EAGLE BANCORP/MT
Form 10QSB
May 10, 2006

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2006

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

For the transition period from _____ to _____.

Commission file number 0-29687

Eagle Bancorp

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

United States	81-0531318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 Prospect Avenue, Helena, MT 59601

(Address of principal executive offices)

(406) 442-3080

(Issuer's telephone number)

Website address: www.americanfederalsavingsbank.com

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common stock, par value $0.01 per share	1,091,722 shares outstanding
	As of May 4, 2006

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

EAGLE BANCORP AND SUBSIDIARY

TABLE OF CONTENTS

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

	March 31, 2006 (Unaudited)	June 30, 2005 (Audited)
ASSETS		
Cash and due from banks	$ 3,327	$ 3,122
Interest-bearing deposits with banks	883	1,844
Total cash and cash equivalents	4,210	4,966
Investment securities available-for-sale, at market value	66,072	75,227
Investment securities held-to-maturity, at amortized cost	1,070	1,201
Investment in nonconsolidated subsidiary	155	-
Federal Home Loan Bank stock, at cost	1,315	1,315
Mortgage loans held-for-sale	401	2,148
Loans receivable, net of deferred loan fees and allowance for loan losses	129,137	106,839
Accrued interest and dividends receivable	1,180	1,102
Mortgage servicing rights, net	1,775	1,857
Property and equipment, net	6,009	6,242
Cash surrender value of life insurance	5,185	5,049
Real estate acquired in settlement of loans, net of allowance for losses	-	-
Other assets	612	468
Total assets	$ 217,121	$ 206,414

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)

	March 31, 2006 (Unaudited)	June 30, 2005 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposit accounts:		
Noninterest bearing	$ 12,104	$ 11,660
Interest bearing	164,539	160,837
Advances from Federal Home Loan Bank	11,010	9,885
Long-term subordinated debentures	5,155	-
Accrued expenses and other liabilities	1,751	1,767
Total liabilities	194,559	184,149
Stockholders' Equity:		
Preferred stock (no par value, 1,000,000 shares authorized, none issued or outstanding)	-	-
Common stock (par value $0.01 per share; 9,000,000 shares authorized; 1,223,572 shares issued; 1,093,322 and 1,103,972 outstanding at March 31, 2006 and June 30, 2005, respectively)	12	12
Additional paid-in capital	4,247	4,188
Unallocated common stock held by employee stock ownership plan ("ESOP")	(138)	(165)
Treasury stock, at cost (130,250 and 119,600 shares at March 31, 2006 and June 30, 2005, respectively)	(4,472)	(4,048)
Retained earnings	23,707	22,630
Accumulated other comprehensive income (loss)	(794)	(352)
Total stockholders' equity	22,562	22,265
Total liabilities and stockholders' equity	$ 217,121	$ 206,414

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 March 31, 2006 (Unaudited)	Three Months Ended March 31, 2005	Nine Months Ended March 31, 2006 (Unaudited)	Nine Months Ended March 31, 2005
Interest and Dividend Income:				
Interest and fees on loans	$ 1,978	$ 1,526	$ 5,665	$ 4,498
Interest on deposits with banks	5	4	52	29
FHLB stock dividends	-	6	-	27
Securities available-for-sale	665	709	1,928	2,138
Securities held-to-maturity	13	16	40	50
Total interest and dividend income	2,661	2,261	7,685	6,742
Interest Expense:				
Deposits	770	597	2,153	1,764
FHLB advances and subordinated debentures	211	32	492	125
Total interest expense	981	629	2,645	1,889
Net interest income	1,680	1,632	5,040	4,853
Loan loss provision	-	-	-	-
Net interest income after loan loss provision	1,680	1,632	5,040	4,853
Noninterest income:				
Net gain on sale of loans	70	119	371	344
Demand deposit service charges	124	127	403	411
Mortgage loan servicing fees	138	158	459	494
Net gain (loss) on sale of available-for-sale securities	(10)	-	(9)	9
Other	152	144	410	345
Total noninterest income	474	548	1,634	1,603

