ALLIED FIRST BANCORP INC
Form 10QSB
November 12, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2004
OR

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

For the transition period from ________ to ________

Commission File Number 001-16763

Allied First Bancorp, Inc.

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

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

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

(630) 778-7700

(Registrant's telephone number)

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

Yes |X| No |_|

Transitional Small Business Disclosure Format (check one):

Yes |_| No |X|

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

As of November 9, 2004, there were 527,688 shares of the Registrant's common stock issued and outstanding.

Allied First Bancorp, Inc.

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

ASSETS:

Cash and cash equivalents ...........................................................
Securities available for sale ........................................................
Time deposits with other financial institutions ......................................
Loans, net of allowance for loan losses of $621,905 at
September 30,2004 and $597,515 at June 30, 2004 ............................
Federal Home Loan Bank stock, at cost ...............................................
Accrued interest receivable .........................................................
Premises and equipment-net ..........................................................
Servicing agent receivable ..........................................................
Goodwill ............................................................................
Other assets ........................................................................

Total assets ...............................................................

LIABILITIES AND SHAREHOLDERS' EQUITY:

-------------------------------------

| | |
|---|---|
| **Liabilities:** | |
| Non-interest-bearing demand deposits ............................................ | |
| Interest-bearing demand deposits ................................................ | |
| Savings, Now and money market deposits .......................................... | |
| Time deposits ................................................................... | |
| Total deposits .................................................................. | |
| Borrowed funds .................................................................. | |
| Other liabilities ............................................................... | |
| Total liabilities ............................................................... | |
| **Shareholders' Equity:** | |
| Preferred stock, $.01 par value, 2,000,000 shares authorized, none issued ........ | |
| Common stock, $.01 par value, 8,000,000 shares authorized, 608,350 shares issued and 527,688 outstanding at September 30, 2004 and 558,350 at June 30, 2004 ........ | |
| Additional paid-in capital ...................................................... | |
| Retained earnings ............................................................... | |
| Accumulated other comprehensive income .......................................... | |
| Treasury stock, at cost, 80,662 shares at September 30, 2004 and 50,000 shares at June 30, 2004 ........ | |
| Total shareholders' equity ...................................................... | |
| Total liabilities and shareholders' equity ...................................... | |

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

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

| | Thr<br>Se<br>2004 |
|---|---|
| **Interest income:** | |
| Loans receivable ................................................ | $1,366,386 |
| Interest earning deposits ....................................... | 39,698 |
| Securities ...................................................... | 110,773 |
| Total interest income ........................................... | 1,516,857 |
| **Interest expense:** | |
| Deposits ........................................................ | 447,161 |
| Borrowed funds .................................................. | 172,120 |

| | |
|---|---|
| Total interest expense | 619,281 |
| Net interest income: | 897,576 |
| Provision for loan losses | 81,000 |
| Net interest income after provision for loan losses | 816,576 |
| Non-interest income: | |
| Credit and debit card transaction | 16,180 |
| Account fees | 28,585 |
| Gain on sale of securities | -- |
| First mortgage loan fees | 7,711 |
| Call center processing income | 188,432 |
| Other | 33,521 |
| Total non-interest income | 274,429 |
| Non-interest expense: | |
| Salaries and employee benefits | 544,229 |
| Office operations and equipment | 164,129 |
| Occupancy | 35,331 |
| Data processing | 69,624 |
| Credit and debit card processing | 18,760 |
| Travel and conference | 14,261 |
| Professional services | 107,713 |
| Marketing and promotion | 41,834 |
| Other expenses | 28,289 |
| Total non-interest expense | 1,024,170 |
| Income before income taxes: | 66,835 |
| Income tax expense | 23,714 |
| Net income: | 43,121 |
| Other comprehensive income | 73,771 |
| Total comprehensive income | $ 116,892 |
| Earnings per common share | |
| Basic | $ 0.08 |
| Diluted | $ 0.08 |

