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ALLIED FIRST BANCORP INC
Form 10QSB
February 11, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended December 31, 2003

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
(State or other jurisdiction of
incorporation or organization)

36-4482786
(I.R.S. Employer identification
or number)

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

60563
(Zip Code)

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

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

Yes No

Transitional Small Business Disclosure Format (check one):

Yes No

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

As of February 3, 2004, there were 558,350 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 held for sale	
Loans, net of allowance for loan losses of \$649,743 at December 31, 2003 and \$592,373 at June 30, 2003	
Federal Home Loan Bank stock, at cost	
Accrued interest receivable	
Premises and equipment-net	
Servicing agent receivable	
Other assets	
 Total assets	

LIABILITIES AND SHAREHOLDERS' EQUITY:

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Liabilities:

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

Shareholders' Equity:

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

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

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

	Three Months Ended		S
	December 31,		
	2003	2002	20
	-----	-----	-----
Interest income:			
Loans receivable	\$ 1,395,996	\$ 1,209,889	\$ 2,62
Interest earning deposits	47,466	73,462	10

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Securities	97,248	110,227	16
	-----	-----	-----
Total interest income	1,540,710	1,393,578	2,89
Interest expense:			
Deposits	360,460	554,803	76
Borrowed funds	123,937	3,850	18
	-----	-----	-----
Total interest expense	484,397	558,653	94
Net interest income:	1,056,313	834,925	1,95
Provision for loan losses	91,000	101,000	21
	-----	-----	-----
Net interest income after provision for loan losses	965,313	733,925	1,73
Non-interest income:			
Credit and debit card transaction ...	124,398	131,981	25
Account fees	36,470	33,825	8
Gain on sale of securities	--	4,132	
First mortgage loan fees	1,777	22,339	2
Other	4,282	8,245	1
	-----	-----	-----
Total non-interest income	166,927	200,522	37
Non-interest expense:			
Salaries and employee benefits	334,602	292,247	66
Office operations and equipment	92,415	106,508	20
Occupancy	27,184	20,693	5
Data processing	65,108	64,670	12
Credit and debit card processing	110,500	120,042	22
Travel and conference	7,356	18,829	2
Professional services	93,835	76,678	20
Marketing and promotion	42,675	52,444	8
Other	25,017	19,768	6
	-----	-----	-----
Total non-interest expense	798,692	771,879	1,65
Income before income taxes:	333,548	162,568	46
Income tax expense	129,860	63,516	17
	-----	-----	-----
Net income:	203,688	99,052	28
	=====	=====	=====
Other comprehensive income (Loss)	(15,037)	(9,034)	(
	-----	-----	-----
Total comprehensive income	\$ 188,651	\$ 90,018	\$ 27
	=====	=====	=====
Earnings per common share			
Basic	\$ 0.36	\$ 0.16	\$
Diluted	\$ 0.36	\$ 0.16	\$

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

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

	Six E Decem 2003 -----
Cash flows from operating activities	
Net Income	\$ 281,039
Adjustment to reconcile net income to net cash from operating activities	
Depreciation	41,269
Amortization of premiums on securities	59,976
Net gain on sale of securities	(4,910)
Provision for loan losses	212,000
FHLB stock dividend	(55,400)
Net Changes in	
Accrued interest receivable	(86,884)
Servicing agent receivable	(99,714)
Other assets	194,067
Other liabilities	(73,582)

Net cash from operating activities	\$ 467,861
Cash flows from investing activities	
Purchase of available for sale securities	(7,221,039)
Sale of available for sale securities	357,863
Principal collected on mortgage backed securities	1,911,581
Purchase of Federal Home Loan Bank stock	(83,600)
Net expenditures of premises and equipment	(204,964)
Purchase of loans from other institutions	(38,582,526)
Net changes in:	
Loans	15,276,527
Time deposits with other financial institutions	1,091,928

Net cash from investing activities	(27,454,230)
Cash flows from financing activities	
Net change in	
Deposits	(7,690,736)
Proceeds from borrowed funds	35,500,000

Net cash from financing activities	27,809,264
Increase (decrease) in cash and cash equivalents	\$ 822,895
Cash and cash equivalents at beginning of period	3,035,791

Cash and cash equivalents at end of period	\$ 3,858,686
	=====

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

Allied First Bancorp, Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Basis of Presentation

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

In the opinion of management, the consolidated condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to represent fairly the financial condition of the Company as of December 31, 2003 and June 30, 2003 and the results of its operations, for the three months and six months ended December 31, 2003 and 2002. Financial statement reclassifications have been made for the prior period to conform to classifications used as of and for the period ended December 31, 2003.

