(Unaudited) | June 30,<br>2007<br>(Audited) |
|------------------------------|--|-------------------------------|
|                              | <i>(Dollars in Thousands)</i>          |                               |
| Noninterest checking         | \$ 12,965                              | \$ 13,694                     |
| Interest-bearing checking    | 31,695                                 | 30,953                        |
| Passbook                     | 22,349                                 | 22,521                        |
| Money market                 | 20,593                                 | 23,292                        |
| Time certificates of deposit | 87,402                                 | 89,187                        |
| Total                        | \$ 175,004                             | \$ 179,647                    |

**NOTE 5. EARNINGS PER SHARE**

Basic earnings per share for the three months ended December 31, 2007 is computed using 1,070,862 weighted average shares outstanding. Earnings per share for the six months ended December 31, 2007 is computed using 1,071,651 weighted average shares outstanding. Basic earnings per share for the three months ended December 31, 2006 is computed using 1,072,540 weighted average shares outstanding. Earnings per share for the nine months ended December 31, 2006 is computed using 1,073,100 weighted average shares outstanding. Diluted earnings per share is computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations are 1,213,612 for the three months ended December 31, 2007 and 1,213,035 for the six months ended December 31, 2007. Diluted earnings per share for the three months and six months ended December 31, 2007 is computed using 1,209,012 and 1,208,435 weighted average shares outstanding, respectively.

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

This fiscal year Eagle has paid two dividends of \$0.24 per share on August 24, 2007, and November 16, 2007. A dividend of \$0.24 per share was declared on January 17, 2008, payable February 8, 2008 to stockholders of record on January 25, 2008. Eagle Financial MHC, Eagle's mutual holding company, has waived the receipt of dividends on its 648,493 shares.

At their regular meeting of January 17, 2008, the Company's Board of Directors announced a stock repurchase program for up to 28,750 shares. This represents approximately 6.7% of the outstanding common stock held by the public. The repurchased shares will be held as treasury stock and will be held for general corporate purposes and/or issuance pursuant to Eagle's benefit plans. As of February 1, 2008, 1,000 shares have been repurchased.



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

**NOTE 7. MORTGAGE SERVICING RIGHTS**

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

|                                      | December<br>31,<br>2007<br>(Unaudited) | June 30,<br>2007<br>(Audited) |
|--------------------------------------|--|-------------------------------|
| <i>(Dollars in Thousands)</i>        |  |                               |
| <b>Mortgage Servicing Rights</b>     |  |                               |
| Beginning balance                    | \$ 1,628                               | \$ 1,722                      |
| Servicing rights capitalized         | 165                                    | 211                           |
| Servicing rights amortized           | (142)                                  | (305)                         |
| Ending balance                       | 1,651                                  | 1,628                         |
| <b>Valuation Allowance</b>           |  |                               |
| Beginning balance                    | 0                                      | 0                             |
| Provision                            | (0)                                    | (0)                           |
| Adjustments                          | 0                                      | 0                             |
| Ending balance                       | 0                                      | 0                             |
| <b>Net Mortgage Servicing Rights</b> | <b>\$ 1,651</b>                        | <b>\$ 1,628</b>               |

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

**NOTE 8. RECENTLY ISSUED PRONOUNCEMENTS**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109 (FIN 48)." The interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions must be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold must be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold must be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. The new interpretation was effective for the Bank January 1, 2007. The implementation of the provisions of the new interpretation did not have a significant impact on the Bank's consolidated financial position or results of operations. The Bank files income tax returns in the U. S. federal jurisdiction and is no longer subject to U. S. federal income tax examinations by tax authorities for years before 2004.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 was effective for the Bank on July 1, 2007 and did not have a significant impact on the Bank's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the new pronouncement is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for the Bank July 1, 2007. See Note 2 for information on the impact of the adoption of this statement.

EAGLE BANCORP AND SUBSIDIARY  
MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**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.