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



Allied First Bancorp, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | |
|---|---|
| Cash flows from operating activities | |
| Net Income ........................................................................ | $ |
| Adjustment to reconcile net income to net cash from operating activities | |
| Depreciation .................................................................. | |
| Amortization of premiums on securities ................................. | |
| Amortization of intangible assets ......................................... | |
| Net gain on sale of securities ............................................. | |
| Provision for loan losses ................................................... | |
| FHLB stock dividend ......................................................... | |
| Net Changes in | |
| Accrued interest receivable ........................................ | |
| Servicing agent receivable ......................................... | |
| Other assets ............................................................ | |
| Other liabilities ....................................................... | |
| | --- |
| Net cash from operating activities ........................... | $ |
| Cash flows from investing activities | |
| Purchase of available for sale securities ................................ | ( |
| Sale of available for sale securities ....................................... | |
| Principal collected on mortgage backed securities ..................... | |
| Net expenditures of premises and equipment ............................ | |
| Purchase of loans from other institutions ................................ | ( |
| Net changes in: | |
| Loans ............................................................................ | |
| Time deposits with other financial institutions ....................... | |
| | --- |
| Net cash from investing activities ........................ | (1 |
| Cash flows from financing activities | |
| Net change in deposits ........................................................... | 1 |
| Proceeds from borrowings ......................................................... | |
| Repayments of borrowings ......................................................... | ( |
| Purchase of treasury stock ........................................................ | |
| | --- |
| Net cash from financing activities ................ | 1 |
| Increase (decrease) in cash and cash equivalents ................................ | ( |
| Cash and cash equivalents at beginning of period ................................ | |
| | --- |
| Cash and cash equivalents at end of period ....................................... | $ |
| | === |

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Basis of Presentation

The accompanying unaudited consolidated condensed financial statements include the accounts of Allied First Bancorp, Inc. (the "Company"). and its wholly owned subsidiaries, Allied First Bank, sb an Illinois state-chartered savings bank and AnyHour Lending, Inc., a loan processing call center which was acquired on April 1, 2004. AnyHour Lending, Inc. was formally known as Eagles Nest Marketing Solutions, Inc. The company officially changed its name on November 1, 2004. All significant inter-company transactions and balances are eliminated in consolidation. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation SB. Accordingly, they do not include all the information and footnotes required by U.S. generally accepted accounting principles complete consolidated financial statements.

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

Operating results for the three months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2005. Allied First Bancorp, Inc.'s 2004 annual report on Form 10-KSB should be read in conjunction with these statements.

(2) Use of Estimates

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

(3) Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. For the three-month period ended September 30, 2004, the weighted average number of common shares used in the computation of basic earning per share was 548,998. The weighted average number of common shares for the same period in 2003 was 558,350. There are no potential dilutive common shares.

(4) Premises and Equipment

The company is obligated under a five year operating lease for office space that contains a termination option effective as of April 30, 2007. The lease was effective as of September 16, 2003 with terms to begin occupancy in November 2003. The expiration of the lease is April 30, 2009. It contained a period of free rent in the

2004 fiscal year, and escalation clauses providing for increases in rental expense based primarily on increases in real estate taxes and operating costs.

The future minimum commitments under the full lease term at September 30, 2004 for all operating leases are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2005 | $ 88,244 |
| 2006 | 120,988 |
| 2007 | 124,618 |
| 2008 | 128,357 |
| 2009 | 109,625 |
| Total | $ 601,052 |

(5) Borrowed Funds

At September 30, 2004 the advance on the $5.0 million LaSalle Bank LIBOR based line of credit was as follows:

Open line advance, 3.60% fixed rate and 3 month term $732,670

At September 30, 2004, variable rate and term advance from the Federal Home Loan Bank was as follows:

Open line advance, 2.21% variable rate and term $2,000,000

At September 30, 2004, the scheduled maturities of fixed rate Federal Home Loan Bank were as follows.

| | |
|---|---|
| 2005 1.24% | $ 8,500,000 |
| 2006 1.70%-2.37% | 9,000,000 |
| 2007 2.12%-3.45% | 10,500,000 |
| 2008 3.94% | 1,500,000 |
| Total | $ 29,500,000 |

Each advance is payable at its maturity date, with a prepayment penalty. All advances including open line advances were collateralized by $6,430,000 in mortgaged backed securities and $61,174,000 of first mortgage loans under a blanket lien arrangement at September 30, 2004.

(6) Segment Information

Internal financial information is primarily reported and aggregated in two lines of business, banking and loan processing. Loans, investments, and deposits provide the revenues in the banking operation, and loan processing fees provide the revenues in loan processing. All operations are domestic. The loan processing and call center, AnyHour Lending, Inc., was acquired by the Company in April 2004. The financial results for AnyHour Lending, Inc. met the requirements for segment reporting for the first time for the quarter ended September 30, 2004.

