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ALLIED FIRST BANCORP INC
Form 10QSB
May 14, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _____ to _____

Commission File Number 001-16763

Allied First Bancorp, Inc.
(Exact name of small business issuer as specified in its charter)

Maryland 36-4482786
(State or other jurisdiction of (I.R.S. Employer identification
incorporation or organization) or number)

387 Shuman Boulevard, Suite 290 E, Naperville, IL 60563
(Address of principal executive offices) (Zip Code)

(630) 778-7700
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Transitional Small Business Disclosure Format (check one):

Yes ☐ No ☒

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

As of May 6, 2004, there were 558,350 shares of the Registrant's common stock issued and outstanding.

Allied First Bancorp, Inc.

INDEX

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Item 1.	Consolidated Condensed Financial Statements	
	Consolidated Balance Sheets at March 31, 2004 and June 30, 2003	3
	Consolidated Statements of Income and Comprehensive Income for the three months and nine months ended March 31, 2004 and 2003	4
	Consolidated Statements of Cash Flows for the nine months ended March 31, 2004 and 2003	5
	Notes to Consolidated Condensed Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 3.	Controls and Procedures	15
PART II.	OTHER INFORMATION	
	Items 1-6	17
	Signature Page	18
	10-QSB Certifications	19

2

PART I: FINANCIAL INFORMATION, Item 1. Allied First Bancorp, Inc. CONSOLIDATED BALANCE SHEETS

ASSETS:

Cash and cash equivalents	
Time deposits with other financial institutions	
Securities available for sale	
Loans held for sale	
Credit card loans held for sale	
Loans, net of allowance for loan losses of \$623,956 at March 31, 2004 and \$592,373 at June 30, 2003	
Federal Home Loan Bank stock, at cost	
Accrued interest receivable	
Premises and equipment-net	
Servicing agent receivable	
Other assets	
 Total assets	

LIABILITIES AND SHAREHOLDERS' EQUITY:

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Liabilities:

Non-interest-bearing demand deposits	\$
Interest-bearing demand deposits	
Savings, Now, and money market deposits	
Time deposits	
 Total deposits	
Borrowed funds	
Other liabilities	
 Total liabilities	

Shareholders' Equity:

Preferred stock, \$.01 par value, 2,000,000 shares authorized, none issued	
Common stock, \$.01 par value, 8,000,000 shares authorized, 608,350 shares issued and 558,350 outstanding at March 31, 2004 and June 30, 2003	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income	
Treasury stock, at cost 50,000 shares	
 Total shareholders' equity	

Total liabilities and shareholders' equity

The accompanying notes are an integral part of these consolidated financial statements

3

PART I: FINANCIAL INFORMATION, Item 1 Allied First Bancorp, Inc. CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
	2004	2003
	----	----
Interest income:		
Loans receivable	\$1,324,993	\$ 1,231,235
Interest earning deposits	35,967	54,521
Securities	103,793	50,814
	-----	-----
Total interest income	1,464,753	1,336,570
Interest expense:		
Deposits	344,327	456,138
Borrowed funds	135,556	9,070
	-----	-----
Total interest expense	479,883	465,208

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Net interest income:	984,870	871,362
Provision for loan losses	75,000	60,000
	-----	-----
Net interest income after provision for loan losses	909,870	811,362
Non-interest income:		
Credit and debit card transaction	132,382	139,497
Account fees	41,845	43,592
Gain on sale of securities	--	--
First mortgage loan fees	--	16,926
Other	5,509	8,671
	-----	-----
Total non-interest income	179,736	208,686
Non-interest expense:		
Salaries and employee benefits	354,321	317,694
Office operations and equipment	117,843	100,974
Occupancy	26,952	24,109
Data processing	62,880	58,519
Credit and debit card processing	113,056	117,242
Travel and conference	21,777	29,947
Professional services	85,304	68,845
Marketing and promotion	35,332	34,416
Other expenses	33,168	32,625
	-----	-----
Total non-interest expense	850,633	784,371
Income before income taxes:	238,973	235,677
Income tax expense	95,620	91,639
	-----	-----
Net income:	\$ 143,353	\$ 144,038
	=====	=====
Other comprehensive income (loss)	38,076	(3,484)
	-----	-----
Total comprehensive income	\$ 181,429	\$ 140,554
	=====	=====
Earnings per common share		
Basic	\$ 0.26	\$ 0.24
Diluted	\$ 0.26	\$ 0.24

The accompanying notes are an integral part of these consolidated financial statements