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 March 31		Nine Months Ended March 31,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Noninterest expense:				
Salaries and employee benefits	918	868	2,656	2,484
Occupancy expenses	140	130	398	378
Furniture and equipment depreciation	78	77	235	235
In-house computer expense	66	68	201	196
Advertising expense	40	44	156	131
Amortization of mtg servicing fees	67	87	265	276
Federal insurance premiums	6	6	18	19
Postage	27	28	69	76
Legal, accounting, and examination fees	39	37	134	120
Consulting fees	14	15	44	37
ATM processing	12	12	36	36
Other	227	187	651	628
Total noninterest expense	1,634	1,559	4,863	4,616
Income before provision for income taxes	520	621	1,811	1,840
Provision for income taxes	117	176	464	467
Net income	$ 403	$ 445	$ 1,347	$ 1,373
Basic earnings per share	$ 0.37	$ 0.40	$ 1.25	$ 1.20
Diluted earnings per share	$ 0.33	$ 0.37	$ 1.12	$ 1.14
Weighted average shares outstanding (basic eps)	1,077,376	1,106,049	1,078,540	1,141,231
Weighted average shares outstanding (diluted eps)	1,205,562	1,200,962	1,204,411	1,199,811

See accompanying notes to consolidated financial statements.

- 4 -

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

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNALLOCATED ESOP SHARES	TREASURY STOCK	RETAINED EARNINGS	ACCU O COMP I
Balance, June 30, 2005	$ -	$ 12	$ 4,188	$ (165)	$ (4,048)	$ 22,630	$
Net income (unaudited)	-	-	-	-	-	1,347	
Other comprehensive income (unaudited)	-	-	-	-	-	-	
Total comprehensive income (unaudited)	-	-	-	-	-	-	
Dividends paid ($.60 per share) (unaudited)	-	-	-	-	-	(270)	
Restricted stock plan shares allocated (4,600 shares)	-	-	(27)	-	80	-	
Treasury stock purchased (2,500 shares @ $31.75; 1,200 shares @ $32.20; 1,000 shares @ $32.50; 1,400 shares @ $34.45; 2,500 shares @ $34.25; 1,300 shares @ $32.50; 4,000 shares @ $33.25; 1,350	-	-	-	-	(504)	-	

shares @ $33.10) (unaudited)							
ESOP shares allocated or committed to be released for allocation (3,450 shares) (unaudited)	-	-	86	27	-	-	
Balance, March 31, 2005 (unaudited)	$ -	$ 12	$ 4,247	$ (138)	$ (4,472)	$ 23,707	$

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended March 31, 2006	2005
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,347	$ 1,373
Adjustments to reconcile net income to net cash from operating activities:		
Provision for mortgage servicing rights valuation losses	(46)	(60)
Depreciation	384	382
Net amortization of marketable securities premium and discounts	739	1,027
Amortization of capitalized mortgage servicing rights	265	276
Gain on sale of loans	(371)	(344)
Net realized (gain) loss on sale of available-for-sale securities	9	(9)
FHLB & other dividends reinvested	-	(20)
Increase in cash surrender value of life insurance	(136)	(127)
Restricted stock award	53	-
Loss on sale of real estate owned	6	53
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accrued interest and dividends receivable	(79)	(13)
Loans held-for-sale	2,098	696
Other assets	(129)	78
Increase (decrease) in liabilities:		
Accrued expenses and other liabilities	359	522
Net cash provided by operating activities	4,499	3,834
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities:		
Investment securities available-for-sale	(6,207)	(7,679)
Proceeds from maturities, calls and principal payments:		
Investment securities held-to-maturity	129	298
Investment securities available-for-sale	12,296	14,285
FHLB stock redeemed	-	377
Proceeds from sales of investment securities available-for-sale	1,627	3,698
Net (increase) decrease in loan receivable, excludes transfers to real estate acquired in settlement of loans	(22,515)	(7,137)
Purchase of bank owned life insurance	-	(2,400)
Purchase of stock in non-consolidated subsidiaries	(155)	-