The accounting policies used are the same as those described in the summary of significant accounting policies except (describe any variances, if any). Segment performance is evaluated using net income. Income taxes are allocated and indirect expenses are allocated on revenue. Transactions among segments are made at fair value.

Significant segment totals are reconciled to the interim financial statements as follows.

| Three Months Ended September 2004 | Banking | Loan Processing | Total |
|---|---|---|---|
| Net interest income | $ 897,576 | $ -- | $ 897,576 |
| Provision for loan losses | 81,000 | -- | 81,000 |
| Non-interest income | 85,997 | 188,432 | 274,429 |
| Non-interest expense | 784,179 | 239,991 | 1,024,170 |
| Income tax expense(credit) | 43,728 | (20,014) | 23,714 |
| Net income | 74,666 | (31,545) | 43,121 |
| Assets | 143,566,020 | 920,877 | 144,486,987 |



Part I, Item 2
Allied First Bancorp, Inc.

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

GENERAL

Allied First Bancorp, Inc.'s results of operations are primarily dependent on Allied First Bank's net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Allied First Bank's net income is also affected by the level of its non-interest income and non-interest expenses, such as employee compensation and benefits, occupancy expenses and other expenses.

On October 1, 2004, the Company purchased certain fixed assets and began employing personnel for a retail mortgage operation. The financial results of this operation will be reflected in the December 31, 2004 interim statements.

FORWARD-LOOKING STATEMENTS

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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



could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses, determining the fair value of securities and other financial instruments, and the valuation of intangible assets and goodwill.

FINANCIAL CONDITION

The Company's total assets increased $11.7 million during the three months ended September 30, 2004, to $144.5 million from $132.8 million at June 30, 2004. The increase was due to increases in net loans of $5.3 million and $9.4 million in available for sale securities. Since the sale of the credit card portfolio in May of 2004, the Company has purchased 1-4 family first mortgages and mortgage backed securities to offset the loss of revenue from credit cards.

The Company's total liabilities increased $12.1 million from $121.9 million at June 30, 2004, to $134.0 million at September 30, 2004. Total deposits increased from $84.7 million at June 30, 2004 to $100.6 million at September 30, 2004. The increase was due primarily to a $20.0 million increase in time deposits and was offset by a decrease in savings, NOW and money market deposits of $3.5 million. Recently Allied First Bank has had success in increasing time deposits by utilizing advertising on BankRate.com.

Stockholders' equity decreased by $429,000 from $10.9 million at June 30, 2004 to $10.4 million at September 30, 2004. The decrease is due to the increase in treasury stock of $546,000, and was offset by net income of $43,000 and an increase in unrealized appreciation on available for sale securities of $74,000. During the first quarter of fiscal 2005 the company began a stock repurchase program of 50,000 shares. As of September 30, 2004 the company had bought back 30,662 shares at an average price of $17.81 per share. At June 30, 2004, the company had 558,350 shares outstanding. At September 30, 2004 there were 527,688 shares outstanding.

COMPARISON OF THREE-MONTH PERIODS
ENDED SEPTEMBER 30, 2004 AND 2003

GENERAL

Net income for the three-month periods ended September 30, 2004 and 2003 was $43,000 and $77,000. The decrease in net income for the three-month period ended September 30, 2004 over the same period in 2003 was due to higher non-interest expense. The increase in non-interest expenses was partially attributable to higher legal and accounting expenses resulting from an acquisition which the company is no longer pursuing.

NET INTEREST INCOME

The net interest income for the three-month period ended September 30, 2004 was $898,000 compared to $895,000 for the same period in 2003. This is a .34% increase over the same period in 2003. Although net interest income grew as a result of asset growth the net interest margin dropped to 2.71% from 3.25% for the same period in 2003. The reason for the lower yield in 2004 was that the yield on interest earnings assets decreased from 4.93% to 4.57%. The average rate paid on interest bearing liabilities increased 18 basis to 2.13% for the three-month period ended September 30, 2004 from 1.95% in the same period in 2003. The reason for the increase in average rate paid is the increase in time deposits over the previous period.

Total average interest earning balances increased $22.7 million for the three-month period over one-year ago. The increase is due primarily to the increase in average loans. Total average loans increased $20.7 million for the three-month period over one-year ago. The yields on total average interest earning assets were



4.72% for the three-month period ended September 30, 2004 and 5.18% for the same period in 2003. The drop in yield is a result of the Company shifting the loan portfolio from unsecured loan products to variable rate first mortgages and variable rate home equity loans which typically have lower yields.