**Overview**

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

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

Recently, management’s focus has been on improving the Bank’s core earnings. Core earnings can be described as income before taxes, with the exclusion of gain on sale of loans and adjustments to the market value of the Bank’s loan serviced portfolio. Management believes that the Bank will need to continue to focus on increasing net interest margin, other areas of fee income, and control operating expenses to achieve earnings growth going forward. Management’s strategy of growing the bank’s loan portfolio and deposit base is expected to help achieve these goals: loans typically earn higher rates of return than investments; a larger deposit base will yield higher fee income; increasing the asset base will reduce the relative impact of fixed operating costs. The biggest challenge to the strategy

is funding the growth of the Bank's balance sheet in an efficient manner. Deposit growth will be difficult to maintain due to competition and more costly wholesale funding will likely be needed to supplement deposit growth.

The quarter began shortly after the Federal Reserve Bank's Federal Open Market Committee ("FOMC") lowered the fed funds target rate by 50 basis points in mid September. The FOMC continued to reduce the fed funds target rate during the quarter ending December 31, 2007 with two rate cuts, each by 25 basis points. More recently in January 2008, the FOMC lowered the fed funds target rate by an additional 125 basis points. As a result, the short end of the yield curve has fallen, thus bringing some steepness back into the yield curve particularly after the two year point of the curve. With this change, net interest income began to slightly increase during the quarter. Management expects this trend to continue over the next quarter, as rates on deposits and other funding sources will be priced off the lower, shorter end of the yield curve.

EAGLE BANCORP AND SUBSIDIARY  
MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Financial Condition**

Comparisons of results in this section are between the six months ended December 31, 2007 and June 30, 2007.

Total assets increased by \$6.30 million, or 2.57%, to \$250.99 million at December 31, 2007, from \$244.69 million at June 30, 2007. Total liabilities increased by \$5.25 million to \$225.85 million at December 31, 2007, from \$220.60 million at June 30, 2007. Total equity increased \$1.05 million to \$25.14 million at December 31, 2007 from \$24.09 million at June 30, 2007.

Loans receivable increased \$6.49 million, or 4.10%, to \$164.63 million at December 31, 2007 from \$158.14 million at June 30, 2007. Residential mortgage loans were the category with the largest increase, \$4.18 million, and most other loan categories showed increases in the six month period. Total loan originations were \$62.40 million for the six months ended December 31, 2007, with single family mortgages accounting for \$35.64 million of the total. Home equity loan and construction loan originations totaled \$8.54 million and \$5.28 million, respectively, for the same period. Commercial real estate and land development loan originations totaled \$6.29 million. Loans held for sale decreased to \$748,000 at December 31, 2007 from \$1.18 million at June 30, 2007. Investment securities available-for-sale ("AFS") decreased \$3.49 million, or 5.39%, to \$61.28 million at December 31, 2007 from \$64.77 million at June 30, 2007. Of that decrease, \$1.80 million was the result of accounting for preferred stock under SFAS No. 159, which has its own line on the face of the balance sheet. Otherwise, the investment category with the largest decrease was corporate bonds, which decreased \$1.89 million.

Advances and other borrowings increased \$9.9 million, to \$43.70 million from \$33.80 million, while deposits decreased \$4.64 million. Certificates of deposit and money market accounts were the categories of deposits which declined most significantly, while interest bearing checking increased. The certificates of deposit decrease was \$1.79 million and included a cancellation by the Bank of a \$4.4 million brokered certificate of deposit. The bank had no brokered deposits as of December 31, 2007

Total equity increased as a result of net income of \$683,000, and a decrease in other comprehensive loss of \$771,000 (due to a decrease in net unrealized loss on securities available-for-sale) offset by purchases of treasury stock and the payment of two quarterly \$0.24 per share regular cash dividends.

**Results of Operations for the Three Months Ended December 31, 2007 and 2006**

*Net Income.* Eagle's net income was \$219,000 and \$461,000 for the three months ended December 31, 2007, and 2006, respectively. The decrease of \$242,000, or 52.49%, was due to a decrease in noninterest income of \$323,000, offset by a increase in net interest income of \$147,000 and an increase in noninterest expense of \$126,000. Eagle's tax provision was \$60,000 lower in the current quarter. Basic earnings per share were \$0.20 for the current period, compared to \$0.43 for the previous year's period. The decrease in net income was significantly impacted by the recognition of loss in market value on certain preferred stock held in the Company's investment portfolio.