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended March 31, 2006 (Unaudited)		2005
CASH FLOWS FROM INVESTING ACTIVITIES (CONTINUED):			
Purchase of property and equipment		(152)	(146)
Proceeds from the sale of real estate acquired in the settlement of loans		69	-
Net cash provided by (used in) investing activities		(14,908)	2,516
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in checking and savings accounts		4,149	727
Net increase (decrease) in overnight FHLB advances		-	(3,500)
Payments on FHLB advances		(3,876)	(2,823)
FHLB advances		5,000	-
Issue of subordinated debentures		5,155	-
Sale (Purchase) of Treasury Stock		(505)	(3,903)
Dividends paid		(270)	(281)
Net cash provided by (used in) financing activities		9,653	(5,326)
Net increase (decrease) in cash and cash equivalents		(756)	(1,501)
CASH AND CASH EQUIVALENTS, beginning of period		4,966	4,347
CASH AND CASH EQUIVALENTS, end of period	$	4,210	$ 2,846
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period for interest	$	2,785	$ 1,890
Cash paid during the period for income taxes	$	574	$ 183
NON-CASH INVESTING ACTIVITIES:			
(Increase) decrease in market value of securities available-for-sale	$	690	$ (236)
Mortgage servicing rights capitalized	$	137	$ 179

See accompanying notes to consolidated financial statements.

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

NOTE 1. BASIS OF PRESENTATION

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

The results of operations for the three and nine month periods ended March 31, 2006 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2006 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, 2005.

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

	March 31, 2006 (Unaudited)			June 30, 2005 (Audited)		
	AMORTIZED COST	GROSS UNREALIZED GAINS/(LOSSES)	FAIR VALUE	AMORTIZED COST	GROSS UNREALIZED GAINS/(LOSSES)	FAIR VALUE
Available-for-sale:						
U.S. government and agency obligations	$ 7,091	$ (123)	$ 6,968	$ 8,012	$ (41)	$ 7,971
Municipal obligations	16,421	(1)	16,420	13,239	188	13,427
Corporate obligations	16,674	(409)	16,265	17,020	(231)	16,789
Mortgage-backed securities	7,644	(160)	7,484	11,164	(110)	11,054
Collateralized mortgage obligations	17,725	(415)	17,310	24,583	(213)	24,370
Corporate preferred stock	1,800	(175)	1,625	1,800	(184)	1,616
Total	$ 67,355	$ (1,283)	$ 66,072	$ 75,818	$ (591)	$ 75,227
Held-to-maturity:						
Municipal obligations	$ 828	$ 19	$ 847	$ 829	$ 37	$ 866
Mortgage-backed securities	242	2	244	372	11	383
Total	$ 1,070	$ 21	$ 1,091	$ 1,201	$ 48	$ 1,249

EAGLE BANCORP AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2006 (Unaudited)	June 30, 2005 (Audited)
	(Dollars in Thousands)	
First mortgage loans:		
Residential mortgage (1-4 family)	$ 71,070	$ 56,533
Commercial real estate	16,686	14,779
Real estate construction	5,009	2,723
Other loans:		
Home equity	18,313	16,801
Consumer	11,863	10,909
Commercial	6,720	5,568
Total	129,661	107,313
Less: Allowance for loan losses	(541)	(573)
Deferred loan fees	17	99
Total	$ 129,137	$ 106,839

Loans net of related allowance for loan losses on which the accrual of interest has been discontinued were $372 and $434 at March 31, 2006 and June 30, 2005, respectively. Classified assets, including real estate owned, totaled $625 and $760 at March 31, 2006 and June 30, 2005, respectively.

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

	Nine Months Ended March 31, 2006 (Unaudited)	Year ended June 30, 2005 (Audited)
	(Dollars in Thousands)	
Balance, beginning of period	$ 573	$ 628
Reclassification to repossessed property reserve	(15)	(15)
Provision charged to operations	-	-
Charge-offs	(36)	(50)
Recoveries	19	10
Balance, end of period	$ 541	$ 573

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

NOTE 4. DEPOSITS

Deposits are summarized as follows:

		March 31, 2006 (Unaudited)		June 30, 2005 (Audited)
		(Dollars in Thousands)		
Noninterest checking	$	12,104	$	11,660
Interest-bearing checking		30,437		30,865
Passbook		25,170		25,239
Money market		32,840		26,749
Time certificates of deposit		76,092		77,984
Total	$	176,643	$	172,497