Total average interest bearing liabilities increased $21.4 million for the three-month period ended September 30, 2004, over the comparative period in 2003. Interest bearing liabilities increased primarily due to the increase in time deposits.

INTEREST INCOME

Interest income for the three month period ended September 30, 2004 was $1,517,000 compared to $1,357,000 for the same period in 2003. The increase in the three-month period was due to an increase in average interest earning assets.

INTEREST EXPENSE

Interest expense for the three months ended September 30, 2004 was $619,000 compared to $462,000 for the same period in 2003. The increase was due higher interest bearing liabilities balances as well as higher rates paid on interest-bearing liabilities during 2004. The average rate paid on interest bearing liabilities was 2.13% for the three-month period ending September 30,

2004. This represents an 18 basis point increase in the rates paid over the same period in the prior year. Interest on borrowed funds for the three months ended September 30, 2004 was $172,000 compared to $61,000 for the same period in 2003. The increase was due to a higher average balance outstanding in borrowed funds well as higher rates paid 2004.



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

| | Allied First Bancorp, In | | | |
|---|---|---|---|---|
| | Three Months ending September 30 2004 | | | Three |
| INTEREST EARNING ASSETS | Average Balance | Interest | Average Rate | Average Balance |
| Loans | $ 115,775 | $ 1,366 | 4.72% | $ 95,10 |
| Available for sale securities | 7,348 | 111 | 6.04% | 7,03 |
| Federal Home Loan Bank stock | 2,009 | 28 | 5.57% | 1,64 |
| Interest earning balances | 7,577 | 12 | 0.63% | 6,31 |
| Total interest earning assets | 132,709 | 1,517 | 4.57% | 110,09 |
| NON-INTEREST EARNING ASSETS | | | | |
| Premises and equipment | 330 | | | 8 |
| Allowance for loan losses | (610) | | | (58 |
| Other non-earning assets | 2,994 | | | 2,01 |
| Total assets | $ 135,423 | | | $ 111,60 |
| INTEREST BEARING LIABILITIES | | | | |
| Interest checking | $ 2,493 | $ 7 | 1.12% | $ 4,62 |
| Savings | 13,038 | 17 | 0.52% | 14,33 |
| Money market | 36,265 | 127 | 1.40% | 43,04 |
| Time deposits | 31,187 | 296 | 3.80% | 18,82 |
| Borrowed funds | 33,104 | 172 | 2.08% | 13,79 |
| | 116,087 | 619 | 2.13% | 94,62 |
| NON-INTEREST BEARING LIABILITIES AND EQUITY | | | | |
| Checking | 6,997 | | | 6,87 |
| Other liabilities | 1,569 | | | 45 |
| Equity | 10,770 | | | 9,65 |
| Total liabilities and equity | $ 135,423 | | | $ 111,60 |

| | | |
|---|---|---|
| Net Interest/Spread | $ 898 | 2.44% |
| Margin | | 2.71% |

(1) Total Loans less deferred net loan fees



PROVISION FOR LOAN LOSSES

The provision for loan losses was $81,000 for the three-month period ended September 30, 2004 and $121,000 for the same period in 2003. The decrease is due primarily to the decrease in net charge-offs. Changes in the provision for loan losses are attributed to management's analysis of the adequacy of the allowance for loan losses to address probable incurred losses. Net charge-offs of $57,000 have been recorded for the three-month period ended September 30, 2004, compared to $72,000 of net charge-offs for the same period in 2003. The allowance for loan losses was $622,000 or 0.53% of net loans as of September 30, 2004, compared to $598,000 or 0.53% of net loans at June 30, 2004. Allied First Bancorp, Inc. holds a small percentage in secured commercial loans, which was $4.9 million or 4.1% of net loans at September 30, 2004. At September 30, 2004 first mortgage and home equity loans comprise nearly 76% of the loan portfolio.