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Cash flows from operating activities	
Net Income	\$
Adjustment to reconcile net income to net cash from operating activities	
Depreciation	
Amortization of premiums on securities	
Net gain on sale of securities	
Provision for loan losses	
FHLB stock dividend	
Net Changes in	
Accrued interest receivable	
Servicing agent receivable	
Other assets	
Other liabilities	
Net cash from operating activities	
Cash flows from investing activities	
Purchase of available for sale securities	
Sale of available for sale securities	
Principal collected on mortgage backed securities	
Purchase of Federal Home Loan Bank stock	
Net expenditures of premises and equipment	
Purchase of loans from other institutions	
Net changes in:	
Loans	
Time deposits with other financial institutions	
Net cash from investing activities	
Cash flows from financing activities	
Net change in	
Deposits	
Proceeds from borrowed	
Repayments of borrowings	
Net cash from financing activities	
Increase in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	\$

The accompanying notes are an integral part of these consolidated financial statements

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(1) Basis of Presentation

The accompanying consolidated condensed financial statements include the accounts of Allied First Bancorp, Inc. and its wholly owned subsidiary, Allied First Bank, sb. All significant inter-company transactions and balances are eliminated in consolidation. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation SB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements.

In the opinion of management, the consolidated condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to represent fairly the financial condition of the Company as of March 31, 2004 and June 30, 2003 and the results of its operations, for the three months and nine months ended March 31, 2004 and 2003. Financial statement reclassifications have been made for the prior period to conform to classifications used as of and for the period ended March 31, 2004.

Operating results for the three months and nine months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2004. Allied First Bancorp, Inc.'s 2003 annual report on Form 10-KSB should be read in conjunction with these statements.

(2) Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from current estimates. Estimates that are more susceptible to change in the near term include the allowance for loan losses and the fair values of financial instruments.

(3) Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. For the three-month and nine-month periods ended March 31, 2004, the weighted average number of common shares used in the computation of basic earning per share was 558,350. The weighted average number of common shares for the same periods in 2003 was 608,350. There are no potential dilutive common shares.

6

(4) Premises and Equipment

The company is obligated under a five year operating lease for office space that contains a termination option effective as of April 30, 2007. The lease was effective as of September 16, 2003 with terms to begin occupancy in November 2003. The expiration of the lease is April 30, 2009. It contains a period of free rent in the 2004 fiscal year, and escalation clauses providing for increases in rental expense based primarily on increases in real estate taxes and operating costs.

The future minimum commitments under the full lease term at March 31, 2004 for

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all operating leases are as follows:

Year Ending June 30, -----	Amount -----
2004	\$ 7,564
2005	117,464
2006	120,988
2007	124,618
2008	128,357
Thereafter	109,625

Total	\$608,616
	=====

(5) Federal Home Loan Bank Advances

At March 31, 2004, advances from the Federal Home Loan Bank were as follows.

Open line advance, variable rate and term	\$ 7,000,000
Maturity July 2004, fixed rate of 1.34%	5,000,000
Maturity March 2005, fixed rate of 1.24%	8,500,000
Maturity July 2005, fixed rate of 1.70%	5,000,000
Maturity July 2006, fixed rate of 2.12%	5,000,000
Maturity March 2007, fixed rate of 2.63%	4,000,000

Total	\$34,500,000
	=====

Each advance is payable at its maturity date, with a prepayment penalty. All advances including open line advances were collateralized by \$8,177,000 in mortgaged backed securities and \$52,799,000 of first mortgage loans under a blanket lien arrangement at March 31, 2004.

(6) Credit card portfolio pending sale

On March 23, 2004, Allied First Bank signed a letter of intent to sell its credit card portfolio for a premium of approximately 20%.

(7) Subsequent events

On April 1, 2004 Allied First Bancorp, Inc. purchased Eagle's Nest Marketing Solutions Inc., a loan servicing call center for approximately \$704,000. The purchase price included intangible assets and goodwill totaling approximately \$532,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Allied First Bancorp, Inc.'s results of operations are primarily dependent on Allied First Bank's net interest margin, which is the difference between interest income on interest-earning assets and interest expense on

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interest-bearing liabilities. Allied First Bank's net income is also affected by the level of its non-interest income and non-interest expenses, such as employee compensation and benefits, occupancy expenses and other expenses.