NOTE 5. EARNINGS PER SHARE

Basic earnings per share for the three months ended March 31, 2006 is computed using 1,077,376 weighted average shares outstanding. Earnings per share for the nine months ended March 31, 2006 is computed using 1,078,540 weighted average shares outstanding. Basic earnings per share for the three months ended March 31, 2005 is computed using 1,106,049 weighted average shares outstanding. Earnings per share for the nine months ended March 31, 2005 is computed using 1,141,231 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 1,205,562 for the three months ended March 31, 2006 and 1,204,411 for the nine months ended March 31, 2006. Diluted earnings per share for the three months and nine months ended March 31, 2005 is computed using 1,200,962 and 1,199,811 weighted average shares outstanding, respectively.

NOTE 6. DIVIDENDS AND STOCK REPURCHASE PROGRAM

This fiscal year Eagle has paid three dividends of $0.20 per share, on August 26, 2005, November 18, 2005 and February 10, 2006. A dividend of $0.20 per share was declared on April 20, 2006, payable May 19, 2006 to stockholders of record on May 5, 2006. Eagle Financial MHC, Eagle's mutual holding company, has waived the receipt of dividends on its 648,493 shares.

At their regular meeting of July 21, 2005, the Company's Board of Directors approved a stock repurchase program for up to 28,750 shares. This represented approximately 6% of the outstanding common stock held by the public. The repurchased shares will be held as treasury stock and will be held for general corporate purposes and/or issuance pursuant to Eagle's benefit plans. As of May 4, 2006, 16,850 shares have been repurchased under this program.

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.

	Nine Months ended March 31, 2006 (Unaudited)	Twelve months ended June 30, 2005 (Audited)
	(Dollars in Thousands)	
Mortgage Servicing Rights		
Beginning balance	$ 1,903	$ 2,064
Servicing rights capitalized	137	219
Servicing rights amortized	(265)	(380)
Ending balance	1,775	1,903
Valuation Allowance		
Beginning balance	46	60
Provision	(46)	(14)
Adjustments	-	-
Ending balance	-	46
Net Mortgage Servicing Rights	$ 1,775	$ 1,857

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

Note Regarding Forward-Looking Statements

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

Overview

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

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

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

Overview (continued)

For the past year, 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. In the fiscal years ended June 30, 2003 and June 30, 2004, the Bank experienced very strong mortgage loan origination volume due to low interest rates and large refinancing activity. The fiscal year ended June 30, 2005 saw a decline in mortgage loan originations, as mortgage rates rose slightly and refinancing volume declined. The nine month period ended March 31, 2006 had increased loan origination volume compared to the same period in the previous fiscal year, however origination volumes are not expected to reach the levels of 2004. Management believes that the Bank will need to focus on increasing net interest margin, other areas of fee income, and controlling operating expenses to achieve earnings growth going forward. Management's strategy of growing the bank's loan portfolio and deposit base is designed 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 level and movement of interest rates impacts the Bank's earnings as well. The yield curve continues to be flat, i.e. short-term interest rates are approximately at the same level as long-term interest rates. This can have a negative impact on the Bank's net interest margin as its deposits are typically priced relative to short-term rates, while the majority of its loan products are priced relative to long-term rates. The Bank has been able to partially offset this effect by reinvesting investment proceeds in the loan portfolio, because as noted earlier, loans typically earn higher rates of return than investments.

Another factor which has impacted recent earnings has been the volatility in the value of the Bank's mortgage servicing rights. The value declined significantly in fiscal year 2003, only to recover almost the entire amount in fiscal year 2004. Fiscal year 2005 saw only a slight change in the value of the mortgage servicing rights, and the current fiscal year has seen the value increase to the point where no valuation allowance is required at the present time. If long-term interest rates hold at their current level or even rise during the year, the value of servicing rights should remain relatively stable. A decline in long-term interest rates, however, could lead to a need for a valuation allowance.

Financial Condition

Comparisons in this section are for the period between March 31, 2006 and June 30, 2005.