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

(2) Use of Estimates

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

(3) Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. For the three-month and six month periods ended December 31, 2003, the weighted average number of common shares used in the computation of basic earning per share was 558,350. The weighted average number of common shares for the same periods in 2002 was 608,350. There are no potential dilutive common shares.

(4) Premises and Equipment

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

The future minimum commitments under the full lease term at December 31, 2003 for all operating leases are as follows:

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

Total	\$608,616 =====

(5) Federal Home Loan Bank Advances

At December 31, 2003, advances from the Federal Home Loan Bank were as follows.

Open line advance, variable rate and term	\$20,500,000
Maturity July 2004, fixed rate of 1.34%	5,000,000
Maturity July 2005, fixed rate of 1.70%	5,000,000
Maturity July 2006, fixed rate of 2.12%	5,000,000

Total	\$35,500,000 =====

Each advance is payable at its maturity date, with a prepayment penalty. All advances including open line advances were collateralized by \$8,688,000 in mortgaged backed securities and \$57,637,000 of first mortgage loans under a blanket lien arrangement at December 31, 2003.

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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.

FORWARD-LOOKING STATEMENTS

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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 and determining the fair value of securities and other financial instruments.

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FINANCIAL CONDITION

The Company's total assets increased \$28.0 million during the six months ended December 31, 2003, to \$129.6 million from \$101.6 million at June 30, 2003. The increase was due to increases in net loans of \$23.8 million and an increase of \$4.9 million in available for sale securities.

The Company's total liabilities increased \$27.7 million from \$91.7 million at June 30, 2003, to \$119.5 million at December 31, 2003. The increase was due primarily to \$35.5 million in borrowed funds and was offset by a decrease in deposits of \$7.7 million. Total deposits decreased from \$91.2 million at June 30, 2003 to \$83.6 million at December 31, 2003.

Stockholders' equity increased by \$273,000 from \$9.8 million at June 30, 2003 to \$10.1 million at December 31, 2003. The increase is due to year to date

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net income of \$281,000, and is offset by a decrease in unrealized depreciation of value on available for sale securities of \$8,000.

COMPARISON OF THREE-MONTH AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2003 AND 2002

GENERAL

Net income for the three-month and six-month periods ended December 31, 2003 was \$204,000 and \$281,000, respectively, compared to net income of \$99,000 and \$165,000 for the equivalent periods in 2002. The increase in net income for both the three-month and six-month periods ending 2003 over the same periods in 2002 was due primarily to higher net interest income.

NET INTEREST INCOME

The net interest income for the three-month period ended December 31, 2003, was \$1,056,000 compared to \$835,000 for the same period in 2002. This is a 26.47% increase over the same period in 2002. Although net interest income grew as a result of asset growth the net interest margin dropped to 3.38% from 3.63% for the same period in 2002. The reason for the lower net yield in 2003 was that the yield on earnings assets decreased from 6.05% to 4.93%. The net interest income for the six-month period ended December 31, 2003, was \$1,952,000 compared to \$1,645,000 for the same period in 2002, an increase of 18.66% and resulted in a net interest margin of 3.32% compared to 3.70% in 2002. The reason for the lower net yield in six-month period ending December 31, 2003 was that the yield on earnings assets decreased from 6.19% to 4.93%.

Total average interest earning balances decreased \$6.8 million and \$5.0 million, for the three-month and six-month periods over one-year ago. The decrease is due primarily to shifting assets from cash and cash equivalents to loans. Total average loans increased \$39.1 million and \$33.8 million, for the three-month and six-month periods over one-year ago. The yields on total average earning assets were 4.93% and 6.05% for the three-month periods ended December 31, 2003, and 2002 and 4.93% and 6.19% for the six-month periods ended December 31, 2003 and 2002.

Total average interest bearing liabilities increased \$34.1 million, and \$30.0 million, for the three-month and six-month periods ended December 31, 2003, over the comparative periods in 2002. Interest bearing liabilities increased primarily due to the use of Federal Home Loan Bank of Chicago loan advances to fund the purchase of first mortgage loans.