FORWARD-LOOKING STATEMENTS

When used in this filing and in future filings by Allied First Bancorp, Inc. and Allied First Bank, sb with the U.S. Securities and Exchange Commission, in Allied First Bancorp, Inc. and Allied First Bank press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in our market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in our market area and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Allied First Bancorp, Inc. wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advises readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect our financial performance and could cause Allied First Bancorp, Inc.'s actual results for future periods to differ materially from those anticipated or projected.

These risks and uncertainties should be considered in evaluating forward-looking statements and you should not rely on these statements.

CRITICAL ACCOUNTING POLICIES

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Some of the facts and circumstances which could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include

8

determining the allowance for loan losses and determining the fair value of securities and other financial instruments.

FINANCIAL CONDITION

The Company's total assets increased \$26.3 million during the nine months ended March 31, 2004, to \$127.9 million from \$101.6 million at June 30, 2003. The increase was due to increases in net loans of \$21.2 million and an increase of \$4.4 million in available for sale securities.

The Company's total liabilities increased \$25.9 million from \$91.7 million

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at June 30, 2003, to \$117.6 million at March 31, 2004. The increase was due primarily to \$34.5 million in borrowed funds and was offset by a decrease in deposits of \$8.8 million. Total deposits decreased from \$91.2 million at June 30, 2003 to \$82.4 million at March 31, 2004. To offset a drop in customer deposits Allied First Bank issued approximately \$3.4 million in brokered time deposit with varying terms and rates.

Stockholders' equity increased by \$455,000 from \$9.8 million at June 30, 2003 to \$10.3 million at March 31, 2004. The increase is due to year to date net income of \$424,000, and an increase decrease in unrealized appreciation on available for sale securities of \$30,000.

COMPARISON OF THREE-MONTH AND NINE-MONTH PERIODS ENDED MARCH 31, 2004 AND 2003

GENERAL

Net income for the three-month and nine-month periods ended March 31, 2004 was \$143,000 and \$424,000, respectively, compared to net income of \$144,000 and \$309,000 for the equivalent periods in 2003. The increase in net income for the nine-month period ended 2004 over the same period in 2003 was due primarily to higher net interest income.

NET INTEREST INCOME

The net interest income for the three-month period ended March 31, 2004, was \$985,000 compared to \$871,000 for the same period in 2003. This is a 13.09% increase over the same period in 2003. Although net interest income grew as a result of asset growth the net interest margin dropped to 3.12% from 3.73% for the same period in 2003. The reason for the lower yield in 2004 was that the yield on earnings assets decreased from 5.72% to 4.64%. The net interest income for the nine-month period ended March 31, 2004, was \$2,937,000 compared to \$2,516,000 for the same period in 2003, an increase of 16.73% and resulted in a net interest margin of 3.25% compared to 3.71% in 2003. The reason for the lower net yield in nine-month period ending March 31, 2004 was that the yield on earnings assets decreased from 6.03% to 4.83%.

Total average interest earning balances decreased \$3.5 million and \$4.8 million, for the three-month and nine-month periods over one-year ago. The decrease is due primarily to shifting assets from cash and cash equivalents to loans. Total average loans increased \$33.1 million and \$33.5 million, for the three-month and nine-month periods over one-year ago. The yields on total average earning assets were 4.64% and 5.72% for the three-month periods ended March 31, 2004, and 2003 and 4.83% and 6.03% for the nine-month periods ended March 31, 2004 and 2003.

9

Total average interest bearing liabilities increased \$34.0 million, and \$31.3 million, for the three-month and nine-month periods ended March 31, 2004, over the comparative periods in 2003. Interest bearing liabilities increased primarily due to the use of Federal Home Loan Bank of Chicago loan advances to fund the purchase of first mortgage loans.

INTEREST INCOME

Interest income for the three months and nine months ended March 31, 2004 was \$1,465,000 and \$4,363,000 compared to \$1,337,000 and \$4,092,000 for the same period in 2003. The increase in both the three-month and nine-month periods was due to an increase in average earning assets.

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INTEREST EXPENSE

Interest expense for the three months and nine months ended March 31, 2004 was \$480,000 and \$1,426,000 compared to \$465,000 and \$1,576,000 for the same period in 2003. The decrease was primarily due to lower rates paid on interest-bearing liabilities during 2004, which was 1.74% for the three-month period ending March 31, 2004, and 1.82% for the nine months ending March 31, 2004. This represents a 69 basis point decrease and a 106 basis point decrease in the rates paid over the same periods in the prior year.

10

The following tables set forth consolidated information regarding average balances and annualized average rates.

