SECURITY FEDERAL CORP
Form 10-Q
February 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2007

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

FROM: ______________ TO: ______________

COMMISSION FILE NUMBER: 0-16120

SECURITY FEDERAL CORPORATION

South Carolina (State or other jurisdiction of incorporation or organization)	57-0858504 (IRS Employer Identification No.)
1705 WHISKEY ROAD, AIKEN, SOUTH CAROLINA (Address of Principal Executive Office)	29801 (Zip code)

(803) 641-3000
(Registrant's telephone number, including area code)

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 X NO ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "large accelerated filer" and "accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filed [ ] Accelerated filer[ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (defined in Rule 12b-2 of the Exchange Act).

YES ___ NO X

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

CLASS:	OUTSTANDING SHARES AT:	SHARES:
Common Stock, par value $0.01 per share	January 31, 2008	2,536,045

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SCHEDULES OMITTED

All schedules other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information is included in the consolidated financial statements and related notes.

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Security Federal Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31, 2007	March 31, 2007
Assets:	(Unaudited)	(Audited)
Cash And Cash Equivalents	$ 12,799,687	$ 13,438,129
Investment And Mortgage-Backed Securities:		
Available For Sale: (Amortized cost of $214,036,848 at December 31, 2007 and $186,970,867 at March 31, 2007)	215,388,331	185,766,296
Held To Maturity: (Fair value of $45,284,720 at December 31, 2007 and $63,441,641 at March 31, 2007)	45,144,829	64,138,589
Total Investment And Mortgage-Backed Securities	260,533,160	249,904,885
Loans Receivable, Net:		
Held For Sale	2,770,678	1,529,748
Held For Investment: (Net of allowance of $7,648,376 at December 31, 2007 and $7,296,791 at March 31, 2007)	497,320,751	434,508,612
Total Loans Receivable, Net	500,091,429	436,038,360
Accrued Interest Receivable:		
Loans	1,846,313	1,459,193
Mortgage-Backed Securities	672,182	550,682
Investments	1,153,921	1,181,639
Premises And Equipment, Net	20,501,003	15,895,192
Federal Home Loan Bank Stock, At Cost	9,284,200	8,209,200
Bank Owned Life Insurance	8,225,067	5,783,620
Repossessed Assets Acquired In Settlement Of Loans	477,796	24,909
Intangible Assets, Net	465,000	532,500
Goodwill	1,197,954	1,197,954
Other Assets	3,000,026	3,893,928

Total Assets	$ 820,247,738	$ 738,110,191
Liabilities And Shareholders' Equity		
Liabilities:		
Deposit Accounts	$ 573,915,279	$ 523,737,592
Advances From Federal Home Loan Bank	177,737,852	153,049,272
Other Borrowed Money	12,695,552	8,088,194
Advance Payments By Borrowers For Taxes And Insurance	463,950	486,101
Mandatorily Redeemable Financial Instrument	1,417,312	1,417,312
Junior Subordinated Debentures	5,155,000	5,155,000
Other Liabilities	3,662,886	3,483,512
Total Liabilities	$ 775,047,831	$ 695,416,983
Shareholders' Equity:		
Serial Preferred Stock, $.01 Par Value; Authorized Shares - 200,000; Issued And Outstanding Shares - None	$ -	$ -
Common Stock, $.01 Par Value; Authorized Shares - 5,000,000; Issued - 2,647,891 And Outstanding Shares - 2,536,752 At December 31, 2007 And 2,637,942 And 2,609,116 At March 31, 2007	25,913	25,814
Additional Paid-In Capital	5,039,139	4,850,029
Treasury Stock, (At Cost, 111,139 and 28,826 Shares, at December 31, 2007 and March 31, 2007, Respectively)	(2,637,911)	(651,220)
Accumulated Other Comprehensive Income (Loss)	838,283	(747,316)
Retained Earnings, Substantially Restricted	41,934,483	39,215,901
Total Shareholders' Equity	$ 45,199,907	$ 42,693,208
Total Liabilities And Shareholders' Equity	$ 820,247,738	$ 738,110,191

See accompanying notes to consolidated financial statements.

Security Federal Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)

	Three Months Ended December 31,	
	2007	2006
Interest Income:		
Loans	$ 9,416,982	$ 8,012,722
Mortgage-Backed Securities	1,937,244	1,456,544
Investment Securities	1,365,705	1,314,913
Other	17,277	29,551
Total Interest Income	12,737,208	10,813,730
Interest Expense:		
NOW And Money Market Accounts	1,603,372	1,684,765
Passbook Accounts	38,586	41,189
Certificate Accounts	3,927,298	2,846,184

Federal Home Loan Bank Advances And Other Borrowed Money	2,096,187	1,715,572
Junior Subordinated Debentures	93,267	91,983
Total Interest Expense	7,758,710	6,379,693
Net Interest Income	4,978,498	4,434,037
Provision For Loan Losses	150,000	150,000
Net Interest Income After Provision For Loan Losses	4,828,498	4,284,037
Non-Interest Income:		
Gain On Sale Of Loans	134,732	88,137
Service Fees On Deposit Accounts	307,045	296,135
Income From Cash Value Of Life Insurance	92,246	62,037
Commissions On Insurance	145,148	198,772
Other Agency Income	19,670	20,248
Trust Income	102,000	110,211
Other	227,250	212,558
Total Non- Interest Income	1,028,091	988,098
General And Administrative Expenses:		
Salaries And Employee Benefits	2,660,655	2,361,104
Occupancy	425,489	359,530
Advertising	80,857	98,672
Depreciation And Maintenance Of Equipment	333,985	300,211
FDIC Insurance Premiums	15,402	4,624
Amortization of Intangibles	22,500	22,500
Other	789,044	670,071
Total General And Administrative Expenses	4,327,932	3,816,712
Income Before Income Taxes	1,528,657	1,455,423
Provision For Income Taxes	488,046	478,638
Net Income	$ 1,040,611	$ 976,785
Basic Net Income Per Common Share	$ 0.40	$ 0.37
Diluted Net Income Per Common Share	$ 0.40	$ 0.37
Cash Dividend Per Share On Common Stock	$ 0.07	$ 0.06
Basic Weighted Average Shares Outstanding	2,585,234	2,617,037
Diluted Weighted Average Shares Outstanding	2,588,318	2,625,945

See accompanying notes to consolidated financial statements.

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Security Federal Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)

	Nine Months Ended December 31, 2007	Nine Months Ended December 31, 2006
Interest Income:		
Loans	$ 27,625,147	$ 22,789,715
Mortgage-Backed Securities	5,036,650	4,223,959
Investment Securities	4,583,201	3,646,142
Other	45,179	62,023
Total Interest Income	37,290,177	30,721,839
Interest Expense:		
NOW And Money Market Accounts	4,931,098	4,982,221
Passbook Accounts	121,535	125,095
Certificate Accounts	10,797,386	7,437,930
Federal Home Loan Bank Advances And Other Borrowed Money	6,047,885	4,690,964
Junior Subordinated Debentures	276,345	101,985
Total Interest Expense	22,174,249	17,338,195
Net Interest Income	15,115,928	13,383,644
Provision For Loan Losses	450,000	450,000
Net Interest Income After Provision For Loan Losses	14,665,928	12,933,644
Non-Interest Income:		
Gain On Sale Of Loans	416,303	295,390
Service Fees On Deposit Accounts	957,790	865,638
Income From Cash Value Of Life Insurance	241,447	180,582
Commissions On Insurance	464,309	413,407
Other Agency Income	75,838	30,674
Trust Income	340,625	327,767
Other	641,747	539,354
Total Non-Interest Income	3,138,059	2,652,812
General And Administrative Expenses:		
Salaries And Employee Benefits	7,858,206	6,789,633
Occupancy	1,293,602	1,027,793
Advertising	270,278	234,622
Depreciation And Maintenance Of Equipment	990,601	908,006
FDIC Insurance Premiums	45,599	33,586
Amortization of Intangibles	67,500	45,000
Other	2,434,592	1,950,577
Total General And Administrative Expenses	12,960,378	10,989,217
Income Before Income Taxes	4,843,609	4,597,239
Provision For Income Taxes	1,579,392	1,571,083
Net Income	$ 3,264,217	$ 3,026,156
Basic Net Income Per Common Share	$ 1.26	$ 1.17
Diluted Net Income Per Common Share	$ 1.25	$ 1.16

Cash Dividend Per Share On Common Stock	$ 0.21	$ 0.18
Basic Weighted Average Shares Outstanding	2,599,352	2,588,864
Diluted Weighted Average Shares Outstanding	2,605,686	2,600,966

See accompanying notes to consolidated financial statements.

