ALLIED FIRST BANCORP INC
Form 10QSB
February 14, 2005

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 December 31, 2004
OR

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

For the transition period from ________ to ________

Commission File Number 001-16763

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

Maryland	36-4482786
(State or other jurisdiction of 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 February 11, 2005, there were 524,888 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
(Unaudited)

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 $631,094 at
December 31, 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 526,118 outstanding at December 31, 2004
and 558,350 at June 30, 2004 ....

Additional paid-in capital ....

Retained earnings ....

Accumulated other comprehensive income ....

Treasury stock, at cost, 82,232 shares at December 31, 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 consolidated financial statements

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PART I: FINANCIAL INFORMATION, Item 1

Allied First Bancorp, Inc.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended December 31, 2004	2003
Interest income:		
Loans	$ 1,521,490	$ 1,395,996
Interest earning deposits	41,530	47,466
Securities	181,114	97,248
Total interest income	1,744,134	1,540,710
Interest expense:		
Deposits	556,917	360,460
Borrowed funds	191,119	123,937

Total interest expense	748,036	484,397
Net interest income:	996,098	1,056,313
Provision for loan losses	45,000	91,000
Net interest income after provision for loan losses	951,098	965,313
Non-interest income:		
Credit and debit card transaction	18,738	124,398
Account fees	33,249	36,470
Gain on sale of securities	--	--
First mortgage loan sales and fees	175,296	1,777
Call center processing income	163,065	--
Other	19,883	4,282
Total non-interest income	410,231	166,927
Non-interest expense:		
Salaries and employee benefits	728,967	334,602
Office operations and equipment	151,252	92,415
Occupancy	46,888	27,184
Data processing	88,959	95,913
Credit and debit card processing	21,019	110,500
Travel and conference	17,364	7,356
Professional services	77,732	63,030
Marketing and promotion	37,553	42,675
Loan origination and servicing	20,696	499
Other expenses	40,027	24,578
Total non-interest expense	1,230,457	798,692
Income before income taxes:	130,872	333,548
Income tax expense	48,003	129,860
Net income:	82,869	203,688
Other comprehensive income (loss)	(3,933)	(15,037)
Total comprehensive income	$ 78,936	$ 188,651
Earnings per common share		
Basic	$ 0.15	$ 0.36
Diluted	$ 0.15	$ 0.36

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

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

Cash flows from operating activities	
Net Income	$
Adjustments 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	
Loans held for sale	
Accrued interest receivable	
Servicing agent receivable	
Other assets	
Other liabilities	
	–
Net cash from operating activities	
Cash flows from investing activities	
Purchase of available for sale securities	
Sale of available for sale securities	
Principal collected on mortgage backed securities	
Purchase of Federal Home Loan Bank stock	
Net expenditures of premises and equipment	
Purchase of loans from other institutions	
Net changes in:	
Loans	
Time deposits with other financial institutions	
	–
Net cash from investing activities	
Cash flows from financing activities	
Net change in	
Deposits	
Proceeds from borrowed	
Repayments of borrowings	
Purchase of treasury stock	
	–
Net cash from financing activities	
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 consolidated financial statements

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

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Allied First Bancorp, Inc. (or the "Company") and it's 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 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 for complete consolidated financial statements.

In the opinion of management, the unaudited consolidated 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, 2004 and June 30, 2004 and the results of its operations, for the three months and six months ended December 31, 2004 and 2003. Financial statement reclassifications have been made for the prior period to conform to classifications used as of and for the period ended December 31, 2004.

Operating results for the three months and six months ended December 31, 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 and six-month periods ended December 31, 2004, the weighted average number of common shares used in the computation of basic earning per share was 527,671 and 538,257, respectively. The weighted average number of common shares for the same periods 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 company is also obligated under a lease for office space relating to the expansion of mortgage origination. The expiration of this lease is January 31, 2005

The future minimum commitments under the full lease term at December 31, 2004 for all operating leases are as follows:

Year Ending June 30,	Amount
2005	$ 61,322
2006	120,988
2007	124,618
2008	128,357
2009	109,625
Total	$544,910

(5) Borrowed Funds

At December 31, 2004 the advance on the $5.0 million LaSalle Bank LIBOR based line of credit was as follows:

Open line advance, 4.03% fixed rate and 3 month term	$732,670

At December 31, 2004, variable rate and term advance from the Federal Home Loan Bank was as follows:

Open line advance, 2.47% variable rate and term	$3,000,000

At December 31, 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 $6,036,000 in mortgaged backed securities and $60,136,000 of first mortgage loans under a blanket lien arrangement at December 31, 2004.