Total assets increased by $10.71 million, or 5.19%, to $217.12 million at March 31, 2006, from $206.41 million at June 30, 2005. Total liabilities increased by $10.41 million to $194.56 million at March 31, 2006, from $184.15 million at June 30, 2005. Total equity increased $300,000 to $22.56 million at March 31, 2006 from $22.26 million at June 30, 2005.

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

Financial Condition (continued)

Loans receivable increased $22.30 million, or 20.87%, to $129.14 million at March 31, 2006 from $106.84 million at June 30, 2005. This is primarily a result of management's decision to sell a smaller percentage of residential mortgage originations and keeping more loans in the loan portfolio. All loan categories showed an increase, with single family mortgages showing the largest increase of $14.54 million in the nine month period (See Note 3 to the financial statements on page 10 for more detail). Total loan originations were $87.62 million for the nine months ended March 31, 2006, with single family mortgages accounting for $48.62 million of the total. Construction loan originations (including commercial real estate and land development loans) totaled $11.58 million. Home equity and consumer loan originations totaled $9.67 million and $5.89 million, respectively, for the same period. Commercial real estate and land loan originations totaled $6.35 million. Loans held for sale decreased to $400,000 at March 31, 2006 from $2.15 million at June 30, 2005. Investment securities available-for-sale (AFS) decreased $9.16 million, or 12.18%, to $66.07 million at March 31, 2006 from $75.23 million at June 30, 2005. The investment category with the largest decrease was collateralized mortgage obligations, which decreased $7.06 million.

During the period, Eagle formed a special purpose subsidiary, Eagle Bancorp Statutory Trust I (the "Trust"), for the purpose of issuing trust preferred securities in the amount of $5 million. The Company has issued subordinated debentures to the Trust, and the coupon on the debentures matches the dividend payment on the trust preferred securities. For regulatory purposes, the securities qualify as Tier 1 Capital, while for accounting purposes they are recorded as long term debt.

The proceeds of the trust preferred securities, growth in deposits, and increases in the amount of advances from the Federal Home Loan Bank of Seattle (FHLB) funded the asset growth. Deposits increased $4.14 million, or 2.40%, to $176.64 million at March 31, 2006 from $172.50 million at June 30, 2005. Money market accounts showed the largest increase, while certificates of deposit declined slightly. Advances from the FHLB of Seattle increased $1.12 million, to $11.01 million from $9.89 million.

Total equity increased as a result of earnings for the nine months of $1.35 million, offset by purchases of treasury stock of $504,000, an increase in other comprehensive loss of $442,000 (due to an increase in net unrealized loss on securities available-for-sale) and the payment of three quarterly $0.20 per share regular cash dividends.

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

Net Income. Eagle's net income was $403,000 and $445,000 for the three months ended March 31, 2006, and 2005, respectively. The decrease of $42,000, or 9.44%, was due to an increase in noninterest expense of $75,000, a decrease in noninterest income of $74,000, offset by an increase in net interest income of $48,000. Eagle's tax provision was $59,000 lower in the current quarter. Basic earnings per share were $0.37 for the current period, compared to $0.40 for the previous year's period.

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

Results of Operations for the Three Months Ended March 31, 2006 and 2005 (Continued)

Net Interest Income. Net interest income increased $48,000 for the current quarter. Total interest and dividend income increased $400,000, which was partially offset by the increase in interest expense of $352,000.

Interest and Dividend Income. Total interest and dividend income was $2.661 million for the quarter ended March 31, 2006, compared to $2.261 million for the quarter ended March 31, 2005, representing an increase of $400,000, or 17.69%. Interest and fees on loans increased to $1.978 million for the three months ended March 31, 2006 from $1.526 million for the same period ended March 31, 2005. This increase of $452,000, or 29.62%, was due primarily to the increase in the average balances on loans, as the average interest rate only increased one basis point. Average balances for loans receivable, net, increased for the quarter ended March 31, 2006 to $127.07 million, compared to $98.13 million for the previous year. This represents an increase of $28.94 million, or 29.49% and is representative of management's plan to grow the loan portfolio. This has been achieved primarily by reducing the amount of residential mortgages sold to the secondary market. The categories with the largest increases since last year are residential mortgage loans and commercial real estate loans.