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Security Federal Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Unaudited)

	Common Stock	Additional Paid - In Capital	Treasury Stock	Indirect Guarantee of ESOP Debt	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balance At March 31, 2006	$ 25,582	$4,404,110	$(238,656)	$ (215,503)	$(2,086,509)	$35,712,735
Net Income	-	-	-	-	-	3,026,156
Other Comprehensive Income, Net Of Tax:						
Unrealized Holding Gains On Securities Available For Sale	-	-	-	-	991,431	-
Comprehensive Income	-	-	-	-	-	-
Purchase Of Treasury Stock At Cost, 8,553 shares	-	-	(198,399)	-	-	-
Decrease In Indirect Guarantee Of ESOP Debt	-	-	-	215,503	-	-
Exercise Of Stock Options	212	393,033	-	-	-	-
Stock Compensation Expense	-	4,804	-	-	-	-
Cash Dividends	-	-	-	-	-	(466,691)
Balance At December 31, 2006	$ 25,794	$4,801,947	$(437,055)	$ -	$(1,095,078)	$38,272,200

	Common Stock	Additional Paid - In Capital	Treasury Stock	Indirect Guarantee of ESOP Debt	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balance At March 31, 2007	$ 25,814	$4,850,029	$(651,220)	$ -	$(747,316)	$39,215,901
Net Income	-	-	-	-	-	3,264,217
Other Comprehensive Income, Net Of Tax:						

Unrealized Holding Gains On Securities Available For Sale	-	-	-	-	1,585,599	-
Comprehensive Income	-	-	-	-	-	-
Purchase Of Treasury Stock At Cost, 82,313 shares	-	-	(1,986,691)	-	-	-
Employee Stock Purchase Plan Purchases	36	74,145	-	-	-	-
Exercise Of Stock Options	63	104,958	-	-	-	-
Stock Compensation Expense	-	10,007	-	-	-	-
Cash Dividends	-	-	-	-	-	(545,635)
Balance At December 31, 2007	$ 25,913	$5,039,139	$(2,637,911)	$ -	$ 838,283	$41,934,483

See accompanying notes to consolidated financial statements.

Security Federal Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended December 31,	
	2007	2006
Cash Flows From Operating Activities:		
Net Income	$ 3,264,217	$ 3,026,156
Adjustments To Reconcile Net Income To Net Cash Provided (Used) By Operating Activities:		
Depreciation Expense	789,116	745,479
Amortization Of Intangible Assets	67,500	45,000
Stock Option Compensation Expense	10,007	4,804
Discount Accretion And Premium Amortization	161,021	321,311
Provisions For Losses On Loans And Real Estate	450,000	450,000
Gain On Sale Of Loans	(416,303)	(295,390)
Gain On Sale Of Real Estate	(27,293)	(48,678)
Amortization Of Deferred Fees On Loans	(87,601)	(227,638)

Loss on Disposition of Premises and Equipment	356	215
Proceeds From Sale Of Loans Held For Sale	25,998,343	17,846,130
Origination Of Loans For Sale	(26,822,970)	(20,778,758)
(Increase) Decrease In Accrued Interest Receivable:		
Loans	(387,120)	(388,700)
Mortgage-Backed Securities	(121,500)	(38,533)
Investments	27,718	(135,413)
Decrease In Advance Payments By Borrowers	(22,151)	(202,218)
Other, Net	99,559	(578,090)
Net Cash Provided (Used) By Operating Activities	2,982,899	(254,323)
Cash Flows From Investing Activities:		
Principal Repayments On Mortgage-Backed Securities Available For Sale	27,258,442	27,419,083
Purchase Of Investment Securities Available For Sale	(29,542,601)	(18,941,966)
Purchase Of Mortgage-Backed Securities Available For Sale	(47,317,221)	(26,982,890)
Maturities Of Investment Securities Available For Sale	22,371,400	4,738,645
Maturities of Investment Securities Held To Maturity	19,000,000	9,000,000
Purchase Of Federal Home Loan Bank Stock	(8,272,900)	(5,482,400)
Redemption Of Federal Home Loan Bank Stock	7,197,900	4,698,800
Increase In Loans To Customers	(63,895,411)	(43,368,622)
Proceeds From Sale Of Repossessed Assets	295,279	139,700
Purchase And Improvement Of Premises And Equipment	(5,395,783)	(3,679,725)
Proceeds From Sale of Premises And Equipment	500	-
Purchase Of Bank Owned Life Insurance	(2,441,447)	(721,582)
Net Cash Used By Investing Activities	(80,741,842)	(53,180,957)
Cash Flows From Financing Activities:		
Increase In Deposit Accounts	50,177,687	28,332,720
Proceeds From Federal Home Loan Bank Advances	296,700,000	222,223,450
Repayment Of Federal Home Loan Bank Advances	(272,011,420)	(205,233,409)
Net (Repayments) Proceeds Of Other Borrowings	4,607,358	(427,653)
Proceeds From Junior Subordinated Debentures	-	5,155,000
Dividends To Shareholders	(545,635)	(466,691)
Purchase Of Treasury Stock	(1,986,691)	(198,399)
Proceeds From Employee Stock Purchases	74,181	-
Proceeds From Exercise of Stock Options	105,021	393,245
Net Cash Provided By Financing Activities	77,120,501	49,778,263

(Continued)

Security Federal Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended December 31,	
	2007	2006
Net Decrease In Cash And Cash Equivalents	(638,442)	(3,657,017)
Cash And Cash Equivalents At Beginning Of Period	13,438,129	14,351,208
Cash And Cash Equivalents At End Of Period	$ 12,799,687	$ 10,694,191
Supplemental Disclosure Of Cash Flows Information:		
Cash Paid During The Period For Interest	$ 22,011,826	$ 16,896,006
Cash Paid During The Period For Income Taxes	$ 1,304,290	$ 1,117,000
Additions To Repossessed Acquired Through Foreclosure	$ 720,873	$ -
Decrease In Unrealized Net Loss On Securities Available For Sale, Net Of Taxes	$ 1,585,599	$ 991,431
Issuance Of A Mandatorily Redeemable Financial Instrument Through The Issuance Of Common Stock	-	1,417,312

See accompanying notes to consolidated financial statements.

Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and accounting principles generally accepted in the United States of America; therefore, they do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows. Such statements are unaudited but, in the opinion of management, reflect all adjustments, which are of a normal recurring nature and necessary for a fair presentation of results for the selected interim periods. Users of financial information produced for interim periods are encouraged to refer to the footnotes contained in the audited financial statements appearing in Security Federal Corporation's (the "Company") 2007 Annual Report to Shareholders when reviewing interim financial statements. The results of operations for the nine month period ended December 31, 2007 are not necessarily indicative of the results that may be expected for the entire fiscal year. This Quarterly Report on Form 10-Q contains certain forward-looking statements with respect to the financial condition, results of operations, and business of the Company. These forward-looking statements involve certain risks and uncertainties. Factors that may cause actual results to differ materially from those anticipated by such forward-looking statements include, but are not limited to, changes in interest rates, the demand for loans, the regulatory environment, general economic conditions and inflation, and the securities markets. Management cautions readers of this Form 10-Q not to place undue reliance on the forward-looking statements contained herein.

2. Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Security Federal Bank (the "Bank"), and the Bank's wholly owned subsidiaries, Security Federal Insurance, Inc. ("SFINS"), Security Federal Investments, Inc. ("SFINV"), Security Federal Trust, Inc. ("SFT"), and Security Financial Services Corporation ("SFSC"). The Bank is primarily engaged in the business of accepting savings and demand deposits and originating mortgage and other loans to individuals and small businesses for various personal and commercial purposes. SFINS, SFINV, and SFT were formed during the year ended March 31, 2002 and began operation during the December 2001 quarter. SFINS is an insurance agency offering business, health, home and life insurance. SFINV engages primarily in investment brokerage services. SFT offers trust, financial planning and financial management services. SFSC is currently inactive.

3. Critical Accounting Policies

The Company has adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. The Company's significant accounting policies are described in the footnotes to the audited consolidated financial statements at March 31, 2007 included in its 2007 Annual Report to Stockholders, which was filed as an exhibit to the Annual Report on Form 10-K for the year ended March 31, 2007. Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities. The Company considers these accounting policies to be critical accounting policies. The judgments and assumptions the Company uses are based on historical experience and other factors, which the Company believes to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of operations.

The Company believes the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of the consolidated financial statements. The Company provides for loan losses using the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to the allowance for loan losses. Additions to the allowance for loan losses are provided by charges to operations based on various factors, which, in management's judgment, deserve current recognition in estimating possible losses. Such factors considered by management include the fair value of the underlying collateral; stated guarantees by the borrow, if applicable, the borrower's ability to repay from other economic resources, growth and composition of the loan portfolios, the relationship of the allowance for loan losses to the outstanding loans, loss experience, delinquency trends, and general economic conditions. Management evaluates the carrying value of the loans periodically and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in making these evaluations. Allowance for loan losses are subject to periodic evaluations by various authorities and may be subject to adjustments based upon the information that is available at the time of their examination.

Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), Continued

3. Critical Accounting Policies, Continued

The Company values impaired loans at the loan's fair value if it is probable that the Company will be unable to collect all amounts due according to the terms of the loan agreement at the present value of expected cash flows, the market price of the loan, if available, or the value of the underlying collateral. Expected cash flows are required to be discounted at the loan's effective interest rate. When the ultimate collectibility of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest and then to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off.

4. Acquisition

On June 30, 2006, the Company completed the acquisition of the insurance and premium finance businesses of Collier-Jennings Financial Corporation and its subsidiaries Collier-Jennings, Inc., The Auto Insurance Store, Inc., and Collier-Jennings Premium Pay Plans, Inc (the "Collier-Jennings Companies"). The purpose of the acquisition was to expand the insurance services and increase non-interest income. The shareholder of the Collier-Jennings Companies received $180,000 in cash and 54,512 shares of the Company's common stock valued at $26 per share for an approximate purchase price of $1.6 million. The Company will release the shares to the shareholder of the Collier-Jennings Companies over a three-year period. The stock is mandatorily redeemable by the shareholder of Collier-Jennings Companies at his option in cumulative increments of 20% per year for a five-year period at the greater of $26 per share or one and one-half times the book value of the Company's stock.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at June 30, 2006, the date of acquisition, including subsequent adjustments to the allocation of the purchase price.