	Allied First Bancorp, Inc. Three Months ending March 31, 2004 (Dollars in thousands)			
	Average Balance	Interest	Average Rate	Average Balance
INTEREST EARNING ASSETS				
Loans	\$ 112,457	\$ 1,325	4.71%	\$ 79,3
Available for sale securities	8,524	104	4.88%	5,5
Federal Home Loan Bank stock	1,798	29	6.45%	1,5
Interest earning balances	3,631	7	0.77%	7,0
Total interest-earning assets	126,410	1,465	4.64%	93,5
NON-INTEREST EARNING ASSETS				
Premises and equipment	265			
Allowance for loan losses	(655)			(6
Other non-earning assets	1,868			9
Total assets	\$ 127,888			\$ 93,9
INTEREST BEARING LIABILITIES				
Interest checking	\$ 3,192	\$ 8	1.00%	\$ 7,7
Savings	13,322	17	0.51%	11,6
Money market	39,578	138	1.39%	37,0
Time deposits	19,071	181	3.80%	17,9
Borrowed funds	35,358	136	1.54%	2,1
	110,521	480	1.74%	76,5
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	6,678			6,5
Other liabilities	604			4

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Equity	10,085	10,2
	-----	-----
Total liabilities and equity	\$ 127,888	\$ 93,9
	=====	=====

Net Interest/Spread	\$ 985	2.90%
	=====	

Margin		3.12%
		=====

(1) Total Loans less deferred net loan fees

11

	Allied First Bancorp Nine months ending March 2004 (Dollars in thousands)			
	Average Balance	Interest	Average Rate	Average Balance
	-----	-----	----	-----
INTEREST EARNING ASSETS				
Loans	\$ 105,996	\$ 3,952	4.97%	\$ 72,45
Available for sale securities	8,250	272	4.40%	7,15
Federal Home Loan Bank stock	1,726	84	6.49%	1,57
Interest earning balances	4,418	55	1.66%	9,31
	-----	-----	----	-----
Total interest-earning assets	120,390	4,363	4.83%	90,50
	-----	-----	----	-----
NON-INTEREST EARNING ASSET				
Premises and equipment	176			6
Allowance for loan losses	(626)			(64
Other non-earning assets	1,855			72
	-----			-----
Total assets	\$ 121,795			\$ 90,65
	=====			=====
INTEREST BEARING LIABILITIES				
Interest Checking	\$ 3,962	\$ 41	1.38%	\$ 6,82
Savings	13,998	53	0.50%	11,51
Money market	41,193	460	1.49%	35,48
Time deposits	18,485	552	3.98%	18,44
Borrowings	27,001	320	1.58%	1,06
	-----	-----	----	-----
Total interest-bearing liabilities	104,639	1,426	1.82%	73,32
	-----	-----	----	-----
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	6,786			6,58
Other liabilities	524			51

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Equity	9,846	10,22
	-----	-----
Total liabilities and equity	\$ 121,795	\$ 90,65
	=====	=====
Net Interest/Spread	\$ 2,937	3.01%
	=====	
Margin		3.25%
		=====

(1) Total Loans less deferred net loan fees

12

PROVISION FOR LOAN LOSSES

The provision for loan losses was \$75,000 and \$287,000, respectively, for the three-month and nine-month periods ended March 31, 2004 and \$60,000 and \$221,000 for the same periods in 2003. The increase in the nine-month period ended March 31, 2004 over the same period in 2003 is due to the increase in the loan portfolio balances and in net charge-offs. Changes in the provision for loan losses are attributed to management's analysis of the adequacy of the allowance for loan losses to address probable incurred losses. Net charge-offs of \$101,000 have been recorded for the three-month period ended March 31, 2004, compared to \$115,000 of net charge-offs for the same period in 2003. Net charge-offs of \$255,000 have been recorded for the nine-month period ended March 31, 2004, compared to \$255,000 of net charge-offs for the same period in 2003. The allowance for loan losses was \$624,000 or 0.57% of net loans as of March 31, 2004, compared to \$592,000 or 0.68% of net loans at June 30, 2003. The decline in percentage of allowance for loan loss to net loans was primarily due to loan portfolio shifting to a greater percentage of real estate secured loans and a smaller percentage of unsecured loans. The portfolio continued to shift to more real estate loans with the purchase of \$35.3 million in first mortgage loans during the first quarter of the fiscal 2004 year. Allied First Bancorp, Inc. holds a small percentage in secured commercial loans, which was \$5.3 million or 4.9% of net loans at March 31, 2004. At March 31, 2004 first mortgage and home equity loans comprise nearly 70% of the loan portfolio compared to 62% at June 30, 2003.