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(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. Segment performance is evaluated using net income. Income taxes are allocated and indirect expenses are allocated on revenue.

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

Three Months Ended December 31, 2004	Banking	Loan Processing	Total
Net interest income	$ 996,098	$ --	$ 996,098
Provision for loan losses	45,000	--	45,000
Non-interest income	247,061	163,170	410,231
Non-interest expense	1,003,814	226,643	1,230,457
Income tax expense (credit)	72,520	(24,517)	48,003
Net income (loss)	121,825	(38,956)	82,869
Assets	143,598,160	949,013	144,547,173

Six Months Ended December 31, 2004	Banking	Loan Processing	Total
Net interest income	$ 1,893,673	$ --	$ 1,893,673
Provision for loan losses	126,000	--	126,000
Non-interest income	333,058	351,602	684,660
Non-interest expense	1,787,992	466,634	2,254,626
Income tax expense (credit)	116,248	(44,531)	71,717
Net income (loss)	196,491	(70,501)	125,990
Assets	143,598,160	949,013	144,547,173

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 employed personnel to expand the retail mortgage operation.

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

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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 six months ended December 31, 2004, to $144.5 million from $132.8 million at June 30, 2004. The increase was due to increases in net loans of $6.4 million and $8.0 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 $134.1 million at December 31, 2004. Total deposits increased from $84.7 million at June 30, 2004 to $100.4 million at December 31, 2004. The increase was due primarily to a $21.2 million increase in time deposits and was offset by a decrease in savings, NOW and money market deposits of $5.8 million. Recently, Allied First Bank has had success in increasing time deposits by utilizing advertising on BankRate.com.

Stockholders' equity decreased by $382,000 from $10.9 million at June 30, 2004 to $10.5 million at December 31, 2004. The decrease is due to the increase in treasury stock of $577,000, and was offset by net income of $126,000 and an increase in unrealized appreciation on available for sale securities of $70,000. During the first quarter of fiscal 2005 the company began a stock repurchase program of 50,000 shares. As of December 31, 2004 the company had bought back 32,232 shares at an average price of $17.91 per share. At June 30, 2004, the company had 558,350 shares outstanding. At December 31, 2004 there were 526,118 shares outstanding.

COMPARISON OF THREE-MONTH AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2004 AND 2003

GENERAL

Net income for the three-month and six-month periods ended December 31, 2004 was $83,000 and $126,000, respectively, compared to net income of $204,000 and $281,000 for the equivalent periods in 2003. The decrease in net income for both the three-month and six-month periods ending 2003 over the same periods in 2003 was due, to higher non-interest expenses primarily from two strategies.

The new loan processing call center, which is a separate operating segment, contributed net losses for the three and six-month periods ended December 31, 2004. The Company also expanded its mortgage origination operation with the opening of a new origination office and the employment of additional personnel. Both of these strategies have resulted in the Company initially experiencing increases in non-interest expense. Management expects these strategies will ultimately add to the Company's profitability.

NET INTEREST INCOME

The net interest income for the three-month period ended December 31, 2004 was $996,000 compared to $1,056,000 for the same period in 2003. This is a 5.68% decrease over the same period in 2003. The net interest margin dropped from 3.38% from 2.79%. The reason for the lower yield in 2004 was that the average rate paid on interest bearing liabilities increased 58 basis points to 2.36%, as well as the yield on interest earnings assets

decreasing from 4.93% to 4.89%. The increase in average rate paid was due to the increase in time deposits as well as the rate increasing on borrowed funds.

The net interest income for the six-month period ended December 31, 2004, was $1,894,000 compared to $1,952,000 for the same period in 2003, a decrease of 2.97% and resulted in a net interest margin of 2.75% compared to 3.32% in 2003. The reason for the lower net yield in six-month period ended December 31, 2004 was that the yield on earnings assets decreased from 4.93% to 4.74% while the yield on interest bearing liabilities increased from 1.86% to 2.25%.