Cash And Cash Equivalents	$ 43,192
Accounts Receivable	784,247
Premises And Equipment	41,696
Other Assets	56,289
Intangible Assets	600,000
Goodwill	1,197,954
Total Assets Acquired	2,723,378
Notes Payable	386,185
Other Liabilities	739,881
Total Liabilities Assumed	1,126,066
Net Assets Acquired	$ 1,597,312

5. Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 specifies the computation, presentation and disclosure requirements for EPS for entities with publicly held common stock or potential common stock such as options, warrants, convertible securities or contingent stock agreements if those securities trade in a public market.

This standard specifies computation and presentation requirements for both basic EPS and, for entities with complex capital structures, diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding. Diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of options outstanding under the Company's stock option plan is reflected in diluted earnings per share by application of the treasury stock method.

5. Earnings Per Share, Continued

The following table provides a reconciliation of the numerators and denominators of the basic and diluted EPS computations:

	For the Quarter Ended December 31, 2007		
	Income (Numerator) Amount	Shares (Denominator)	Per Share
Basic EPS	$ 1,040,611	2,585,234	$ 0.40
Effect of Diluted Securities:			
Stock Options	-	3,084	-
Diluted EPS	$ 1,040,611	2,588,318	$ 0.40

	For the Quarter Ended December 31, 2006		
	Income (Numerator) Amount	Shares (Denominator)	Per Share
Basic EPS	$ 976,785	2,617,037	$ 0.37
Effect of Diluted Securities:			
Stock Options	-	8,908	-

Diluted EPS	$ 976,785	2,625,945	$ 0.37

	For the Nine Months Ended December 31, 2007		
	Income (Numerator) Amount	Shares (Denominator)	Per Share
Basic EPS	$ 3,264,217	2,599,352	$ 1.26
Effect of Diluted Securities:			
Stock Options	-	6,334	(.01)
Diluted EPS	$ 3,264,217	2,605,686	$ 1.25

	For the Nine Months Ended December 31, 2006		
	Income (Numerator) Amount	Shares (Denominator)	Per Share
Basic EPS	$ 3,026,156	2,588,864	$ 1.17
Effect of Diluted Securities:			
Stock Options	-	12,102	(.01)
Diluted EPS	$ 3,026,156	2,600,966	$ 1.16

Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), Continued

6. Stock-Based Compensation

Certain officers and directors of the Company participate in an incentive and non- qualified stock option plan. Options are granted at exercise prices not less than the fair value of the Company's common stock on the date of the grant. The following is a summary of the activity under the Company's stock option plan for the three and nine months ended December 31, 2007:

	Three Months Ended December 31, 2007		Six Months Ended December 31, 2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, Beginning of Period/Year	91,100	$21.09	99,600	$20.55

Options granted	2,000	24.28	5,000	24.37
Options exercised	-	-	6,300	16.67
Options forfeited	-	-	5,200	17.40
Balance, December 31, 2007	93,100	$21.17	93,100	$21.17
Options Exercisable	74,100	$20.60		
Range of Exercise Prices For Exercisable Options	$16.67-$24.22			
Options Available For Grant	145,216			

The weighted average remaining contractual life of all outstanding options at December 31, 2007 was 6.06 years and the aggregate intrinsic value of these options was $214,000. All non-vested awards are expected to be recognized over a weighted average period of 6.63 years.

The following table summarizes the stock-based awards granted by the Company, the fair market value of each award granted as estimated on the date of grant using the Black-Scholes option-pricing model, and the weighted average assumptions used for such grants for the periods indicated:

	For Awards Granted During The Three Month Period Ended December 31,		For Awards Granted During The Nine Month Period Ended December 31,	
	2007	2006	2007	2006
Awards granted	2,000	-	5,000	13,500
Dividend Yield	1.60%	-	1.52%-1.60%	1.03%
Weighted Average Expected Volatility	20.92%	-	22.71%	30.21%
Risk-free interest rate	4.50%	-	4.76%	4.36%
Expected life	9.00	-	9.00	9.01

Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), Continued

6. Stock-Based Compensation, Continued

At December 31, 2007, the Company had the following options outstanding:

Grant Date	Outstanding Options	Option Price	Expiration Date
10/19/99	20,100	$16.67	9/30/05 to 9/30/09
9/1/03	3,000	$24.00	8/31/13
12/1/03	3,000	$23.65	11/30/13
1/01/04	6,500	$24.22	12/31/13
3/8/04	13,000	$21.43	2/28/14

6/7/04	2,000	$24.00	5/31/14
1/1/05	20,500	$20.55	12/31/14
1/1/06	6,000	$23.91	12/31/16
8/24/06	14,000	$23.03	8/24/16
5/24/07	2,000	$24.34	5/24/17
7/9/07	1,000	$24.61	7/9/17
10/1/07	2,000	$24.28	10/1/17

7. Accounting and Reporting Changes

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and / or disclosure of financial information by the Company.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard eliminates inconsistencies found in various prior pronouncements but does not require any new fair value measurements. SFAS 157 is effective for the Company on April 1, 2008 and will not impact the Company's accounting measurements but it is expected to result in additional disclosures.

In September 2006, the FASB ratified the consensuses reached by the FASB's Emerging Issues Task Force ("EITF") relating to EITF 06-4, "Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4"). Entities purchase life insurance for various reasons including protection against loss of key employees and to fund postretirement benefits. The two most common types of life insurance arrangements are endorsement split dollar life and collateral assignment split dollar life. EITF 06-4 covers the former and EITF 06-10 (discussed below) covers the latter. EITF 06-4 states that entities with endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods should recognize a liability for future benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board ("APB") Opinion No. 12, "Omnibus Opinion 1967" (if the arrangement is, in substance, an individual deferred compensation contract). Entities should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. EITF 06-4 is effective for the Company on April 1, 2008. The Company does not believe the adoption of EITF 06-4 will have a material impact on its financial position, results of operations or cash flows.

Notes to Consolidated Financial Statements (Unaudited), Continued

7. Accounting and Reporting Changes, Continued

In September 2006, the FASB ratified the consensus reached on EITF 06-5, "Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). EITF 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF 06-5 also states that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). EITF 06-5 is effective for the Company on April 1, 2008. The Company does not believe the adoption of EITF 06-5 will have a material impact on its financial position, results of operations or cash flows.

In March 2007, the FASB ratified the consensus reached on EITF 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements" ("EITF 06-10"). The postretirement aspect of this EITF is substantially similar to EITF 06-4 discussed above and requires that an employer recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. In addition, a consensus was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. EITF 06-10 is effective for the Company on April 1, 2008. The Company does not believe the adoption of EITF 06-10 will have a material impact on its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159"). This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement 1) applies to all entities, 2) specifies certain election dates, 3) can be applied on an instrument-by-instrument basis with some exceptions, 4) is irrevocable and 5) applies only to entire instruments. One exception is demand deposit liabilities which are explicitly excluded as qualifying for fair value. With respect to SFAS 115, available-for-sale and held-to-maturity securities at the effective date are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date shall be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. SFAS 159 is effective for the Company on April 1, 2008. The Company is currently analyzing the fair value option that is permitted, but not required, under SFAS 159.

In June 2007, the FASB ratified the consensus reached by the EITF with respect to EITF 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). Under EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units and outstanding equity share options should be recognized as an increase in additional paid-in capital. This EITF is to be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared beginning in 2008, and interim periods within those fiscal years. Early application is permitted. The Company does not believe the adoption of EITF 06-11 will have a material impact on its financial position, results of operations or cash flows.

In November 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" ("SAB 109"). SAB 109 expresses the current view of the SEC staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply this guidance on a prospective basis to derivative loan commitments issued or modified in the first quarter of 2008 and thereafter. The Company is currently analyzing the impact of this guidance, which relates to the Company's mortgage loans held for sale.

7. Accounting and Reporting Changes, Continued

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS 141(R)") which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, the Company is required to record and disclose business combinations following existing accounting guidance until April 1, 2009. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest). As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financials statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. SFAS 160 is effective for the Company on April 1, 2009. Earlier adoption is prohibited. The Company is currently evaluating the impact, if any, the adoption of SFAS 160 will have on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

8. Securities

Investment And Mortgage-Backed Securities, Available For Sale

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment and mortgage-backed securities available for sale are as follows:

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FHLB Securities	$ 42,017,906	$ 526,775	$ 7,375	$ 42,537,306
Federal Farm Credit Securities	12,977,252	167,445	10,898	13,133,799
FNMA Bonds	1,997,248	4,322	-	2,001,570
Mortgage-Backed Securities	156,941,504	1,183,161	508,009	157,616,656
Equity Securities	102,938	-	3,938	99,000
Total	$214,036,848	$1,881,703	$ 530,220	$215,388,331

March 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FHLB Securities	$ 38,487,381	$ 17,627	$ 131,886	$ 38,373,122
Federal Farm Credit Securities	9,217,205	8,580	11,504	9,214,281
FNMA Bonds	1,997,187	-	9,367	1,987,820
FHLMC Bonds	64,071	-	94	63,977
Mortgage-Backed Securities	137,102,085	276,292	1,354,781	136,023,596
Equity Securities	102,938	562	-	103,500
Total	$186,970,867	$ 303,061	$1,507,632	$185,766,296

8. Securities, Continued

FHLB securities, Federal Farm Credit securities, FNMA bonds, FHLMC bonds and FNMA and FHLMC mortgage- backed securities are issued by government-sponsored enterprises ("GSEs"). GSEs are not backed by the full faith and credit of the United States government. Included in the tables above in mortgage-backed securities are GNMA mortgage-backed securities, which are backed by the full faith and credit of the United States government. At December 31, 2007, the Bank held an amortized cost and fair value of $63.9 million and $64.5 million, respectively in GNMA mortgage-backed securities included in mortgage-backed securities listed above.