*Net Interest Income.* Net interest income increased to \$1.777 million for the quarter ended December 31, 2007, from \$1.630 million for the previous year's quarter. This increase of \$147,000 was the result of an increase in interest expense of \$245,000 offset by the increase in interest and dividend income of \$392,000.

*Interest and Dividend Income.* Total interest and dividend income was \$3.494 million for the quarter ended December 31, 2007, compared to \$3.102 million for the quarter ended December 31, 2006, representing an increase of \$392,000, or 12.64%. Interest and fees on loans increased to \$2.751 million for the three months ended December 31, 2007 from

\$2.378 million for the same period ended December 31, 2006. This increase of \$373,000, or 15.69%, was due primarily to the increase in the average balances on loans for the quarter ended December 31, 2007. Average balances for loans receivable, net, for the quarter ended December 31, 2007 were \$164.14 million, compared to \$147.86 million for the previous year. This represents an increase of \$16.28 million, or 11.01%. The average interest rate earned on loans receivable increased by 27 basis points, from 6.43% to 6.70%. Interest and dividends on investment securities AFS increased to \$704,000 for the quarter ended December 31, 2007 from \$696,000 for the same quarter last year. Average balances on investments decreased to \$62.17 million for the quarter ended December 31, 2007, compared to \$67.06 million for the quarter ended December 31, 2006. The average interest rate earned on investments increased to 4.59% from 4.22%. Interest on deposits with banks increased to \$27,000 from \$16,000, due to increases in average balances.

EAGLE BANCORP AND SUBSIDIARY  
MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Results of Operations for the Three Months Ended December 31, 2007 and 2006 - continued**

*Interest Expense.* Total interest expense increased to \$1.717 million for the quarter ended December 31, 2007, from \$1.472 million for the quarter ended December 31, 2006, an increase of \$245,000, or 16.64%, due to increases in interest paid on borrowings and deposits. Interest on deposits increased to \$1.171 million for the quarter ended December 31, 2007, from \$1.042 million for the quarter ended December 31, 2006. This increase of \$129,000, or 12.38%, was the result of an increase in average rates paid on deposit accounts. Interest bearing checking accounts and certificates of deposit showed increases in average rates paid, while money market accounts had decreases. Average balances in interest-bearing deposit accounts increased slightly to \$163.73 million for the quarter ended December 31, 2007, compared to \$163.02 million for the same quarter in the previous year. A significant increase in the average balance of borrowings, partially offset by a decrease in the average rate paid, resulted in an increase in interest paid on borrowings to \$546,000 versus \$430,000 paid in the previous year's quarter. The average rate paid on borrowings decreased from 5.20% last year to 5.15% this year. The average rate paid on liabilities decreased 5 basis points from the quarter ended December 31, 2006 to the quarter ended December 31, 2007.

*Provision for Loan Losses.* Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by Eagle's subsidiary, American Federal Savings Bank (the "Bank"), to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, available peer group information, and past due loans in portfolio. The Bank's policies require a 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. The Bank made no provision for loan losses for either the quarter ended December 31, 2007 or the quarter ended December 31, 2006. This is a reflection of the continued strong asset quality of the Bank's loan portfolio. Total classified assets decreased slightly from \$391,000 at June 30, 2007 to \$147,000 at December 31, 2007, and total less than 0.09% of total loans. The Bank currently has no foreclosed real estate.

*Noninterest Income.* Total noninterest income decreased to \$269,000 for the quarter ended December 31, 2007, from \$592,000 for the quarter ended December 31, 2006, a decrease of \$323,000 or 54.56%. This decrease is substantially due to a loss in market value on investments in certain preferred stock, issued by Fannie Mae and Freddie Mac. Under Statement of Financial Accounting Standard (SFAS) No. 159 *Fair Value Option for Financial Assets and Financial Liabilities*, which the company implemented July 1, 2007, a company elects fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis and subsequent changes in fair value are recognized in earnings when incurred. For the three month period ending December 31, 2007, the market value of Fannie Mae and Freddie Mac preferred stock, owned by Eagle, decreased \$390,000. In recent months both agencies announced major write-downs of asset values during the quarter, which impacted their common equity prices as well. They also each issued new offerings of preferred stock to increase capital. These new issues have higher coupons than the preferred stock held by Eagle, which also contributed to the decline in the market value of the issues held by Eagle. This loss was partially offset by increases in demand deposit service charges of \$62,000. This increase is partly attributable to the bank implementing a new overdraft protection plan this fiscal year. Net gain on sale of loan decreased \$7,000. Other noninterest income increased to \$149,000 for the quarter ended December 31, 2007 from \$140,000 for the quarter ended December 31, 2006. This was primarily due to increased fee income on electronic payments. The other categories of noninterest income had small changes.