Total average interest earning balances increased $17.7 million and $20.1 million, for the three-month and six-month periods over one-year ago. The increase is primarily due to increases in loans as well as an increase in available for sale securities. Total average loans increased $10.5 million and $5.6 million, for the three-month and six-month periods over one-year ago. Total average available for sale securities increased $6.8 million and $3.6 million for the three-month and six-month periods over the prior year. The yields on total average earning assets were 4.89% and 4.93% for the three-month periods ended December 31, 2004, and 2003 and 4.74% and 4.93% for the six-month periods ended December 31, 2004 and 2003.

Total average interest bearing liabilities increased $17.7 million, and $19.8 million, for the three-month and six-month periods ended December 31, 2004, over the comparative periods in 2003. Interest bearing liabilities increased in the three-month period ended December 31, 2004 compared to the same period in 2003 due to the $25.9 million increase in time deposits. This increase was partially offset by the decrease of $8.0 million in money market deposits. Interest bearing liabilities increased in the six-month period ended December 31, 2004 compared to the same period in 2003 due to the $11.1 million increase in borrowed funds and a $19.0 million increase in time deposits. This increase was partially offset by the decrease of $8.4 million in money market deposits. During 2004, the company used both time deposits as well as Federal Home Loan Bank advances to purchase loans and mortgage backed securities.

INTEREST INCOME

Interest income for the three months and six months ended December 31, 2004 was $1,744,000 and $3,261,000 compared to $1,541,000 and $2,898,000 for the same period in 2003. 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 ended December 31, 2004 was $748,000 compared to $484,000 for the same period in 2003. The increase in interest expense for the three-month period ended December 31, 2004 was due to higher balances and higher rates paid on interest-bearing liabilities during the 2004 period which was 2.36% a 58 basis point increase from 1.78% paid during 2003. The increase in average rate is primarily due to the company increasing its time deposits which have a higher cost than money market and savings deposits. Also the average cost of borrowed funds has increased due to the current rising rate environment.

Interest expense for the six months ended December 31, 2004 was $1,367,000 compared to $946,000 for the same period in 2003. The increase in interest expense for the six-month period ended December 31, 2004 was due to higher balances and higher rates paid on interest-bearing liabilities which was 2.25% a 39 basis point increase from the 1.86% paid during 2003. The increase in average rate is primarily due to the increase in average rate paid for borrowed funds as a result of market conditions.

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

Allied First Bancorp

Three Months ending December 31 Thr

	2004			
INTEREST EARNING ASSETS	Average Balance	Interest	Average Rate	Avera Balan
Loans (1)	$ 121,033	$ 1,521	5.03%	$ 110,
Available for sale securities	15,998	181	4.53%	9,
Federal Home Loan Bank stock	2,044	30	5.87%	1,
Interest earning balances	3,642	12	1.32%	3,
Total interest-earning assets	142,717	1,744	4.89%	125,
NON-INTEREST EARNING ASSETS				
Premises and equipment	420			
Allowance for loan losses	(634)			(
Other non-earning assets	3,244			1,
Total assets	$ 145,747			$ 126,
INTEREST BEARING LIABILITIES				
Interest checking	$ 2,275	$ 7	1.23%	$ 4,
Savings	13,044	17	0.52%	14,
Money market	32,930	124	1.51%	40,
Time deposits	43,510	409	3.76%	17,
Borrowed funds	34,868	191	2.19%	32,
	126,627	748	2.36%	108,
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	7,615			6,
Other liabilities	1,098			
Equity	10,407			9,
Total liabilities and equity	$ 145,747			$ 126,
Net Interest/Spread		$ 996	2.53%	
Margin			2.79%	

(1) Total Loans less deferred net loan fees

	Six Months ending December 31 2004			
INTEREST EARNING ASSETS	Average Balance	Interest	Average Rate	Ave Bal
Loans (1)	$ 118,404	$ 2,888	4.88%	$ 10
Available for sale securities	11,673	292	5.00%	
Federal Home Loan Bank stock	2,027	59	5.82%	
Interest earning balances	5,610	22	0.78%	
Total interest-earning assets	137,714	3,261	4.74%	11
NON-INTEREST EARNING ASSETS				
Premises and equipment	384			
Allowance for loan losses	(622)			
Other non-earning assets	3,429			
Total assets	$ 140,905			$ 11
INTEREST BEARING LIABILITIES				
Interest checking	$ 2,384	$ 14	1.17%	$
Savings	13,184	33	0.50%	1
Money market	34,597	251	1.45%	4
Time deposits	37,349	706	3.78%	1
Borrowed funds	33,987	363	2.14%	2
	121,501	1,367	2.25%	10
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	7,311			
Other liabilities	1,355			
Equity	10,738			
Total liabilities and equity	$ 140,905			$ 11
Net Interest/Spread		$ 1,894	2.49%	
Margin			2.75%	