Investment and Mortgage-Backed Securities, Held to Maturity

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment and mortgage-backed securities held to maturity are as follows:

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FHLB Securities	$37,998,576	$ 153,478	$ 12,964	$ 38,139,090
Federal Farm Credit Securities	6,991,253	8,437	9,060	6,990,630
Equity Securities	155,000	-	-	155,000
Total	$45,144,829	$ 161,915	$ 22,024	$ 45,284,720

March 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FHLB Securities	55,994,852	$ 21,560	$ 573,841	$ 55,442,571
Federal Farm Credit Securities	7,988,737	-	144,667	7,844,070
Equity Securities	155,000	-	-	155,000
Total	$64,138,589	$ 21,560	$ 718,508	$ 63,441,641

FHLB securities and Federal Farm Credit securities are issued by GSEs. These enterprises are not backed by the full faith and credit of the United States government.

9. Loans Receivable, Net

Loans receivable, net, at December 31, 2007 and March 31, 2007 consisted of the following:

	December 31, 2007	March 31, 2007
Residential Real Estate	$ 129,617,563	$ 125,512,411
Consumer	66,958,427	63,809,478
Commercial Business & Real Estate	314,522,220	259,207,877
Loans Held For Sale	2,770,678	1,529,748
	513,868,888	450,059,514
Less:		
Allowance For Possible Loan Loss	7,648,376	7,296,791

Loans In Process	5,814,744	6,443,372
Deferred Loan Fees	314,339	280,991
	13,777,459	14,021,154
	$ 500,091,429	$ 436,038,360

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Security Federal Corporation and Subsidiaries
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor Statement

Certain matters in this Quarterly Report on Form 10-Q for the quarter ended December 31, 2007 constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among others, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding the Company's mission and vision. These forward-looking statements are based upon current management expectations, and may, therefore, involve risks and uncertainties. The Company's actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide range of factors including, but not limited to, the general business environment, interest rates, the South Carolina real estate market, the demand for loans, competitive conditions between banks and non-bank financial services providers, regulatory changes, and other risks detailed in the Company's reports filed with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended March 31, 2007. Forward-looking statements are effective only as of the date that they are made and the Company assumes no obligation to update this information

Comparison of Financial Condition At December 31, 2007 and March 31, 2007

General - Total assets increased $82.1 million or 11.1% to $820.2 million at December 31, 2007 from $738.1 million at March 31, 2007. The primary reason for the growth in total assets was a $64.1 million or 14.7% increase in net loans receivable to $500.1 million. For the nine months ended December 31, 2007, the demand for loans was funded primarily with increased deposits of $50.2 million or 9.6%, increased advances from the Federal Home Loan Bank of Atlanta ("FHLB") of $24.7 million or 16.1% and increased other borrowed money of $4.6 million or 57.0%.

Assets - The increases and decreases in total assets were primarily concentrated in the following asset categories:

			Increase (Decrease)	
	December 31, 2007	March 31, 2007	Amount	Percent
Cash And Cash Equivalents	$ 12,799,687	$ 13,438,129	$ (638,442)	(4.8)%
Investment And Mortgage-Backed Securities				

Available For Sale	215,388,331	185,766,296	29,622,035	15.9
Investment And Mortgage-Backed Securities - Held To Maturity	45,144,829	64,138,589	(18,993,760)	(29.6)
Loan Receivable, Net	500,091,429	436,038,360	64,053,069	14.7
Premises And Equipment, Net	20,501,003	15,895,192	4,605,811	29.0
FHLB Stock, At Cost	9,284,200	8,209,200	1,075,000	13.1
Bank Owned Life Insurance	8,225,067	5,783,620	2,441,447	42.2
Repossessed Assets Acquired in Settlement of Loans	477,796	24,909	452,887	1,818.2%

Cash and cash equivalents decreased $638,000 to $12.8 million at December 31, 2007 from $13.4 million at March 31, 2007. The reason for the decrease is the Company used cash and cash equivalents to fund loans and purchase investment and mortgage- backed securities.

Investment and mortgage-backed securities available for sale increased $29.6 million or 15.9% to $215.4 million at December 31, 2007 from $185.8 million at March 31, 2007. The increase in investments and mortgage-backed securities available for sale can be attributed to additional purchases of securities and increases in market value offset slightly by principal paydowns and investment calls. Investment and mortgage-backed securities held to maturity decreased $19.0 million to $45.1 million at December 31, 2007 from $64.1 million at March 31, 2007. This decrease was the result of maturities and calls that occurred during the period.

Loans receivable, net increased $64.1 million or 14.7% to $500.1 million at December 31, 2007 from $436.0 million at March 31, 2007. Residential real estate loans increased $4.1 million to $129.6 million at December 31, 2007 from $125.5 million at March 31, 2007. Consumer loans increased $3.1 million to $67.0 million at December 31, 2007 from $63.8 million at March 31, 2007. The increase in residential real estate and consumer loans can be attributed to normal growth of the Company. Commercial business and real estate loans increased $55.3 million to $314.5 million at December 31, 2007 from $259.2 million at March 31, 2007. The increase in commercial loans was attributable to the Company's continued focus on originating this type of loan. Loans held for sale increased $1.2 million to $2.8 million at December 31, 2007 from $1.5 million at March 31, 2007. The increase is attributable to the lag between the time a mortgage loan is originated and sold to an investor and an overall increase in the number of mortgage loans originated to be sold.

Premises and equipment, net increased $4.6 million to $20.5 million at December 31, 2007 from $15.9 million at March 31, 2007. The majority of the increase is attributable to the construction and establishment of new branch locations in Evans, Georgia and in Columbia, South Carolina.

FHLB stock, at cost, increased $1.1 million to $9.3 million at December 31, 2007 from $8.2 million at March 31, 2007. The increase is attributable to a FHLB requirement that the Company maintain stock equal to 0.20% of total assets at December 31, 2007 plus a transaction component, which equals 4.5% of outstanding advances (borrowings) from the FHLB of Atlanta.

Bank owned life insurance increased $2.4 million to $8.2 million at December 31, 2007 from $5.8 million at March 31, 2007. The Company purchased additional life insurance to provide key man life insurance for additional officers and the cash surrender value continued to increase.

Repossessed assets acquired in the settlement of loans increased $453,000 to $478,000 at December 31, 2007 from $25,000 at March 31, 2007 as the result of three properties that were foreclosed on during the nine month period. All three properties were residential lots and secured two loans to the same contractor. At March 31, 2007 the balance in repossessed assets consisted of only one property.

Other assets decreased $894,000 to $3.0 million at December 31, 2007 from $3.9 million at March 31, 2007. The majority of the decrease resulted from a decrease in the deferred tax asset related to increases in the market values of available for sale investment and mortgage-backed securities.

Liabilities

Deposit Accounts

	December 31, 2007		March 31, 2007		Balance Increase (Decrease)	
	Balance	Weighted Rate	Balance	Weighted Rate	Amount	Percent
Demand Accounts:						
Checking	$ 99,175,456	0.65%	$105,515,095	0.63%	$(6,339,639)	(6.0)%
Money Market	143,713,354	3.88	145,491,774	4.14	(1,778,420)	(1.2)
Regular Savings	15,138,221	0.97	17,458,680	0.98	(2,320,459)	(13.3)
Total	258,027,031	2.47	268,465,549	2.55	(10,438,518)	(3.9)
Certificate Accounts						
2.00 - 2.99%	3,511,939		2,971,616		540,323	1.82
3.00 - 3.99%	30,089,389		36,044,826		(5,955,437)	(16.5)
4.00 - 4.99%	43,054,567		35,617,605		7,436,962	20.9
5.00 - 5.99%	239,232,353		180,637,996		58,594,357	32.4
Total	315,888,248	5.04	255,272,043	4.99	60,616,205	23.7
Total Deposits	$573,915,279	3.88%	$523,737,592	3.74%	$50,177,687	9.6%

Security Federal Corporation and Subsidiaries
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Advances From FHLB - FHLB advances are summarized by year of maturity and weighted average interest rate in the table below:

	December 31, 2007		March 31, 2007		Balance Increase	
Fiscal Year Due:	Balance	Rate	Balance	Rate	Balance	Percent
2008	$16,800,000	4.14%	$10,000,000	4.25%	$ 6,800,000	68.0%
2009	25,000,000	4.58	25,000,000	4.75	-	-
2010	10,000,000	4.88	5,000,000	3.09	5,000,000	100.0
2011	15,000,000	4.87	10,000,000	4.76	5,000,000	50.0
2012	24,700,000	4.56	19,700,000	4.47	5,000,000	25.3
Thereafter	86,237,852	4.31	83,349,272	4.20	2,888,580	3.4
Total Advances	$177,737,852	4.44%	$153,049,272	4.36%	$24,688,580	16.1%

These advances are secured by a blanket collateral agreement with the FHLB by pledging the Bank's portfolio of residential first mortgage loans and investment securities with approximate amortized cost and fair value of $104.0 million and $105.3 million, respectively, at December 31, 2007. Advances are subject to prepayment penalties.