We establish provisions for loan losses, which are charged to operations, at a level management believes is appropriate to absorb probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available or as future events change.

Approximately 93% of our customer base consists of American Airlines pilots and their family members. Although this customer base had historically relatively stable employment and sources of income, the terrorist attacks on the United States in September 2001, the war in Iraq, and the current economic environment have adversely affected the airline industry. As a result of these factors, the stability of the employment and income of the American Airline pilots has been adversely affected and could negatively affect the ability of our customers to repay their loans, although the effect on our loan delinquencies and loan losses cannot be identified with reasonable certainty at

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this time. As a result of these factors, we may have higher loan delinquencies and defaults in future periods. At March 31, 2004, our delinquent loans past due 60 days or more, was less than 0.08% of our loan portfolio, compared to less than 0.01% at June 30, 2003 and 0.14% at March 31, 2003.

13

NON-INTEREST INCOME

Non-interest income for the three-month periods ended March 31, 2004 and 2003 was \$180,000 and \$209,000, respectively and for the nine-month periods were \$551,000 and \$610,000. The decline for both the three-month and nine-month periods ended March 31, 2004 from 2003 was primarily due to the decline in income from mortgage originations which have dropped significantly in the 2004 fiscal year. Account fee income was \$119,000 for the nine-months ended March 31, 2004 compared to \$109,000 for the nine months ended March 31, 2003, an increase of \$10,000, or 9.17%. The increase in account fees was due to the overdraft privilege program which began in October of 2002. Overdraft privilege allows a customer to overdraw their checking account up to a specified limit for a fee.

NON-INTEREST EXPENSE

Non-interest expense for the three-month period ended March 31, 2004, was \$851,000, an increase of \$67,000, or 8.55%, compared to the same period in 2003. Salary and employee benefits was \$354,000 for the three-month period ended March 31, 2004 an increase of \$36,000 or 11.32%, from \$318,000 for the same period in 2003. The increase in salaries and employee benefits was due to additional personnel, normal merit raises as well as rising health care premiums. Office operations and equipment was \$118,000 for the three-month period ended March 31, 2004 an increase of \$17,000 or 16.83%, from \$101,000 for the same period in 2003. The increase was partly related to an increase in office supplies for technology upgrades. Another factor in the increase in office operations and equipment expense is that our corporate settlement expense increased. Corporate settlement expense is what our corporate bank charges us for maintenance and transactions. Occupancy expense was \$27,000 for the three-month period ended March 31, 2004, an increase of \$3,000 compared to the same period in 2003. The increase was due to an increase in rent expense related to a new lease effective January 2003. Travel and conference for the three-month period ended March 31, 2004, was \$22,000, a decrease of \$8,000, compared to the same period in 2003. Professional services expense was \$85,000 for the three-month period ended March 31, 2004 an increase of \$16,000 or 23.19%, from \$69,000 for the same period in 2003. The increase in professional services was a result of increasing professional fees related to new legislation and regulation on the banking industry and SEC registrants.

Non-interest expense was \$2,500,000 for the nine-month period ended March 31, 2004, an increase of \$101,000 or 4.21% from \$2,399,000 for the same nine-month period in 2003. Salary and employee benefits was \$1,022,000 for the nine-month period ended March 31, 2004 an increase of \$125,000 or 13.94%, from \$897,000 for the same period in 2003. The increase in salaries and employee benefits was due to additional personnel, normal merit raises as well as rising health care premiums. Occupancy expense was \$80,000 for the nine-month period ended March 31, 2004, an increase of \$15,000 compared to the same period in 2003. The increase was due to an increase in rent expense related to a new lease effective January 2003. Travel and conference for the nine-month period ended March 31, 2004, was \$47,000, a decrease of \$14,000, compared to the same period in 2003. Professional service fees were \$284,000 for the nine-month period ended March 31, 2004, and \$240,000 for the same period in 2003. The increase in professional services was a result of increasing professional fees related to new legislation and regulation on the banking industry and SEC registrants.

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Marketing and promotion was \$117,000 for the nine-month period ended March 31, 2004 a decrease of \$76,000 or 39.38%, from \$193,000 for the same period in 2003. The reason for the decrease during the 2004 fiscal year is that Allied First Bank has cut back on its higher cost marketing efforts. Other expenses for the nine-month period ended March 31, 2004 and 2003 were \$98,000 and \$73,000. This increase in other expenses was a result of an increase in regulatory expense related to the cost of a regulatory exam fee.