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INTEREST INCOME

Interest income for the three months and six months ended December 31, 2003 was \$1,541,000 and \$2,898,000 compared to \$1,394,000 and \$2,755,000 for the same period in 2002. The increase in both the three-month and six-month periods was due to an increase in average earning assets.

INTEREST EXPENSE

Interest expense for the three months and six months ended December 31, 2003 was \$484,000 and \$946,000 compared to \$559,000 and \$1,110,000 for the same period in 2002. The decrease was primarily due to lower rates paid on interest-bearing liabilities during 2002, which was 1.78% for the three-month period ending December 31, 2003, and 1.86% for the six months ending December 31, 2003. This represents a 121 basis point decrease and a 124 basis point

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decrease in the rates paid over the same periods in the prior year.

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

	Allied First Bancorp, Inc. Three Months ending December 31 2003			
	Average Balance	Interest	Average Rate	Average Balance
INTEREST EARNING ASSETS				
Loans	\$ 110,547	\$1,396	5.05%	\$ 71,402
Available for sale securities	9,223	97	4.21%	9,007
Federal Home Loan Bank stock	1,732	29	6.70%	1,571
Interest earning balances	3,510	19	2.17%	10,117
	-----	-----	-----	-----
Total interest-earning assets	125,012	1,541	4.93%	92,097
	-----	-----	-----	-----
NON-INTEREST EARNING ASSETS				
Premises and equipment	184			66
Allowance for loan losses	(639)			(626)
Other non-earning assets	1,612			619
	-----			-----
Total assets	\$ 126,169			\$ 92,156
	=====			=====
INTEREST BEARING LIABILITIES				
Interest checking	\$ 4,059	\$ 15	1.48%	\$ 11,517
Savings	14,330	18	0.50%	11,394
Money market	40,929	154	1.51%	32,481
Time deposits	17,565	173	3.94%	18,495
Borrowed funds	32,024	124	1.55%	937
	-----	-----	-----	-----
	108,907	484	1.78%	74,824
	-----	-----	-----	-----
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	6,804			6,588
Other liabilities	512			517
Equity	9,946			10,227
	-----			-----
Total liabilities and equity	\$ 126,169			\$ 92,156
	=====			=====
Net Interest/Spread		\$1,057	3.15%	
		=====	=====	

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Margin 3.38%
=====

(1) Total Loans less deferred net loan fees

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	Allied First Bancorp, I			
	Six Months ending			
	December 31			
	2003			
	Average		Average	Average
	Balance	Interest	Rate	Balance
	-----	-----	-----	-----
INTEREST EARNING ASSETS				
Loans	\$ 102,802	\$2,627	5.11%	\$ 68,989
Available for sale securities	8,115	168	4.14%	8,582
Federal Home Loan Bank stock	1,690	56	6.63%	1,561
Interest earning balances	5,015	47	1.87%	9,840
	-----	-----	-----	-----
Total interest-earning assets	117,622	2,898	4.93%	88,972
	-----	-----	-----	-----
NON-INTEREST EARNING ASSETS				
Premises and equipment	133			66
Allowance for loan losses	(612)			(643)
Other non-earning assets	1,815			627
	-----			-----
Total assets	\$ 118,958			\$ 89,022
	=====			=====
INTEREST BEARING LIABILITIES				
Interest checking	\$ 4,343	\$ 32	1.47%	\$ 6,357
Savings	14,332	36	0.50%	11,456
Money market	41,992	322	1.53%	34,707
Time deposits	18,196	372	4.09%	18,677
Borrowed funds	22,868	184	1.61%	505
	-----	-----	-----	-----
	101,731	946	1.86%	71,702
	-----	-----	-----	-----
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	6,840			6,598
Other liabilities	483			540
Equity	9,904			10,182
	-----			-----
Total liabilities and equity	\$ 118,958			\$ 89,022
	=====			=====
Net interest/spread		\$1,952	3.07%	
		=====	=====	