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

Approximately 90% of our deposit customer base consists of American Airlines pilots and their family members. Although this customer base had historically relatively stable employment and sources of income, the terrorist attacks on the United States in September 2001, the war in Iraq, and the current economic environment including higher oil prices have adversely affected the airline industry. As a result of these factors, the stability of the employment and income of the American Airline pilots has been adversely affected and could negatively affect the ability of our customers to repay their loans, although the effect on our loan delinquencies and loan losses cannot be identified with reasonable certainty at this time. As a result of these factors, we may have higher loan delinquencies and defaults in future periods. At September 30, 2004, our delinquent loans past due 60 days or more, was less than 0.11% of our loan portfolio, compared to less than 0.07% at June 30, 2004. In an effort to diversify our loan portfolio, the Company has purchased loans without recourse from other financial institutions. These purchased loans currently represent approximately 50% of the gross loan portfolio.

NON-INTEREST INCOME

Non-interest income for the three-month period ended September 30, 2004 was $274,000 and $204,000 for the three-month period ended September 30, 2003. The increase for the three-month period ended September 30, 2004 from 2003 was primarily due the recognition of call center processing income of $188,000, generated from the purchase of AnyHour Lending Inc. in April 2004. This income is expected to continue in future periods as well. Credit and debit card transaction income was $16,000 for the three month period ended September 30, 2004 compared to $129,000 for the same period in 2003. The reason for the decrease was the sale of the credit card loan portfolio in May 2004 to Town North Bank. Account fee income was $29,000 for the three months ended September 30, 2004 compared to $40,000 for the three months ended September 30, 2003, a decrease of $11,000 due to less overdraft volume. Mortgage loan originations have dropped significantly from the previous fiscal year. First mortgage origination income was $8,000 for the three-month period ended September 30, 2004 compared to $23,000 in the same three-month period in 2003. Other income was $34,000 for three months ended September 30, 2004 compared to 6,000 for the same period in 2003, an increase of $28,000. This increase was due to commissions from Town North Bank on card transaction volume related to the sale of the credit card portfolio as well as commissions received from Smith Barney for Retirement

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accounts. As part of the agreement with Town North Bank, the Company will receive a percent of revenue generated from the card base as well as premiums for new credit card customers for a period of six years.

NON-INTEREST EXPENSE

Non-interest expense for the three-month period ended September 30, 2004, was $1.0 million, an increase of $173,000, or 20.33%, compared to the same period in 2003. Salary and employee benefits was $544,000 for the three-month period ended September 30, 2004 an increase of $211,000 or 63.36%, from $333,000 for the same period in 2003. This increase is partially attributable to the addition of staff salaries and benefits from the acquisition of AnyHour Lending, Inc. in April 2004. The remainder is attributable to normal merit increases, increased participants in retirement plans, as well as rising health care premiums. Office operations and equipment was $164,000 for the three-month period ended September 30, 2004 an increase of $56,000 or 51.85%, from $108,000 for the same period in 2003. This increase in expense was partially due to higher depreciation expense primarily related to the purchase of new data processing equipment and new furniture and equipment during the 2004 fiscal year. Another factor in the increase is the addition of the operating expenses of AnyHour Lending, Inc. Occupancy expense was $35,000 for the three-month period ended September 30, 2004, an increase of $9,000 compared to the same period in 2004. The increase was primarily the result of the addition rent relating to AnyHour Lending, Inc. Data processing expenses were $70,000 for the three-month period ended September 30, 2004 compared to $63,000 for the same period in 2003, an increase of $7,000 or 11.11%. This increase is related to upgrades on data processing systems for accounting, lending, and customer service during the 2004 fiscal year. Credit and debit card processing expense was down $100,000 from $119,000 for the three month period ended September 30, 2003 to $19,000 for the same period in 2004. This decrease was due to the sale of the credit card loan portfolio. The company will no longer incur expenses related to credit card processing. Travel and conference for the three-month period ended September 30, 2004, was $14,000, a decrease of $3,000, compared to the same period in 2003. Other expenses were $28,000 for the three-month period ended September 30, 2004 a decrease of $9,000 from $37,000 for the same period in 2003.

INCOME TAXES

The provision for income taxes was $24,000 and $50,000, for the three-month periods ending September 30, 2004 and 2003. The effective rates for the three-month periods ended September 30, 2004 and 2003 were 35.5% and 39.1%.

REGULATORY CAPITAL REQUIREMENTS

Pursuant to federal law, Allied First Bank must meet three separate minimum capital ratio requirements. As of September 30, 2004, Allied First Bank had core capital, Tier I risk-based and total risk-based ratios of 7.16%, 9.97% and 10.61%, respectively, compared to well-capitalized requirements of 5.00%, 6.00% and 10.00%. At June 30, 2004, Allied First Bank had core capital, Tier I risk-based ratios of 8.30%, 11.50% and 12.10%, respectively.