The following table shows callable FHLB advances as of the dates indicated. These advances are also included in the above table. All callable advances are callable at the option of the FHLB. If an advance is called, the Bank has the option to payoff the advance without penalty, re-borrow funds on different terms, or convert the advance to a three-month floating rate advance tied to LIBOR.

As of December 31, 2007

Borrow Date	Maturity Date	Amount	Int. Rate	Type	Call Dates
02/20/04	02/20/14	$5,000,000	3.225%	1 Time Call	02/20/09
04/16/04	04/16/14	3,000,000	3.330	1 Time Call	04/16/08
06/24/05	06/24/15	5,000,000	3.710	1 Time Call	06/24/10
07/22/05	07/22/15	5,000,000	3.790	1 Time Call	07/22/08
11/10/05	11/10/15	5,000,000	4.400	1 Time Call	11/10/09
11/23/05	11/23/15	5,000,000	3.933	Multi-Call	11/23/07 and quarterly thereafter
11/29/05	11/29/13	5,000,000	4.320	1 Time Call	05/29/09
12/14/05	12/14/11	5,000,000	4.640	1 Time Call	09/14/09
01/12/06	01/12/16	5,000,000	4.450	1 Time Call	01/12/11
03/01/06	03/03/14	5,000,000	4.720	1 Time Call	03/03/10

03/24/06	03/25/13	5,000,000	4.580	1 Time Call	03/25/08
06/02/06	06/02/16	5,000,000	5.160	1 Time Call	06/02/11
07/11/06	07/11/08	5,000,000	4.800	Multi-Call	07/11/08 and quarterly thereafter
10/25/06	10/25/11	5,000,000	4.830	1 Time Call	10/27/08
11/29/06	11/29/16	5,000,000	4.025	Multi-Call	11/29/07 and quarterly thereafter
01/19/07	07/21/14	5,000,000	4.885	1 Time Call	07/21/11
03/09/07	03/09/12	4,700,000	4.286	Multi- Call	06/11/07 and quarterly thereafter
05/24/07	05/24/17	7,900,000	4.375	Multi- Call	05/27/08 and quarterly thereafter
06/29/07	06/29/12	5,000,000	4.945	1 Time Call	06/29/09
07/25/07	07/25/17	5,000,000	4.396	Multi- Call	07/25/08 and quarterly thereafter
11/16/07	11/16/11	5,000,000	3.750%	Multi- Call	11/17/08 and quarterly thereafter

As of March 31, 2007

Borrow Date	Maturity Date	Amount	Int. Rate	Type	Call Dates
11/07/02	11/07/12	$5,000,000	3.354%	1 Time Call	11/07/07
02/20/04	02/20/14	5,000,000	3.225	1 Time Call	02/20/09
04/16/04	04/16/14	3,000,000	3.330	1 Time Call	04/16/08
09/16/04	09/16/09	5,000,000	3.090	1 Time Call	09/17/07
06/24/05	06/24/15	5,000,000	3.710	1 Time Call	06/24/10
07/22/05	07/22/15	5,000,000	3.790	1 Time Call	07/22/08
11/10/05	11/10/15	5,000,000	4.400	1 Time Call	11/10/09
11/23/05	11/23/15	5,000,000	3.933	Multi-Call	11/23/07 and quarterly thereafter
11/29/05	11/29/13	5,000,000	4.320	1 Time Call	05/29/09
12/14/05	12/14/11	5,000,000	4.640	1 Time Call	09/14/09
01/12/06	01/12/16	5,000,000	4.450	1 Time Call	01/12/11
03/01/06	03/03/14	5,000,000	4.720	1 Time Call	03/03/10
03/24/06	03/24/16	5,000,000	4.120	Multi-Call	06/26/07 and quarterly thereafter
03/24/06	03/25/13	5,000,000	4.580	1 Time Call	03/25/08
04/21/06	04/22/13	5,000,000	4.530	Multi-Call	06/26/07 and quarterly

					thereafter
06/02/06	06/02/16	5,000,000	5.160	1 Time Call	06/02/11
07/11/06	07/11/16	5,000,000	4.800	Multi-Call	07/11/08 and quarterly thereafter
10/25/06	10/25/11	5,000,000	4.830	1 Time Call	10/27/08
11/29/06	11/29/16	5,000,000	4.025	Multi-Call	11/29/07 and quarterly thereafter
01/19/07	07/21/14	5,000,000	4.885	1 Time Call	07/21/11
03/09/07	03/09/12	4,700,000	4.286%	Multi-Call	06/11/07 and quarterly thereafter

Other Borrowed Money - Other borrowed money consists of short- term retail repurchase agreements and a revolving line of credit with another financial institution. The retail repurchase agreements typically mature within one to three days and have interest rates that float with market rates. The unsecured line of credit has an interest rate equal to LIBOR plus 2.5% and matures on December 1, 2008.

Other borrowed money increased $4.6 million or 57.0% to $12.7 million at December 31, 2007 from $8.1 million at March 31, 2007. The weighted average interest rate of retail repurchase agreements was 4.12% at December 31, 2007. As of December 31, 2007, the line of credit had a balance of $3.0 million compared to no balance at March 31, 2007. The weighted average interest rate was 6.77% at December 31, 2007. The Company borrowed these funds to provide additional capital to fund loans.

Mandatorily Redeemable Financial Instrument - On June 30, 2006, the Company recorded a $1.4 million mandatorily redeemable financial instrument as a result of the acquisition of the Collier-Jennings Companies. See Note 4, "Acquisition". The shareholder of Collier-Jennings Companies received cash and was issued stock in the Company to settle the acquisition. The Company will release the shares to the shareholder of Collier-Jennings Companies over a three-year period. The stock is mandatorily redeemable at the option of the shareholder of Collier-Jennings Companies in cumulative increments of 20% per year for a five-year period at the greater of $26 per share or one and one-half times the book value of the Company's stock. As of December 31, 2007 the shareholder had not elected to redeem any of the shares.

Junior Subordinated Debentures - On September 21, 2006, Security Federal Statutory Trust (the "Trust"), a wholly-owned subsidiary of the Company, issued and sold fixed and floating rate capital securities of the Trust (the "Capital Securities"), which are reported on the consolidated balance sheet as junior subordinated debentures, generating proceeds of $5.0 million. The Trust loaned these proceeds to the Company to use for general corporate purposes, primarily to provide capital to the Bank.

The Capital Securities accrue and pay distributions annually at a rate per annum equal to a blended rate of 6.79% at December 31, 2007. One-half of the Capital Securities issued in the transaction have a fixed rate of 6.88% and the remaining half has a floating rate of three-month LIBOR plus 170 basis points, which was 6.69% at December 31, 2007. The distribution rate payable on the Capital Securities is cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest on the Capital Securities for a period not to exceed 20 consecutive quarterly periods, provided that no extension period may extend beyond the maturity date of December 15, 2036. The Company has no current intention to exercise its right to defer payments of interest on the Capital Securities.

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The Capital Securities mature or are mandatorily redeemable upon maturity on December 15, 2036, and or upon earlier optional redemption as provided in the indenture. The Company has the right to redeem the Capital Securities in whole or in part, on or after September 15, 2011. The Company may also redeem the capital securities prior to such dates upon occurrence of specified conditions and the payment of a redemption premium

Equity - Shareholders' equity increased $2.5 million or 5.9% to $45.2 million at December 31, 2007 from $42.7 million at March 31, 2007. Accumulated other comprehensive income, net of tax, increased $1.6 million to $838,000 at December 31, 2007 from a loss of $747,000 at March 31, 2007. The Company's net income for the nine-month period was $3.3 million. The Board of Directors of the Company declared the 66th, 67th, and 68th consecutive quarterly dividend, which was $.07 per share, in May, August, and November 2007, which totaled $546,000. Book value per share was $17.82 at December 31, 2007 compared to $16.36 at March 31, 2007.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2007 AND 2006

Net Income - Net income increased $64,000 or 6.5% to $1.0 million for the three months ended December 31, 2007 compared to $977,000 for the three months ended December 31, 2006. The primary reason for the increased earnings was an increase in net interest income and non-interest income offset partially by an increase in non-interest expenses.

Net Interest Income - Net interest income increased $544,000 or 12.3% to $5.0 million during the three months ended December 31, 2007, compared to $4.4 million for the same period in 2006, as a result of an increase in interest income offset in part by an increase in interest expense. During the three months ended December 31, 2007, average interest earning assets increased $91.5 million to $762.8 million while average interest-bearing liabilities increased $96.3 million to $717.8 million. The interest rate spread increased three basis points to 2.36% during the three months ended December 31, 2007 compared to the same period in 2006.

The Company's net interest margin was 2.61% and 2.64% for the quarters ended December 31, 2007 and 2006, respectively.

Interest Income - Total interest income increased $1.9 million or 17.8% to $12.7 million during the three months ended December 31, 2007 from $10.8 million for the same period in 2006. Total interest income on loans increased $1.4 million or 17.5% to $9.4 million during the three months ended December 31, 2007 compared to $8.0 million for the same period in 2006. The increase is a result of the average loan portfolio balance increasing $75.2 million slightly offset by the yield in the loan portfolio decreasing three basis points. Interest income from mortgage-backed securities increased $481,000 or 33.0% to $1.9 million as a result of an increase in yield and an increase in the average balance of the portfolio. Interest income from investment securities increased $51,000 or 3.9% to $1.4 million as a result of an increase in the average balance of the investments portfolio slightly offset by a decrease in yield.