*Noninterest Expense.* Noninterest expense increased by \$126,000 or 7.59% to \$1.787 million for the quarter ended December 31, 2007, from \$1.661 million for the quarter ended December 31, 2006. This increase was primarily due to increases in salaries and employee benefits of \$94,000 and in-house computer expense of \$14,000. The increase in other salaries and employee benefits expense was due to merit raises, and other inflationary items such as health care

premiums. Increases in in-house computer expense were due to installing and implementing new network servers and various new software applications. Other expense categories showed minor changes.

*Income Tax Expense.* Eagle's income tax expense was \$40,000 for the quarter ended December 31, 2007, compared to \$100,000 for the quarter ended December 31, 2006. The effective tax rate for the quarter ended December 31, 2007 was 15.44% and was 17.83% for the quarter ended December 31, 2006.

-15-

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EAGLE BANCORP AND SUBSIDIARY  
MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Results of Operations for the Six Months Ended December 31, 2007 and 2006**

*Net Income.* Eagle's net income was \$683,000 and \$883,000 for the six months ended December 31, 2007 and 2006, respectively. The decrease of \$200,000, or 22.65%, in net income was the result of an increase in net interest income of \$202,000 and a decrease noninterest income of \$276,000, along with an increase in noninterest expense of \$178,000. Eagle's tax provision was \$52,000 lower in the current period. Basic earnings per share for the period ended December 31, 2007 were \$0.64 compared to \$0.82 per share for the period ended December 31, 2006.

*Net Interest Income.* Net interest income increased to \$3.486 million for the six months ended December 31, 2007 from \$3.284 million for the six months ended December 31, 2006. This increase of \$202,000 was the result of an increase in an interest and dividend income of \$806,000 offset by an increase in interest expense of \$604,000.

*Interest and Dividend Income.* Total interest and dividend income was \$6.902 million for the six months ended December 31, 2007, compared to \$6.096 million for the same period ended December 31, 2006, representing an increase of \$806,000, or 13.22%. Interest and fees on loans increased to \$5.419 million for 2007 from \$4.689 million for 2006. This increase of \$730,000, or 15.57%, was due to an increase in the average balances of loans receivable for the six months ended December 31, 2007 and an increase in the average interest rate on such loans. Average balances for loans receivable, net, for this period were \$163.41 million, compared to \$146.11 million for the previous year. This is an increase of \$17.30 million, or 11.84%. The average interest rate earned on loans receivable increased by 21 basis points, to 6.63% from 6.42%. Interest and dividends on investment securities available-for-sale (AFS) increased to \$1.426 million for the six months ended December 31, 2007 from \$1.356 million for the same period ended December 31, 2006. Interest on deposits with banks increased to \$34,000 from \$28,000.

*Interest Expense.* Total interest expense increased to \$3.416 million for the six months ended December 31, 2007 from \$2.812 million for the six months ended December 31, 2006, an increase of \$604,000, or 21.48%. Interest on deposits increased to \$2.356 million for the six months ended December 31, 2007 from \$1.976 million for the six months ended December 31, 2006. This increase of \$380,000, or 19.23%, was the result of an increase in average rates paid on deposit accounts accompanied by a small increase in average balances in deposit accounts. Average rates paid on certificates of deposit increased from 2006 to 2007, while the average rate paid on all liabilities increased by 42 basis points from the six month period ended December 31, 2006 to the six month period ended December 31, 2007. Average balances in interest-bearing deposits increased to \$164.67 million for the six month period ended December 31, 2007 compared to \$162.04 million for the same period in the previous year. Interest paid on borrowings increased to \$1.06 million for the six months ended December 31, 2007 from \$836,000 for the same period ended December 31, 2006. The increase in borrowing costs was due to increases in the average balances, partially offset by a decrease in the average rate paid. Average balances of borrowings increased to \$42.22 million in 2007 compared to \$31.94 million in 2006. The average rate paid on borrowings decreased 19 basis points from 2006 to 2007.