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Margin

3.32%

====

(1) Total loans less deferred net loan fees

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PROVISION FOR LOAN LOSSES

The provision for loan losses was \$91,000 and \$212,000, respectively, for the three-month and six-month periods ended December 31, 2003 and \$101,000 and \$161,000 for the same periods in 2002. The increase in the six-month period ended December 31, 2003 over the same period in 2002 is due to the increase in the loan portfolio balances and in net charge-offs, as well as current probable losses in the loan portfolio. 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 losses. Net charge-offs of \$82,000 have been recorded for the three-month period ended December 31, 2003, compared to \$80,000 of net charge-offs for the same period in 2002. Net charge-offs of \$155,000 have been recorded for the six-month period ended December 31, 2003, compared to \$139,000 of net charge-offs for the same period in 2002. The allowance for loan losses was \$650,000 or 0.58% of net loans as of December 31, 2003, compared to \$592,000 or 0.68% of net loans at June 30, 2003. The decline in percentage of allowance for loan loss to net loans was primarily due to loan portfolio shifting to a greater percentage of real estate secured loans and a smaller percentage of unsecured loans. The portfolio continued to shift to more real estate loans with the purchase of \$35.3 million in first mortgage loans during the first quarter of the fiscal 2004 year. Allied First Bancorp, Inc. holds a small percentage in secured commercial loans, which was \$5.4 million or 4.9% of net loans at December 31, 2003. At December 31, 2003 first mortgage and home equity loans comprise nearly 70% of the loan portfolio compared to 62% at June 30, 2003.

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

Approximately 93% of our customer base consists of American Airlines pilots and their family members. Although this customer base had historically relatively stable employment and sources of income, the terrorist attacks on the United States in September 2001, the war in Iraq, and the current economic environment have adversely affected the airline industry. As a result of these factors, the stability of the employment and income of the American Airline pilots has been adversely affected and could negatively affect the ability of our customers to repay their loans, although the effect on our loan delinquencies and loan losses cannot be identified with reasonable certainty at this time. As a result of these factors, we may have higher loan delinquencies and defaults in future periods. At December 31, 2003, our delinquent loans past due 60 days or more, was less than 0.01% of our loan portfolio, compared to less than .01% at June 30, 2003 and .03% at December 31, 2002.

NON-INTEREST INCOME

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Non-interest income for the three-month periods ended December 31, 2003 and 2002 was \$167,000 and \$201,000, respectively and for the six-month periods were \$371,000 and \$402,000. The decline for both the three-month and six-month periods ended December 31, 2003 from 2002 was due to the decline in income from mortgage originations which have dropped significantly in the 2004 fiscal year. Account fees were \$81,000 for the first six-month period ended December 31, 2003 and \$65,000, an increase of \$16,000, or 24.62% for the same period in 2002. The increase in account fees was due to the overdraft privilege program which began in

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October of 2002. Overdraft privilege allows a customer to overdraw their checking account up to a specified limit for a fee.

NON-INTEREST EXPENSE

Non-interest expense for the three-month period ended December 31, 2003, was \$799,000, an increase of \$27,000, or 3.50%, compared to the same period in 2002. Salary and employee benefits was \$335,000 for the three-month period ended December 31, 2003 an increase of \$43,000 or 14.73%, from \$292,000 for the same period in 2002. The increase in salaries and employee benefits was due to additional personnel, normal merit raises as well as rising health care premiums. Office operations and equipment was \$92,000 for the three-month period ended December 31, 2003 a decrease of \$15,000 or 14.02%, from \$107,000 for the same period in 2002. The decrease was mainly a result of computer network maintenance expense being lower for the 2003 three-month period. Occupancy expense was \$27,000 for the three-month period ended December 31, 2003, an increase of \$6,000 compared to the same period in 2002. The increase was due to an increase in rent expense related to a new lease effective January 2003. Travel and conference for the three-month period ended December 31, 2003, was \$7,000, a decrease of \$12,000, compared to the same period in 2002. Professional services expense was \$94,000 for the three-month period ended December 31, 2003 an increase of \$17,000 or 22.08%, from \$77,000 for the same period in 2002. The increase in professional services was a result of increasing professional fees related to new legislation and regulation on the banking industry and SEC registrants. Marketing and promotion was \$43,000 for the three-month period ended December 31, 2003 a decrease of \$9,000 or 17.31%, from \$52,000 for the same period in 2002. The decrease in marketing and promotion expense was a result of decreased promotional activities.