Interest and dividends on investment securities available-for-sale (AFS) decreased to $665,000 for the quarter ended March 31, 2006 from $709,000 for the same quarter last year. Average balances on investments decreased to $67.96 million for the quarter ended March 31, 2006, compared to $81.46 million for the quarter ended March 31, 2005. The average interest rate earned on investments increased to 3.99% from 3.56%. Interest on securities held-to-maturity (HTM) decreased from $16,000 to $13,000. Dividends on FHLB stock have been suspended by the FHLB of Seattle as part of their capital plan.

Interest Expense. Total interest expense increased to $981,000 for the quarter ended March 31, 2006, from $629,000 for the quarter ended March 31, 2005, an increase of $352,000, or 55.96%, as interest paid on both borrowings and deposits increased. A significant increase in the average balance of borrowings, as well as an increase in the average rate paid, resulted in an increase in interest paid on borrowings to $211,000 in the current quarter compared to $32,000 in the previous year's quarter. The Company issued $5.0 million of trust preferred securities at the end of September 2005, accounting for much of the increase in interest on borrowings. Interest on deposits increased to $770,000 for the quarter ended March 31, 2006. This increase of $173,000, or 28.98%, was primarily due to increases in average rates paid, as average balances increased only very slightly. The average rate paid on deposits increased 43 basis points from the quarter ended March 31, 2005 to the quarter ended March 31, 2006. Money market accounts and certificates of deposit had increases in average rates paid, while rates on passbook savings and checking accounts were unchanged.

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

Results of Operations for the Three Months Ended March 31, 2006 and 2005 (Continued)

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, available peer group information, and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. No provision was made for loan losses for either the quarter ended March 31, 2006 or the quarter ended March 31, 2005. This is a reflection of the continued strong asset quality of the Bank's loan portfolio. Total classified assets decreased slightly from $760,000 at June 30, 2005 to $625,000 at March 31, 2006. The Bank currently has no foreclosed real estate.

Noninterest Income. Total noninterest income decreased to $474,000 for the quarter ended March 31, 2006, from $548,000 for the quarter ended March 31, 2005, a decrease of $74,000 or 13.50%. This was primarily due to a decrease in net gain on sale of loans of $49,000. Mortgage loan origination volume has been higher this year than last year. However, as interest rates on mortgage loans have risen, management has chosen to sell a smaller percentage of residential mortgage originations to provide for growth in the loan portfolio. Mortgage loan servicing fees decreased by $20,000 due primarily to the higher adjustment to the value of the Bank's mortgage servicing rights in the previous year's quarter. The other categories of noninterest income registered small changes.

Noninterest Expense. Noninterest expense increased by $75,000, or 4.81%, to $1.634 million for the quarter ended March 31, 2006, from $1.559 million for the quarter ended March 31, 2005. This increase was primarily due to increases in salaries and benefits of $50,000 and "other" noninterest expense of $40,000, partially offset by a decrease in the amortization of mortgage servicing fees of $20,000. The increase in salaries and benefits was due to normal raises. The increase in "other" noninterest expense was due to higher loan expenses and supply costs. The decrease in the amortization of mortgage servicing fees was related to decreased prepayment activity on mortgage loans. Other expense categories showed minor changes.

Income Tax Expense. Eagle's income tax expense was $117,000 for the quarter ended March 31, 2006, compared to $176,000 for the quarter ended March 31, 2005. The effective tax rate for the quarter ended March 31, 2006 was 22.50% and was 28.41% for the quarter ended March 31, 2005.

Results of Operations for the Nine Months Ended March 31, 2006 and 2005

Net Income. Eagle's net income was $1.347 million and $1.373 million for the nine months ended March 31, 2006 and 2005, respectively. The decrease of $26,000, or 1.89%, was due to an increase in noninterest expense of $247,000, offset by an increase in net interest income of $187,000, and an increase in noninterest income of $31,000. Eagle's tax provision was $3,000 lower in the current nine month period. Basic earnings per share were $1.25 for the nine months ended March 31, 2006, compared to $1.20 per share for the period ended March 31, 2005.