*Provision for Loan Losses.* Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending, available peer group information, and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. No provision was made for loan losses for either of the six month periods ended December 31, 2007 or December 31, 2006. This is a reflection of the continued strong asset quality of the Bank's loan portfolio. Total classified assets decreased slightly from \$391,000 at June 30, 2007 to \$147,000 at December 31, 2007, and total less than 0.09% of total loans. The Bank currently has no foreclosed real estate.

*Noninterest Income.* Total noninterest income decreased to \$853,000 for the six months ended December 31, 2007, from \$1.129 million for the six months ended December 31, 2006, a decrease of \$276,000, or 24.45%. This decrease is principally due to a loss in market value on investments in certain preferred stock, issued by Fannie Mae and Freddie Mac. The Company implemented Statement of Financial Accounting Standard (SFAS) No. 159 *Fair Value Option for Financial Assets and Financial Liabilities*, on July 1, 2007 which requires the recognition of losses for investments whose value has been impaired as described above. For the six month period ending December 31, 2007, the market value of Fannie Mae and Freddie Mac preferred stock, owned by Eagle, decreased \$431,000. Net gain on sale of loans increased to \$382,000 for the six months ended December 31, 2007 from \$309,000 for the six months ended December 31, 2006, an increase of \$73,000, or 23.62% due to the sale of a higher percentage of mortgage originations. Other categories of noninterest income showed minor changes.

EAGLE BANCORP AND SUBSIDIARY  
MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Results of Operations for the Six Months Ended December 31, 2007 and 2006 - continued**

*Noninterest Expense.* Noninterest expense increased by \$178,000, or 5.43% to \$3.455 million for the six months ended December 31, 2007, from \$3.277 million for the six months ended December 31, 2006. This increase was primarily due to increases in salaries and employee benefits of \$202,000, in-house computer expenses of \$17,000 and postage expense of \$17,000. The increase in salaries and employee benefits expense was due to merit raises, and other inflationary items such as health care premiums. Increases in in-house computer expenses were due to installing and implementing new network servers and various new software applications. Expenses for postage increased partly due to costs related to privacy mailings and other statement-stuffer items. Other categories of noninterest expense showed modest changes.

*Income Tax Expense.* Eagle's income tax expense was \$201,000 for the six months ended December 31, 2007, compared to \$253,000 for the six months ended December 31, 2006. The effective tax rate for the six months ended December 31, 2007 was 22.74% and was 22.27% for the six months ended December 31, 2006.

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

The company's bank subsidiary is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision ("OTS") regulations and guidance. The OTS has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OTS states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses the previous regulatory definitions of liquidity. The Bank's average liquidity ratio was 8.30% and 15.23% for the months ended December 31, 2007 and December 31, 2006, respectively.

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

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

At September 30, 2007 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS, weakened from the previous quarter. The Bank's capital ratio as measured by the OTS also decreased slightly during the same period. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of December 31, 2007, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At December 31, 2007, the Bank's tangible, core, and risk-based capital ratios amounted to 10.23%, 10.23%, and 14.46%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (dollars in thousands):



EAGLE BANCORP AND SUBSIDIARY  
MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Liquidity, Interest Rate Sensitivity and Capital Resources - continued**

|                            | (Unaudited)          |  |
|----------------------------|----------------------|--|
|                            | At December 31, 2007 |  |
|                            | Dollar<br>Amount     | For Capital<br>Adequacy<br>Purposes<br>% of Assets |
| <b>Tangible capital:</b>   |                      |  |
| Capital level              | \$ 25,201            | 10.23%   |
| Requirement                | 3,694                | 1.50   |
| Excess                     | \$ 21,507            | 8.73%  |
| <b>Core capital:</b>       |                      |  |
| Capital level              | \$ 25,201            | 10.23%   |
| Requirement                | 7,387                | 3.00   |
| Excess                     | \$ 17,814            | 7.23%  |
| <b>Risk-based capital:</b> |                      |  |
| Capital level              | \$ 25,670            | 14.63%   |
| Requirement                | 14,202               | 8.00   |
| Excess                     | \$ 11,468            | 6.46%  |