The following table compares detailed average balances, associated yields, and the resulting changes in interest income for the three months ended December 31, 2007 and 2006:

	Three Months Ended December 31,				
	2007		2006		
	Average Balance	Yield	Average Balance	Yield	Increase (Decrease) In Interest And Dividend Income From 2006
Loans Receivable, Net	$495,376,936	7.60%	$420,191,159	7.63%	$ 1,404,260
Mortgage-Backed Securities	140,981,296	5.50	132,975,594	4.38	480,700
Investments	124,623,250	4.38	116,074,130	4.54	50,792
Overnight Time	1,845,087	3.75	2,080,466	5.15	(12,274)
Total Interest-Earning Assets	$762,826,569	6.68%	$671,321,349	6.44%	$ 1,923,478

Interest Expense - Total interest expense increased $1.4 million or 21.6% to $7.8 million during the three months ended December 31, 2007 compared to $6.4 million for the same period one-year earlier. The increase in total interest expense can be primarily attributed to increases in interest rates paid for certificate accounts and FHLB advances during the period coupled with increases in the amount of total interest-bearing deposits and other borrowings. The Company offered higher interest rates on certificates accounts during the period to remain competitive with new and existing financial institutions entering the market place.

Interest expense on deposits increased $997,000 or 21.8% during the period as average interest bearing deposits grew $67.3 million compared to the average balance in the three months ended December 31, 2006. In addition, the cost of deposits increased 25 basis points compared to the same period in the prior year. Interest expense on advances and other borrowings increased $381,000 or 22.2% as a result of the cost of borrowings increasing 14 basis points and average total borrowings outstanding increasing approximately $29.0 million to $184.8 million during the 2007 period compared to $155.8 million during 2006. Interest expense on junior subordinated debentures was $93,000 for the three months ended December 31, 2007 compared to $92,000 for the same period one year ago. The junior subordinated debentures are the result of the Company's $5.0 million trust preferred securities offering in 2006.

The following table compares detailed average balances, cost of funds, and the resulting changes in interest expense for the three months ended December 31, 2007 and 2006:

	Three Months Ended December 31,				
	2007		2006		
	Average Balance	Yield	Average Balance	Yield	Increase (Decrease) In Interest Expense From 2006
Now And Money Market Accounts	$203,523,577	3.15%	$207,023,453	3.26%	$ (81,393)
Passbook Accounts	15,671,523	0.98	16,683,742	0.99	(2,603)
Certificate Accounts	308,615,496	5.09	236,810,841	4.81	1,081,114
FHLB Advances And Other Borrowed Money	184,848,789	4.54	155,837,665	4.40	380,615
Junior Subordinated Debentures	5,155,000	7.24	5,155,000	7.14	1,284
Total Interest-Bearing Liabilities	$717,814,385	4.32%	$621,510,701	4.11%	$1,379,017

Provision for Loan Losses - The amount of the provision is determined by management's on-going monthly analysis of the loan portfolio. Management uses three methods to measure the estimate of the adequacy of the allowance for loan losses. These methods incorporate percentage of classified loans, five-year averages of historical loan losses in each loan category and current economic trends, and the assignment of percentage targets of reserves in each loan category. Management has used all three methods for the past seven fiscal years.

The Company's provision for loan losses was $150,000 during the three months ended December 31, 2007 and 2006, respectively. The following table details selected activity associated with the allowance for loan losses for the three months ended December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
Beginning Balance	$ 7,564,211	$ 6,994,623
Provision	150,000	150,000
Charge-offs	(144,482)	(35,912)

Recoveries	78,647	24,604
Ending Balance	$ 7,648,376	$ 7,133,315
Allowance For Loan Losses As A Percentage Of Gross Loans Receivable And Loans Held For Sale At The End Of The Period	1.51%	1.66%
Allowance For Loan Losses As A Percentage Of Impaired Loans At The End Of The Period	557.82%	451.86%
Impaired Loans	1,371,125	1,578,672
Non-accrual Loans And 90 Days Or More Past Due Loans As A Percentage Of Gross Loans Receivable And Loans Held For Sale At The End Of The Period	0.73%	0.25%
Loans Receivable, Net	$ 500,091,429	$ 421,483,354

Non-accrual loans and loans 90 days or more past due increased $2.6 million to $3.7 million for the three months ended December 31, 2007 when compared to the same period in 2006. The increase is primarily attributable to a slowing down of the real estate market in the Company's market area. The Company does not have a sub-prime lending program therefore this increase is not a direct result of the sub-prime lending crisis.

Non-Interest Income - Non-interest income increased $40,000 or 4.0% to $1.0 million for the three months ended December 31, 2007 from $988,000 for the same period one year ago. The following table provides a detailed analysis of the changes in the components of non-interest income:

	Three Months Ended December 31,		Increase (Decrease)	
	2007	2006	Amounts	Percent
Gain On Sale Of Loans	$ 134,732	$ 88,137	$ 46,595	52.9%
Service Fees On Deposit Accounts	307,045	296,135	10,910	3.7
Income From Cash Value Of Life Insurance	92,246	62,037	30,209	48.7
Commissions On Insurance	145,148	198,772	(53,624)	(27.0)
Other Agency Income	19,670	20,248	(578)	(2.9)
Trust Income	102,000	110,211	(8,211)	(7.5)
Other	227,250	212,558	14,692	6.9
Total Non-Interest Income	$1,028,091	$988,098	$ 39,993	4.0%

Gain on sale of loans increased $47,000 or 52.9% to $135,000 for the three months ended December 31, 2007 compared to the same period one year ago. This increase is attributable to an increase in the origination and sale of fixed rate residential mortgage loans. Income from the cash value of life insurance was $92,000 for the three months ended December 31, 2007 compared to $62,000 during the same period one year ago. This increase is the result of the Company's purchase of bank owned life insurance for certain officers of the Company and the continued increase of the cash surrender value. Commissions on insurance decreased $54,000 to $145,000 during the quarter ended December 31, 2007 when compared to the same quarter one year ago.

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The decrease can be attributed primarily to changes in South Carolina insurance laws enacted during the year that negatively impacted revenue, in addition to a decrease in the commissions percentages earned from the insurance companies. The Company anticipated these changes and is in the process of integrating and expanding its product lines and network to attempt to increase the revenues from this activity. Trust income decreased $8,000 to $102,000 during the period compared to $110,000 for the same period one year ago as a result of a decrease in the market value of the underlying trust accounts offset slightly by an increase in the number of trust accounts. The Bank earns trust fees as a percentage of the market value of each trust account. The market value of these accounts decreased approximately $1.0 million during the quarter ended December 31, 2007 when compared to the same quarter in the prior year due to a general decline in economic conditions in the market place.

Other miscellaneous income including credit life insurance commissions, safe deposit rental income, annuity and stock brokerage commissions, and other miscellaneous fees, increased $15,000 to $227,000 during the three months ended December 31, 2007 compared to $213,000 during the same period one year ago.

Non-Interest Expense - Non-interest expense increased $511,000 or 13.4% to $4.3 million for the three months ended December 31, 2007 from $3.8 million for the same period one year ago. The following table provides a detailed analysis of the changes in the components of non-interest expense:

	Three Months Ended December 31,		Increase (Decrease)	
	2007	2006	Amounts	Percent
Salaries And Employee Benefits	$ 2,660,655	$2,361,104	$ 299,551	12.7%
Occupancy	425,489	359,530	65,959	18.3
Advertising	80,857	98,672	(17,815)	(18.1)
Depreciation And Maintenance Of Equipment	333,985	300,211	33,774	11.3
FDIC Insurance Premiums	15,402	4,624	10,778	233.1
Amortization of Intangibles	22,500	22,500	-	-
Other	789,044	670,071	118,973	17.8
Total Non-Interest Expenses	$ 4,327,932	$3,816,712	$ 511,220	13.4%

Salary and employee benefits increased $300,000 to $2.7 million for the three months ended December 31, 2007 from $2.4 million for the same period one year ago. The majority of the increase is the result of hiring additional staff in connection with the Company's growth. Occupancy increased $66,000 or 18.3% to $425,000 for the three months ended December 31, 2007 when compared to $359,000 for the same period a year ago as a result of an increased number of facilities. Advertising expense decreased $18,000 to $81,000 for the three months ended December 31, 2007 from $99,000 for the same period one year ago. Other non- interest expenses increased $119,000 or 17.8% to $789,000 when compared to $670,000 for the same period one year ago.

Provision For Income Taxes - Provision for income taxes increased $9,000 or

2.0% to $488,000 for the three months ended December 31, 2007 from $479,000 for the same period one year ago. Income before income taxes was $1.5 million for the three months ended December 31, 2007 and 2006, respectively. The Company's combined federal and state effective income tax rate for the current quarter was 31.9% compared to 32.9% for the same quarter one year ago.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006

Net Income - Net income increased $238,000 or 7.9% to $3.3 million for the nine months ended December 31, 2007 compared to $3.0 million for the nine months ended December 31, 2006. The primary reason for the increased earnings was an increase in net interest income and non-interest income offset partially by an increase in non-interest expenses.