(1) Total Loans less deferred net loan fees

PROVISION FOR LOAN LOSSES

The provision for loan losses was $45,000 and $126,000, respectively, for the three-month and six-month periods ended December 31, 2004 and $91,000 and $212,000 for the same periods in 2003. The decrease in both the three-month and the six-month periods ended December 31, 2003 over the same periods in 2003 is due to the decrease in net charge-offs. The decrease in net charge-offs is a result of an increase in recoveries, the change in the loan portfolio composition and the economic environment. 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 $36,000 have been recorded for the three-month period ended December 31, 2004, compared to $82,000 of net charge-offs for the same period in 2003. Net charge-offs of $93,000 have been recorded for the six-month period ended December 31, 2004, compared to $155,000 of net charge-offs for the same period in 2003. The allowance for loan losses was $631,000 or 0.53% of net loans as of December 31, 2003, 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 $4.8 million or 4.0% of net loans at December 31, 2004. At December 31, 2004 first mortgage and home equity loans comprised 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 has had historically relatively stable employment and sources of income, terrorist attacks on the United States in 2001 and the current economic environment including higher oil prices may have adverse affects on the airline industry. As a result of these factors, the stability of the employment and income of the American Airline pilots may be adversely affected and could negatively affect the ability of our customers to repay their loans. As a result of these factors, we may have higher loan delinquencies and defaults in future periods. At December 31, 2004, our delinquent loans past due 60 days or more, was less than 0.10% 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 secured commercial loans, and 1-4 family residential mortgage 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 periods ended December 31, 2004 and 2003 were $410,000 and $167,000, respectively and for the six-month periods were $685,000 and $371,000. The increase for both the three-month and six-month periods ended December 31, 2004 from 2003 was due to the increase in mortgage originations as well as call center processing income. Call center processing income is generated from the purchase of AnyHour Lending, Inc. in April 2004. The increase in first mortgage sales and fees is a result of the expansion of our mortgage origination function, through the employment of additional personnel in October 2004. This income should increase in the future as a result of the Company utilizing resources to originate mortgage loans. Credit card income decreased by $105,000, and $219,000, respectively, for the three-month and six-month periods ended December 31, 2004, over the comparative periods in 2003. The reason for the decrease was the sale of the credit card loan portfolio to Town North Bank in May 2004. Account fee income for the six-month period ended December 31, 2004 was $62,000 compared to $81,000 in 2003, a decrease of $19,000 due to less overdraft volume. Other income for the three-month periods ended December 31, 2004

and 2003 was $20,000 and $4,000, respectively and for the six-month periods were $54,000 and $10,000. The increase for both the three-month and six-month periods ended December 31, 2004 from 2003 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 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 December 31, 2004, was $1,230,000, an increase of $431,000, compared to $799,000 for the same period in 2003. Salary and employee benefits was $729,000 for the three-month period ended December 31, 2003 an increase of $394,000, from $335,000 for the same period in 2003. Office operations and equipment was $151,000 for the three-month period ended December 31, 2004 an increase of $59,000 or 64.13%, from $92,000 for the same period in 2003. Occupancy expense was $47,000 for the three-month period ended December 31, 2004, an increase of $20,000 compared to the same period in 2003. The increase in salaries and benefits, office operations and equipment and occupancy was primarily due to the expansion of mortgage origination efforts and the new AnyHour Lending, Inc. office. Credit card and debit card processing expense was $21,000 for the three months ended December 31, 2004 a decrease of $90,000 or 81.08%, from $111,000 in the same period ended 2003. This decrease was due to the sale of the credit card loan portfolio in May 2004. Travel and conference for the three-month period ended December 31, 2004, was $17,000, an increase of $10,000, compared to the same period in 2003. Professional services expense was $78,000 for the three-month period ended December 31, 2003, an increase of $15,000 or 23.81%, from $63,000 for the same period in 2003. The increase in professional services was a result of the additional professional fees related to AnyHour Lending, Inc. AnyHour Lending, Inc. incurs professional fees related to the setup and maintenance of technology for customer accounts. Marketing and promotion was $38,000 for the three-month period ended December 31, 2004 a decrease of $5,000 or 11.63%, from $43,000 for the same period in 2003. Loan origination and servicing expense was $21,000 for the three-month period ended December 31, 2004. This expense is attributed to mortgage origination expenses. Other expenses for the three-month period ended December 31, 2004 were $40,000 an increase of $15,000 from the same period ended December 31, 2003.