**Impact of Inflation and Changing Prices**

Our financial statements and the accompanying notes have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Interest rates have a greater impact on our performance than do the general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

**Application of Critical Accounting Policies**

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

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

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

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

-18-

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EAGLE BANCORP AND SUBSIDIARY  
MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Application of Critical Accounting Policies - continued**

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

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

-19-

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EAGLE BANCORP AND SUBSIDIARY  
CONTROLS AND PROCEDURES

**CONTROLS AND PROCEDURES**

Based on their evaluation, the Company's Chief Executive Officer, Peter J. Johnson, and Chief Financial Officer, Clint J. Morrison, have concluded the Company's disclosure controls and procedures are effective as of December 31, 2007 to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. During the last fiscal quarter, there have been no significant changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

-20-

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## EAGLE BANCORP AND SUBSIDIARY

**Part II - OTHER INFORMATION**

## Item 1. Legal Proceedings.

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

## Item 2. Unregistered Sales of Equity Securities Use of Proceeds.

## c.) Small Business Issuer Purchases of Equity Securities.

The following table summarizes the Company's purchase of its common stock for the three months ended December 31, 2007.

| Period                                   | (a)<br>Total<br>Number of<br>Shares<br>Purchased* | (b)<br>Average<br>Price<br>Paid<br>Per<br>Share | (c)   | (d)   |
|--|---|---|---|---|
|  |   |   | Total<br>Number<br>of Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or<br>Programs | Maximum<br>Number<br>of<br>Shares<br>that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plans<br>or<br>Programs |
| October<br>2007<br>10-01-07<br>10-31-07  | 3,285   | \$32.75   | 3,285   | 0   |
| November<br>2007<br>11-01-07<br>11-30-07 | None  | N/A   | N/A   | N/A   |
| December<br>2007<br>12-01-07<br>12-31-07 | None  | N/A   | N/A   | N/A   |
| <b>Total</b>                             | <b>3,285</b>                                      | <b>\$32.75</b>                                  | <b>3,285</b>  | <b>0</b>  |

\*The Company publicly announced a stock repurchase program on July 21, 2005. The Company was authorized to acquire up to 28,750 shares of common stock with the price subject to market conditions. No expiration date was set for the repurchase program. As of December 31, 2007, 28,750 shares had been repurchased.

The Company publicly announced a stock repurchase program on January 17, 2008. The Company is authorized to acquire up to 28,750 shares of common stock with the price subject to market conditions. No expiration date was set for the repurchase program. As of February 1, 2008, 1,000 shares have been repurchased.

Item 3. Defaults Upon Senior Securities.

Not applicable.

-21-

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EAGLE BANCORP AND SUBSIDIARY

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

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

The proxy statement for the Annual Meeting of Stockholders was mailed on September 17, 2007. The following matters were voted on at the meeting held on October 18, 2007:

1. Election of directors for three-year terms expiring in 2010:

|                          | For:      | Against: |
|--------------------------|-----------|----------|
| D o n O .<br>Campbell    | 1,089,411 | 1,378    |
| R i c k F .<br>Hays      | 1,088,911 | 1,878    |
| P e t e r J .<br>Johnson | 1,090,011 | 778      |

2. Ratification of appointment of Davis, Kinard & Co., P.C. as auditors for the fiscal year ended June 30, 2008:

| For:      | Against: | Abstain: |
|-----------|----------|----------|
| 1,088,979 | 500      | 1,310    |

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.1 Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Clint J. Morrison, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Peter J. Johnson, Chief Executive Officer, and Clint J. Morrison, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - a) Reports on Form 8-K  
On January 17, 2008, the registrant furnished under Item 2.02 of Form 8-K a press release announcing its earnings for the second quarter of 2008 fiscal year. Also, on January 17, 2008, the registrant furnished Item 8.01 of Form 8-K a press release announcing a stock repurchase program for the company shares.

EAGLE BANCORP AND SUBSIDIARY

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EAGLE BANCORP

Date: February 11, 2008

By:

/s/ Peter J. Johnson  
Peter J. Johnson  
President/CEO

Date: February 11, 2008

By:

/s/ Clint J. Morrison  
Clint J. Morrison  
Senior Vice President/CFO