Net Interest Income - Net interest income increased $1.7 million or 12.9% to $15.1 million during the nine months ended December 31, 2007, compared to $13.4 million for the same period in 2006, as a result of an increase in interest income offset in part by an increase in interest expense. Average interest earning assets increased $87.2 million to $737.4 million while average interest-bearing liabilities increased $90.0 million to $691.5 million. The interest rate spread remained constant at 2.46% during the nine months ended December 31, 2007 and 2006. The Company's net interest margin decreased one basis point to 2.73% for the nine months ended December 31, 2007 from 2.74% for the same period last year.

Interest Income - Total interest income increased $6.6 million or 21.4% to $37.3 million during the nine months ended December 31, 2007 from $30.7 million for the same period in 2006. Total interest income on loans increased $4.8 million or 21.2% to $27.6 million during the nine months ended December 31, 2007, compared to $22.8 million for the same period in 2006. The increase is a result of the average loan portfolio balance increasing $69.8 million and the yield in the loan portfolio increasing 25 basis points.

Interest income from mortgage-backed securities increased $813,000 or 19.2% to $5.0 million as a result of an increase in the yield in the mortgage-backed portfolio and an increase in the average balance of the portfolio of $2.6 million. Interest income from investment securities increased $937,000 or 25.7% to $4.6 million as a result of an increase in the yield and average balance of the investment securities portfolio.

The following table compares detailed average balances, associated yields, and the resulting changes in interest income for the nine months ended December 31, 2007 and 2006:

	Nine Months Ended December 31,	
	2007	2006

	Average Balance	Yield	Average Balance	Yield	Increase (Decrease) In Interest And Dividend Income From 2006
Loans Receivable, Net	$472,350,077	7.80%	$402,524,591	7.55%	$ 4,835,432
Mortgage-Backed Securities	136,239,152	4.93	133,593,423	4.22	812,691
Investments	127,408,732	4.80	112,603,515	4.32	937,059
Overnight Time	1,435,612	4.20	1,561,374	5.30	(16,844)
Total Interest-Earning Assets	$737,433,573	6.74%	$650,282,903	6.30%	$ 6,568,338

Interest Expense - Total interest expense increased $4.8 million or 27.9% to $22.2 million during the nine months ended December 31, 2007 compared to $17.3 million for the same period one year earlier. The increase in total interest expense is attributable to the increases in interest rates paid and the increase in the total amount of interest-bearing deposits and borrowings. The Company offered higher interest rates on certificate accounts during the period to remain competitive with new and existing financial institutions entering the market place during the period. Interest expense on deposits increased $3.3 million or 26.3% during the period as average interest bearing deposits grew $56.9 million compared to the average balance in the nine months ended December 31, 2006 while the cost of interest bearing deposits increased 45 basis points. Interest expense on advances and other borrowings increased $1.4 million or 28.9% as the cost of borrowings increased 30 basis points and average total borrowings outstanding increased approximately $30.0 million to $179.4 million during the nine months ended December 31, 2007 compared to the same period in 2006 while average total borrowings outstanding increased approximately $30.0 million. Interest expense on junior subordinated debentures was $276,000 for the nine months ended December 31, 2007 compared to $102,000 for the same period one year ago. The junior subordinated debentures are the result of the Company's $5.0 million trust preferred securities offering in 2006.

The following table compares detailed average balances, cost of funds, and the resulting changes in interest expense for the nine months ended December 31, 2007 and 2006:

Nine Months Ended December 31,		
2007	2006	
		Increase (Decrease) In Interest

	Average Balance	Yield	Average Balance	Yield	Expense From 2006
Now And Money Market Accounts	$205,550,000	3.20%	$210,937,813	3.15%	$ (51,123)
Passbook Accounts	16,479,117	0.98	16,926,574	0.99	(3,560)
Certificate Accounts	284,859,916	5.05	222,170,422	4.46	3,359,456
FHLB Advances And Other Borrowed Money	179,454,602	4.49	149,495,522	4.19	1,356,921
Junior Subordinated Debentures	5,155,000	7.15	1,947,000	6.98	174,360
Total Interest-Bearing Liabilities	$691,498,635	4.28%	$601,477,331	3.84%	$4,836,054

Provision for Loan Losses - The amount of the provision is determined by management's on-going monthly analysis of the loan portfolio. Management uses three methods to measure the estimate of the adequacy of the allowance for loan losses. These methods incorporate percentage of classified loans, five-year averages of historical loan losses in each loan category and current economic trends, and the assignment of percentage targets of reserves in each loan category. Management has used all three methods for the past seven fiscal years.

The Company's provision for loan losses was $450,000 during the nine months ended December 31, 2007 and 2006, respectively. The following table details selected activity associated with the allowance for loan losses for the nine months ended December 31, 2007 and 2006.

	December 31, 2007	December 31, 2006
Beginning Balance	$ 7,296,791	$ 6,704,734
Provision	450,000	450,000
Charge-offs	(212,893)	(111,191)
Recoveries	114,478	89,772
Ending Balance	$ 7,648,376	$ 7,133,315
Allowance For Loan Losses As A Percentage Of Gross Loans Receivable And Loans Held For Sale At The End Of The Period	1.51%	1.66%
Allowance For Loan Losses As A Percentage Of Impaired Loans At The End Of The Period	557.82%	451.86%
Impaired Loans	1,371,125	1,578,672
Nonaccrual Loans And 90 Days Or More Past Due Loans As A Percentage Of Gross Loans Receivable And Loans Held For Sale At The End Of The Period	0.73%	0.51%
Loans Receivable, Net	$ 500,091,429	$ 421,483,354

Non-accrual loans and loans 90 days or more past due increased slightly during the nine months ended December 31, 2007 when compared to the prior period. The increase is primarily attributable to a slowing down of the real estate market in the Company's market area. The Company does not have a sub-prime lending program therefore this increase is not a direct result of the sub- prime lending crisis.

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Non-Interest Income - Non-interest income increased $485,000 or 18.3% to $3.1 million for the nine months ended December 31, 2007 from $2.7 million for the same period one year ago. The following table provides a detailed analysis of the changes in the components of non-interest income:

	Nine Months Ended December 31,		Increase	
	2007	2006	Amounts	Percent
Gain On Sale Of Loans	$ 416,303	$ 295,390	$ 120,913	40.9%
Service Fees On Deposit Accounts	957,790	865,638	92,152	10.6
Income From Cash Value Of Life Insurance	241,447	180,582	60,865	33.7
Commissions On Insurance	464,309	413,407	50,902	12.3
Other Agency Income	75,838	30,674	45,164	147.2
Trust Income	340,625	327,767	12,858	3.9
Other	641,747	539,354	102,393	19.0
Total Non-Interest Income	$3,138,059	$2,652,812	$ 485,247	18.3%

Gain on sale of loans increased $121,000 or 40.9% to $416,000 for the nine month period ended December 31, 2007 compared to $295,000 for the same period one year ago. Income from cash value of life insurance was $241,000 for the nine months ended December 31, 2007 compared to $181,000 during the same period one year ago. This increase is the result of the Company purchasing bank owned life insurance for certain officers of the Company and increases in the cash surrender value. Commissions on insurance and other agency income increased $96,000 to $540,000 during the nine months ended December 31, 2007 compared to $444,000 during the same period one year ago. This increase is attributable to the acquisition of the Collier Jennings' Companies which took place at the end of the first quarter in 2006, offset partially by decreases in second and third quarter earnings when compared to the same quarters in the prior year. The decreases in second and third quarter earnings were the result of changes in South Carolina insurance laws that negatively impacted revenue and decreases in commission percentages earned from the insurance companies. Other miscellaneous income including credit life insurance commissions, safe deposit rental income, annuity and stock brokerage commissions, and other miscellaneous fees, increased $102,000 to $642,000 during the nine months ended December 31, 2007 compared to $539,000 during the same period one year ago.

Non-Interest Expense - Non-interest expense increased $2.0 million or 17.9% to $13.0 million for the nine months ended December 31, 2007 from $11.0 million for the same period one year ago. The following table provides a detailed analysis of the changes in the components of non-interest expense:

	Nine Months Ended December 31,		Increase	
	2007	2006	Amounts	Percent

Salaries And Employee Benefits	$ 7,858,206	$ 6,789,633	$ 1,068,573	15.7%
Occupancy	1,293,602	1,027,793	265,809	25.9
Advertising	270,278	234,622	35,656	15.2
Depreciation And Maintenance Of Equipment	990,601	908,006	82,595	9.1
FDIC Insurance Premiums	45,599	33,586	12,013	35.8
Amortization of Intangibles	67,500	45,000	22,500	50.0
Other	2,434,592	1,950,577	484,015	24.8
Total Non-Interest Expenses	$12,960,378	$10,989,217	$1,971,161	17.9%

Salary and employee benefits increased $1.1 million to $7.9 million for the nine months ended December 31, 2007 from $6.8 million for the same period one year ago. The majority of the increase is the result of hiring additional staff in connection with the Company's growth including absorbing the Collier-Jennings Companies' employees and increased regulatory reporting requirements. Occupancy costs increased $266,000 or 25.9% to $1.3 million for the nine months ended December 31, 2007 as compared to $1.0 million for the same period one year ago as a result of the acquisition and construction of additional facilities during the period. Advertising expense increased $36,000 to $270,000 for the nine months ended December 31, 2007 from $235,000 for the same period one year ago. The increase is attributable to the Company using more print media advertising to attract deposits and consumer loans.