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

Results of Operations for the Nine Months Ended March 31, 2006 and 2005

Net Interest Income. Net interest income increased to $5.040 million for the nine months ended March 31, 2006 from $4.853 million for the nine months ended March 31, 2005. This increase of $187,000 was the result of an increase in interest and dividend income of $943,000, partially offset by an increase in interest expense of $756,000.

Interest and Dividend Income. Total interest and dividend income was $7.685 million for the nine months ended March 31, 2006, compared to $6.742 million for the same period ended March 31, 2005, an increase of $943,000, or 13.99%. Interest and fees on loans increased to $5.665 million for 2006 from $4.498 million for 2005. This increase of $1.167 million, or 25.94%, was due to an increase in the average balances for loans receivable, net, for the nine months ended March 31, 2006. Average balances for loans receivable, net, for this period were $120.44 million, compared to $95.81 million for the previous year's period. This is an increase of $24.63 million, or 25.71%. The average interest rate earned on loans receivable increased by 1 basis point, to 6.27%. Interest and dividends on securities available-for-sale (AFS) decreased to $1.928 million for the nine months ended March 31, 2006 from $2.138 million for the nine months ended March 31, 2005. Interest on securities held-to-maturity (HTM) decreased to $40,000 from $50,000. Average balances on investment securities decreased to $70.73 million for the nine months ended March 31, 2006 compared to $85.13 million for the same period ended March 31, 2005. The average interest rate earned on investments increased 28 basis points, to 3.71% from 3.43%. Dividends on FHLB stock have been suspended by the FHLB of Seattle as part of their capital plan.

Interest Expense. Total interest expense increased to $2.645 million for the nine months ended March 31, 2006 from $1.889 million for the nine months ended March 31, 2005, an increase of $756,000, or 40.02%. Interest on deposits increased to $2.153 million for the nine months ended March 31, 2006 from $1.764 million for the nine months ended March 31, 2005. This increase of $389,000, or 22.05%, was the result of an increase in average rates paid on deposit accounts offset by a small decline in average balances in deposit accounts. Average rates paid on deposits increased 32 basis points from 2005 to 2006. Money market accounts and certificates of deposit had increases in average rates paid, while checking accounts and passbook savings rates were unchanged. Average balances in interest-bearing deposits decreased to $160.76 million for the nine month period ended March 31, 2006 compared to $160.87 million for the same period in the previous year. Interest paid on borrowings increased to $492,000 for the nine months ended March 31, 2006 from $125,000 for the same period ended March 31, 2005. The increase was due to increases in the average balances of FHLB advances and the trust preferred securities issued in September 2005. The average rate paid on borrowings increased by 116 basis points from 2005 to 2006.

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

Results of Operations for the Nine Months Ended March 31, 2006 and 2005

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, available peer group information, and past due loans in portfolio. The Bank's policies require the review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. No provision was made for loan losses for either of the nine month periods ended March 31, 2006 or March 31, 2005. This is a reflection of the continued strong asset quality of the Bank's loan portfolio. Total classified assets decreased to $625,000 at March 31, 2006 from $760,000 at June 30, 2005. The Bank currently has no foreclosed property.

Noninterest Income. Total noninterest income increased to $1.634 million for the nine months ended March 31, 2006, from $1.603 million for the nine months ended March 31, 2005, an increase of $31,000, or 1.93%. This was due to increases in other noninterest income and in net gain on sale of loans, offset by smaller declines in the other categories of noninterest income. The increase in other noninterest income was due primarily to increased income on Bank Owned Life Insurance (BOLI) and higher fee income on loan products. Net gain on sale of loans was higher due to higher mortgage originations.

Noninterest Expense. Noninterest expense increased by $247,000, or 5.35%, to $4.863 million for the nine months ended March 31, 2006, from $4.616 million for the nine months ended March 31, 2005. This increase was primarily due to increases in salaries and benefits of $172,000 and advertising expense of $25,000. The increase in salaries and benefits was primarily due to normal raises. Advertising expenses were higher due to increased promotion of deposit products. Other categories of noninterest expense showed modest changes.