14

INCOME TAXES

The provision for income taxes was \$96,000 and \$92,000, for the three-month periods ending March 31, 2004 and 2003. The provision for income taxes was \$276,000 and \$197,000, for the nine-month periods ending March 31, 2004 and 2003. The increase in the nine-month period in 2004 is a result of higher pre-tax income. The effective rate for the three-month periods ended March 31, 2004 and 2003 was 40.0% and 38.9%, and for the nine-month periods were 39.4% and 39.0%.

REGULATORY CAPITAL REQUIREMENTS

Pursuant to federal law, Allied First Bank must meet three separate minimum capital ratio requirements. As of March 31, 2004, Allied First Bank had core capital, Tier I risk-based and total risk-based ratios of 7.83%, 11.00% and 11.69% compared to well-capitalized requirements of 5.00%, 6.00% and 10.00%. At June 30, 2003, Allied First Bank had core capital, Tier I risk-based ratios of 9.50%, 12.10% and 12.90%.

LIQUIDITY

Liquidity management refers to the ability to generate sufficient cash to fund current loan demand; meet deposit withdrawals and pay operating expenses. Allied First Bancorp, Inc. relies on various funding sources in order to meet these demands. Primary sources of funds include interest-earning balances with other financial institutions, money market mutual funds, proceeds from principal and interest payments on loans as well as the ability to borrow against first mortgages, and marketable securities. At March 31, 2004, Allied First Bank had \$5.1 million in cash and cash equivalents that could be used for its funding needs. Cash and cash equivalents increased by \$2.1 million compared to the period ending June 30, 2003. Securities available for sale increased by \$4.4 million and time deposits with other institutions decreased \$2.8 million.

For further liquidity, the Company may borrow against its mortgage-backed securities and first mortgages through the Federal Home Loan Bank of Chicago. The Company also has a fed funds line of \$4.0 million and a working capital line of \$5.0 million with LaSalle Bank. The remaining borrowing capacity at March 31, 2004 was approximately \$14.9 million.

As of March 31, 2004, management is not aware of any current recommendations by regulatory authorities, which, if they were to be implemented, would have or are reasonably likely to have a material adverse effect on the Allied First Bancorp, Inc.'s liquidity, capital resources or operations.

15

Item 3

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Allied First Bancorp, Inc. CONTROLS AND PROCEDURES

An evaluation was carried out as of March 31, 2004 under the supervision and with the participation of Allied First Bancorp Inc.'s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures. Based on their evaluation, Allied First Bancorp Inc.'s Chief Executive Officer and Chief Financial Officer have concluded that Allied First Bancorp, Inc.'s disclosure controls and procedures are to the best of their knowledge, effective to ensure that the information required to be disclosed by Allied First Bancorp Inc. in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in Allied First Bancorp Inc.'s internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

16

Part II - Other Information

Item 1 - Legal Proceedings - Not Applicable.

Item 2 - Changes in Securities and Use of Proceeds - Not Applicable.

Item 3 - Defaults upon Senior Securities - Not Applicable.

Item 4 - Submission of Matters to a vote of Security Holders - Not Applicable

Item 5 - Other Information - Not Applicable

Item 6 - Exhibits and Reports on Form 8-K

- | | | |
|-----|---------------------|---|
| (a) | Exhibit 31.1 | Rule 13a-14(a)/15d/14(a) Certification of Chief Executive Officer |
| | Exhibit 31.2 | Rule 13a-14(a)/15d/14(a) Certification of Chief Financial Officer |
| | Exhibit 32.1 | Chief Executive Officer's Section 906 Certification under the Sarbanes- Oxley Act of 2002 |
| | Exhibit 32.2 | Chief Financial Officer's Section 906 Certification Under the Sarbanes- Oxley Act of 2002 |
| (b) | Reports on Form 8-K | |

On April 7, 2004, Allied First Bancorp, Inc. filed a form 8-k attaching a press release regarding the acquisition of Eagle's Nest Marketing Solutions, Inc.

17

SIGNATURES

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

Allied First Bancorp, Inc.
Registrant

Date: May 6, 2004

/s/ Kenneth L. Bertrand

Kenneth L. Bertrand
President and Chief Executive Officer

Date: May 6, 2004

/s/ Brian K. Weiss

Brian K. Weiss
Chief Financial Officer