Provision For Income Taxes - Provision for income taxes increased $8,000 or 0.5% to $1.6 million for the nine months ended December 31, 2007 and 2006.

Income before income taxes was $4.8 million for the nine months ended December 31, 2007 compared to $4.6 million for the nine months ended December 31, 2006. The Company's combined federal and state effective income tax rate for the nine months ended December 31, 2007 was 32.6% compared to 34.2% for the same period one year ago.

Liquidity Commitments, Capital Resources, and Impact of Inflation and Changing Prices

Liquidity - The Company actively analyzes and manages the Bank's liquidity with the objective of maintaining an adequate level of liquidity and to ensure the availability of sufficient cash flows to support loan growth, fund deposit withdrawals, fund operations, and satisfy other financial commitments. See the "Consolidated Statements of Cash Flows" contained in Item 1 Financial Statements, herein.

The primary sources of funds are customer deposits, loan repayments, loan sales, maturing investment securities, and advances from the FHLB. The sources of funds, together with retained earnings and equity, are used to make loans, acquire investment securities and other assets, and fund continuing operations. While maturities and the scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage repayments are greatly influenced by the level of interest rates, economic conditions, and competition. Management believes that the Company's current liquidity position and its forecasted operating results are sufficient to fund all of its existing commitments.

During the nine months ended December 31, 2007 loan disbursements exceeded loan repayments resulting in a $64.1 million or 14.7% increase in total net loans receivable. During the nine months ended December 31, 2007, deposits increased $50.2 million, the Company drew $3.0 million on a line of credit with another financial institution and FHLB advances increased $24.7 million. The Bank had $57.2 million in additional borrowing capacity at the FHLB and $7.0 million remaining on the line of credit at the end of the period. At December 31, 2007, the Bank had $298.0 million of certificates of deposit maturing within one year. Based on previous experience, the Bank anticipates a significant portion of these certificates will be renewed.

The Company opened two new branches during the quarter ended December 31, 2007 and intends to continue expanding its branch network, which could cause earnings to level off or decline for a period of time. The leveling off or decline in earnings will be attributed to the lag that exists from the time a branch is built to when it becomes profitable. In the next 12 months, the Company anticipates investing $3.0 to $4.0 million in land, buildings, and equipment. In the next 24 months, we anticipate investing $6.0 to $9.0 million in land, buildings, and equipment. The anticipated costs could be affected by increased construction costs, weather delays, and/or other uncertainties.

Off-Balance Sheet Commitments - The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Since some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Collateral is not required to support commitments.

The following table sets forth the length of time until maturity for unused commitments to extend credit and standby letters of credit at December 31, 2007.

(Dollars in thousands)	Within One Month	After One Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year	Total
Unused lines of credit	$ 1,691	$ 7,268	$32,584	$41,543	$44,098	$85,641
Standby letters of credit	11	30	331	372	137	509

Total	$ 1,702	$ 7,298	$32,915	$41,915	$44,235	$86,150

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises principally from interest rate risk inherent in its lending, investment, deposit and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although the Company manages other risks such as credit quality and liquidity risk in the normal course of business, management considers interest rate risk to be its most significant market risk that could potentially have the largest material effect on the Company's financial condition and results of operations. Other types of market risks such as foreign currency exchange rate risk and commodity price do not arise in the normal course of the Company's business activities.

The Company's profitability is affected by fluctuations in the market interest rate. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings. A sudden and substantial increase or decrease in interest rates may adversely impact the Company's earnings to the extent that the interest rates on interest-earning assets and interest-bearing liabilities do not change at the same rate, to the same extent or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using a test that measures the impact on net interest income and net portfolio value of an immediate change in interest rates in 100 basis point increments and by measuring the Bank's interest sensitivity gap ("Gap"). Net portfolio value is defined as the net present value of assets, liabilities, and off-balance sheet contracts. Gap is the amount of interest sensitive assets repricing or maturing over the next twelve months compared to the amount of interest sensitive liabilities maturing or repricing in the same time period. Recent net portfolio value reports furnished by the OTS indicate that the Bank's interest rate risk sensitivity has increased slightly over the past year. The Bank has rated favorably compared to thrift peers concerning interest rate sensitivity.

For the nine months ended December 31, 2007, the Bank's interest rate spread, defined as the average yield on interest bearing assets less the average rate paid on interest bearing liabilities was 2.46%. For the year ended March 31, 2007, the interest rate spread was 2.51%. The interest rate spread decreased as a result of the rates paid on deposits outpacing the rates received on loans. The rate differential was offset partially by the growth of loan receivables. Loan receivables earn a higher yield than investment securities. However, if interest rates were to increase suddenly and significantly, the Bank's net interest income and net interest spread would be compressed.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a - 15(e) of the Securities Exchange Act of 1934 ("Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management as of the end of the period covered by this quarterly report. The Company's Chief Executive Officer and Chief Financial Officer concluded that at December 31, 2007 the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Controls: In the quarter ended December 31, 2007, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

Security Federal Corporation and Subsidiaries

Part II: Other Information

Item 1 Legal Proceedings

The Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to legal proceedings in the ordinary course of business wherein it enforces its security interest in mortgage loans it has made.

Item 1A Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

Item 2 Unregistered sales of Equity Securities and Use Of Proceeds

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program	(d) Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1 - October 31, 2007	6,250	$24.16	6,250	68,725
November 1 - November 30, 2007	7,201	24.04	7,201	61,524

December 1 - December 31, 2007	46,663	23.99	46,663	14,861
Total	60,114	$24.01	60,114	14,861

In May 2004, the Company's Board of Directors authorized a 5% repurchase plan, or 126,000 shares of the Company's outstanding common stock. As of December 31, 2007, 111,139 shares have been repurchased under this program. The Company repurchased 60,114 shares of its outstanding Common Stock during the three months ended December 31, 2007.

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission Of Matters To A Vote Of Security Holders

None.

Item 5 Other Information

None

Security Federal Corporation and Subsidiaries
Part II: Other Information, Continued

Item 6 Exhibits

- 3.1 Articles Of Incorporation, as amended (1)
- 3.2 Bylaws (2)
- 4 Instruments defining the rights of security holders, including indentures (3)
- 10.1 1993 Salary Continuation Agreements (4)
- 10.2 Amendment One to 1993 Salary Continuation Agreement (5)
- 10.3 Form of 2006 Salary Continuation Agreement(6)
- 10.4 1999 Stock Option Plan (2)
- 10.5 1987 Stock Option Plan (4)
- 10.6 2002 Stock Option Plan (7)
- 10.7 2004 Employee Stock Purchase Plan (8)
- 10.8 Incentive Compensation Plan (4)
- 10.9 Form of Security Federal Bank Salary Continuation Agreement (9)
- 10.10 Form of Security Federal Split Dollar Agreement (9)
- 14 Code of Ethics (10)
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
- 31.2 Certification of the Chief Financial Officer Pursuant to

	Section 302 of the Sarbanes-Oxley Act.
32	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act.

(1) Filed on June 26, 1998, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.
(2) Filed on March 2, 2000, as an exhibit to the Company's Registration Statement on Form S-8 and incorporated herein by reference.
(3) Filed on August 12, 1987, as an exhibit to the Company's Registration Statement on Form 8-A and incorporated herein by reference.
(4) Filed on June 28, 1993, as an exhibit to the Company's Annual Report on Form 10-KSB and incorporated herein by reference.
(5) Filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1993 and incorporated herein by reference.
(6) Filed on May 24, 2006 as an exhibit to the Company's Current Report on Form 8-K dated May 18, 2006 and incorporated herein by reference.
(7) Filed on June 19, 2002, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.
(8) Filed on June 18, 2004, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.
(9) Filed on May 24, 2006 as an exhibit to the Current Report on Form 8-K and incorporated herein by reference.
(10) Filed on June 27, 2007 as an exhibit to the Company's Annual Report on Form 10-K and incorporated herein by reference.

Security Federal Corporation and Subsidiaries

Signatures

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

SECURITY FEDERAL CORPORATION

Date: February 14, 2008

By:/s/Timothy W. Simmons
Timothy W. Simmons
President
Duly Authorized Representative

Date: February 14, 2008

By:/s/Roy G. Lindburg
Roy G. Lindburg
Chief Financial Officer
Duly Authorized Representative

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EXHIBIT 31.1

Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

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Certification

I, Timothy W. Simmons, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Security Federal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2008

/s/Timothy W. Simmons

Timothy W. Simmons
President and Chief Executive Officer

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EXHIBIT 31.2

Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

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Certification

I, Roy G. Lindburg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Security Federal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2008

/s/Roy G. Lindburg

Roy G. Lindburg
Chief Financial Officer

EXHIBIT 32

Certification Pursuant to Section 906 of the Sarbanes Oxley Act

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF SECURITY FEDERAL CORPORATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), each of the undersigned hereby certifies in his capacity as an officer of Security Federal Corporation (the "Company") and in connection with the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2007 that:

1. the Report fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and

2. the information contained in the Report fairly presents, in all material respects, the Company's financial condition and results of operations as of the dates and for the periods presented in the financial statements included in the Report.

/s/Timothy W. Simmons	/s/Roy G. Lindburg
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Timothy W. Simmons	Roy G. Lindburg
Chief Executive Officer	Chief Financial Officer

Dated: February 14, 2008

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