Non-interest expense was \$1,650,000 for the six-month period ended December 31, 2003, an increase of \$35,000 or 2.17% from \$1,615,000 for the same six-month period in 2002. Salary and employee benefits was \$668,000 for the six-month period ended December 31, 2003 an increase of \$89,000 or 15.37%, from \$579,000 for the same period in 2002. The increase in salaries and employee benefits was due to additional personnel, normal merit raises as well as rising health care premiums. Occupancy expense was \$53,000 for the six-month period ended December 31, 2003, an increase of \$12,000 compared to the same period in 2002. The increase was due to an increase in rent expense related to a new lease effective January 2003. Travel and conference for the six-month period ended December 31, 2003, was \$25,000, a decrease of \$6,000, compared to the same period in 2002. Professional service fees were \$203,000 for the six-month period ended December 31, 2003, and \$171,000 for the same period in 2002. The increase in professional services was a result of increasing professional fees related to new legislation and regulation on the banking industry and SEC registrants. Marketing and promotion was \$81,000 for the six-month period ended December 31, 2003 a decrease of \$77,000 or 48.67%, from \$158,000 for the same period in 2002. Other expenses for the six-month period ended December 31, 2003 and 2002 were \$62,000 and \$40,000. This increase in other expenses was a result of an increase in

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regulatory expense related to the cost of a regulatory exam fee.

INCOME TAXES

The provision for income taxes was \$130,000 and \$64,000, for the three-month periods ending December 31, 2003 and 2002. The provision for income taxes was \$180,000 and \$106,000, for the six-month periods ending December 31, 2003 and 2002. The increases in both the three-month and six-month periods in 2003 are a result of higher income. The effective rate for the three-month periods ended December 31, 2003 and 2002 was 38.93% and 39.07%, and for the six-month periods were 39.00% and 39.10%.

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REGULATORY CAPITAL REQUIREMENTS

Pursuant to federal law, Allied First Bank must meet three separate minimum capital ratio requirements. As of December 31, 2003, Allied First Bank had core capital, Tier I risk-based and total risk-based ratios of 7.80%, 11.01% and 11.74% compared to well-capitalized requirements of 5.00%, 6.00% and 10.00%. At June 30, 2003, Allied First Bank had core capital, Tier I risk-based ratios of 9.50%, 12.10% and 12.90%.

LIQUIDITY

Liquidity management refers to the ability to generate sufficient cash to fund current loan demand; meet deposit withdrawals and pay operating expenses. Allied First Bancorp, Inc. relies on various funding sources in order to meet these demands. Primary sources of funds include interest-earning balances with other financial institutions, money market mutual funds, proceeds from principal and interest payments on loans as well as the ability to borrow against first mortgages, and marketable securities. At December 31, 2003, Allied First Bank had \$3.9 million in cash and cash equivalents that could be used for its funding needs. Cash and cash equivalents decreased by \$823,000 compared to the period ending June 30, 2003 securities available for sale increased by \$4.9 million and time deposits with other institutions decreased \$1.1 million.

For further liquidity, the Company may borrow against its mortgage-backed securities and first mortgages through the Federal Home Loan Bank of Chicago. The Company also established a fed funds line of \$4.0 million with LaSalle Bank during 2002. The remaining borrowing capacity at December 31, 2003 was approximately \$11.9 million.

As of December 31, 2003, 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.

Item 3

Allied First Bancorp, Inc. CONTROLS AND PROCEDURES

An evaluation was carried out as of December 31, 2003 under the supervision and with the participation of Allied First Bancorp Inc.'s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures. Based on their evaluation, Allied First Bancorp Inc.'s Chief Executive Officer and Chief Financial Officer have concluded that Allied First Bancorp, Inc.'s disclosure controls and procedures are to the best of their knowledge, effective to ensure that the information

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required to be disclosed by Allied First Bancorp Inc. in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in Allied First Bancorp Inc.'s internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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Part II - Other Information

Item 1 - Legal Proceedings - Not Applicable.

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

Item 3 - Defaults upon Senior Securities - Not Applicable.

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

Item 5 - Other Information - Not Applicable

Item 6 - Exhibits and Reports on Form 8-K

- (a) Exhibit 31.1 Rule 13a-14(a)/15d/14(a) Certification of Chief Executive Officer
- Exhibit 31.2 Rule 13a-14(a)/15d/14(a) Certification of Chief Financial Officer
- Exhibit 32.1 Chief Executive Officer's Section 906 Certification under the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Chief Financial Officer's Section 906 Certification Under the Sarbanes-Oxley Act of 2002
- (b) Reports on Form 8-K
- None

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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: February 3, 2004

/s/ Kenneth L. Bertrand

Kenneth L. Bertrand
President and Chief Executive Officer

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Date: February 3, 2004

/s/ Brian K. Weiss

Brian K. Weiss
Chief Financial Officer

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