LIQUIDITY

Liquidity management refers to the ability to generate sufficient cash to fund current loan demand; meet deposit withdrawals and pay operating expenses. Allied First Bancorp, Inc. relies on various funding sources in order to meet these demands. Primary sources of funds include interest-earning balances with other financial institutions, money market mutual funds, proceeds from principal and interest payments on loans as well as the ability to borrow against first mortgages, and marketable securities. At September 30, 2004, Allied First Bank had $4.6 million in cash and cash equivalents that could be used for its funding needs. Cash and



cash equivalents decreased by $1.8 million compared to the period ending June 30, 2004. Securities available for sale increased by $9.3 million and time deposits with other institutions decreased $99,000.

For further liquidity, the Company may borrow against its mortgage-backed securities and first mortgages through the Federal Home Loan Bank of Chicago. The Company also has a fed funds line of $4.0 million and a working capital line of $5.0 million with LaSalle Bank. The remaining borrowing capacity at September 30, 2004 was approximately $21.2 million.

As of September 30, 2004, management is not aware of any current recommendations by regulatory authorities, which, if they were to be implemented, would have or are reasonably likely to have a material adverse effect on the Allied First Bancorp, Inc.'s liquidity, capital resources or operations.

ADOPTION OF NEW ACCOUNTING POLICY

Allied First Bank adopted separate segment reporting requirements of Statement of Financial Accounting Standard No. 131, and accordingly has presented financial information on AnyHour Lending, Inc., a loan processing and call center, in the notes to the interim financial statements. Previous financial reports reflected banking as the only segment.

Item 3
Allied First Bancorp, Inc.
CONTROLS AND PROCEDURES

An evaluation was carried out as of September 30, 2004 under the supervision and with the participation of Allied First Bancorp Inc.'s management, including the Chief Executive Offer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures. Based on their evaluation, Allied First Bancorp Inc.'s Chief Executive Officer and Chief Financial Officer have concluded that Allied First Bancorp, Inc.'s disclosure controls and procedures are to the best of their knowledge, effective to ensure that the information required to be disclosed by Allied First Bancorp Inc. in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in Allied First Bancorp Inc.'s internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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## Part II - Other Information

Item 1 - Legal Proceedings - Not Applicable.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased Part of a Public Announced Plan |
|---|---|---|---|
| July1-July 31 | -- | -- | -- |
| August 1- August 31 | 2,300 | $16.05 | 2,300 |
| September 1- September 30 | 28,362 | 17.95 | 30,662 |
| Total September 30, 2004 | 30,662 | $17.81 | 30,662 |

(1) On August 23, 2004, the Company announced a stock repurchase plan of up to 50,000 shares.

Item 3 - Defaults upon Senior Securities - Not Applicable.

Item 4 - Submission of Matters to a vote of Security Holders

On October 21, 2004, the Company held its annual meeting of shareholders to consider and act upon the election of Mr. John G. Maxwell, Jr. and Mr. John R. Brick to serve as directors for terms of three years and the ratification of the appointment of Crowe Chizek and Company LLC as auditors for the Company for the fiscal year ending June 30, 2005. Both of the foregoing items were approved by the shareholders at the meeting by the following vote totals based upon 558,350 shares outstanding and entitled to vote at the meeting.

I. Election of Directors- 454,591 shares voted, as follows:

John G. Maxwell Jr.: 453,306 votes for; 1,285 votes withheld.
John R Brick : 453,106 votes for; 1,485 votes withheld.

II. Ratification of the appointment of Crowe Chizek and Company LLC as auditors for the company for the fiscal year ending June 30, 2005 - 454,591 shares voted, as follows:

453,541 votes for; 0 votes withheld; 0 against

William G. Mckeown and Kenneth L. Bertrand continued as directors for a term expiring in 2005 and Frank K. Voris and Brien J. Nagle continued as directors for a term expiring in 2006.

Item 5 - Other Information - Not Applicable

Item 6 - Exhibits

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



SIGNATURES

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

Allied First Bancorp, Inc.
Registrant

Date: November 9, 2004

/s/ Kenneth L. Bertrand
Kenneth L. Bertrand
President and Chief Executive Officer

Date: November 9, 2004

/s/ Brian K. Weiss
Brian K. Weiss
Chief Financial Officer