Non-interest expense was $2,255,000 for the six-month period ended December 31, 2004, an increase of $605,000 or 36.64% from $1,650,000 for the same six-month period in 2003. Salary and employee benefits was $1,273,000 for the six-month period ended December 31, 2004 an increase of $605,000, from $668,000 for the same period in 2003. Office operations and equipment was $301,000 for the six-month period ended December 31, 2004 an increase of $101,000 or 50.50%, from $200,000 for the same period in 2003. Occupancy expense was $82,000 for the six-month period ended December 31, 2003, an increase of $29,000 compared to the same period in 2003. The increase in salaries and benefits, office operations and equipment and occupancy was primarily due to the expansion of mortgage origination efforts and the new AnyHour Lending, Inc. office. Data processing expense was $159,000 for the six-month period ended December 31, 2004 a decrease of $17,000 from $176,000 for the same period in

2003. Credit card and debit card processing expense was $40,000 for the six month period ended December 31, 2004 a $190,000 decrease from the $230,000 for the same period in 2003. This decrease is due to the sale of the credit card loan portfolio in May of 2004. Travel and conference for the six-month period ended December 31, 2004, was $32,000, an increase of $7,000, compared to the same period in 2003. Professional service expense was $185,000 for the six-month period ended December 31, 2004, an increase of $30,000 or 19.55% from $155,000 for the same six-month period in 2003. Loan origination and servicing expense was $27,000 for the three-month period ended December 31, 2004 compared to $3,000 for the same period ended 2003. This expense is attributed to mortgage origination expenses. Other expenses for the six-month period ended December 31, 2004 were $76,000 an increase of $18,000 from the same period ended December 31, 2003.

The company has undertaken a long term strategy with the local mortgage market and mortgage originations through the call center operation. Although net operating expenses have increased due to expansion of the operations and the associated start up costs, management believes that the future increases in non-operating income will justify this strategy.

INCOME TAXES

The provision for income taxes was $48,000 and $130,000, for the three-month periods ending December 31, 2004 and 2003. The provision for income taxes was $71,000 and $180,000, for the six-month periods ending December 31, 2004 and 2003. The decreases in both the three-month and six-month periods in 2003 are a result of lower income. The effective rate for the three-month periods ended December 31, 2004 and 2003 was 36.68% and 38.93%, and for the six-month periods were 36.27% and 39.00%.

REGULATORY CAPITAL REQUIREMENTS

Pursuant to federal law, Allied First Bank must meet three separate minimum capital ratio requirements. As of December 31, 2004, Allied First Bank had core capital, Tier I risk-based and total risk-based ratios of 6.76%, 9.91% and 10.55%, 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 December 31, 2004, Allied First Bank had $3.6 million in cash and cash equivalents that could be used for its funding needs. Cash and cash equivalents decreased by $2.8 million compared to the period ended June 30, 2004. Securities available for sale increased by $8.0 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 December 31, 2004 was approximately $18.5 million.

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

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 consolidated 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 December 31, 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.

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 Publicl 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
October 1- October 31	--	--	30,662
November 1 - November 30	--	--	30,662
December 1- December 31	1,570	20.00	32,232
Total December 31, 2004	32,232	$ 17.91	32,232

(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 - Not Applicable

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

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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 11, 2005 /s/ Kenneth L. Bertrand

Kenneth L. Bertrand
President and Chief Executive Officer

Date: February 11, 2005 /s/ Brian K. Weiss

Brian K. Weiss
Chief Financial Officer