Income Tax Expense. Eagle's income tax expense was $464,000 for the nine months ended March 31, 2006, compared to $467,000 for the nine months ended March 31, 2005. The effective tax rate for the nine months ended March 31, 2006 was 25.62% and was 25.38% for the nine months ended March 31, 2005.

Liquidity, Interest Rate Sensitivity and Capital Resources

The Company's subsidiary, American Federal Savings Bank (the Bank), is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision (OTS) regulations. The OTS has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OTS states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses the previous regulatory definitions of liquidity. The Bank's average liquidity ratio was 15.94% and 15.21% for the months ended March 31, 2006 and March 31, 2005, respectively.

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

Liquidity, Interest Rate Sensitivity and Capital Resources

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

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

At December 31, 2005 (the most recent report available), the Bank's measure of sensitivity to interest rate movements, as measured by the OTS, worsened slightly from the previous quarter. The Bank's capital ratio as measured by the OTS increased during the same period. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity.

As of March 31, 2006, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At March 31, 2006, the Bank's tangible, core, and risk-based capital ratios amounted to 11.63%, 11.63%, and 16.53%, respectively, compared to regulatory requirements of 1.5%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

	(Unaudited) At March 31, 2006	
	Dollar Amount	For Capital Adequacy Purposes % of Assets
Tangible capital:		
Capital level	$ 25,047	11.63%
Requirement	3,230	1.50
Excess	$ 21,817	10.13%
Core capital:		
Capital level	$ 25,047	11.63%
Requirement	6,460	3.00
Excess	$ 18,587	8.63%
Risk-based capital:		
Capital level	$ 25,555	16.53%
Requirement	12,370	8.00
Excess	$ 13,185	8.53%

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

Impact of Inflation and Changing Prices

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

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

Application of Critical Accounting Policies

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

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

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

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

Fair Value of Other Financial Instruments - Management uses an internal model to determine fair value for its loan portfolio and certificates of deposit. The assumptions entail spreads over the Treasury yield curve at appropriate maturity benchmarks. Assumptions incorporating different spreads would naturally deliver varying results, however due to the 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.

EAGLE BANCORP AND SUBSIDIARY
EAGLE BANCORP AND SUBSIDIARY

ITEM 3. CONTROLS AND PROCEDURES

Based on their evaluation, the company's Chief Executive Officer, Larry A. Dreyer, and Chief Financial Officer, Peter J. Johnson, have concluded the company's disclosure controls and procedures are effective as of March 31, 2006 to ensure that information required to be disclosed in the reports that the company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. During the last fiscal quarter, there have been no significant changes in the company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

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.

Period	Total Number of Shares Purchased*	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 2006 01-01-06 01-31-06	1,300	$32.25	1,300	18,850
February 2006 02-01-06 02-28-06	4,000	$33.25	4,000	14,850
March 2006 03-01-06 03-31-06	1,350	$33.10	1,350	13,500
Total	6,650	$33.02	6,650	N/A

*The Company publicly announced a stock repurchase program on July 21, 2005. The Company is authorized to acquire up to 28,750 shares of common stock with the price subject to market conditions. No expiration date was set for the repurchase program. As of May 4, 2006, 16,850 shares had been repurchased.

Item 3. Defaults Upon Senior Securities.

Not applicable.

EAGLE BANCORP AND SUBSIDIARY

Part II - OTHER INFORMATION (CONTINUED)

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

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification by Larry A. Dreyer, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Peter J. Johnson, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Larry A. Dreyer, Chief Executive Officer, and Peter J. Johnson, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

a.) Reports on Form 8-K

On January 19, 2006, the registrant furnished under Item 2.02 of Form 8-K a press release announcing its earnings for the second quarter of the 2006 fiscal year.

On March 20, 2006, the registrant furnished under Item 4.01 of Form 8-K a notification of change in its certifying accountant.

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: May 9, 2006

By: /s/ Larry A. Dreyer

Larry A. Dreyer
President/CEO

Date: May 9, 2006

By: /s/ Peter J. Johnson

Peter J. Johnson
Executive Vice President/CFO