ALLIED FIRST BANCORP INC
Form 10QSB
May 14, 2002

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 March 31, 2002
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 120 W, 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

State the number of Shares outstanding of each of the issuer's classes of common equity, as of the latest date:

As of May 14, 2002, there were 608,350 shares of the Registrant's common stock issued and outstanding.

Allied First Bancorp, Inc.

INDEX

PART I: FINANCIAL INFORMATION
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 $679,595 at
March 31, 2002 and $626,715 at June 30, 2001..........
Federal Home Loan Bank Stock at cost..........
National Credit Union Share Insurance Fund deposit..........
Accrued interest receivable..........
Premises and equipment-net..........
Other assets..........

Total Assets..........

LIABILITIES AND SHAREHOLDERS' EQUITY:

Liabilities:

Non-interest-bearing demand deposits..........
Savings, Now and MMDA deposits..........
Other time deposits..........
Total Deposits..........
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 outstanding at December 31, 2001..........
Additional paid-in capital..........
Retained earnings..........
Accumulated other comprehensive income (loss)..........

Total Shareholders' equity..........

Total Liabilities and Shareholders' Equity..........

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

3

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Interest Income:		
Loans receivable..............................	$1,136,606	$1,447,119
Interest earning deposits.....................	85,983	124,266

Securities	43,377	-
Total Interest Income	1,265,966	1,571,385
Interest Expense:		
Deposits	537,805	890,314
Other	-	-
Total Interest Expense	537,805	890,314
Net Interest Income:	728,161	681,071
Provision for loan losses	55,000	60,631
Net interest income after provision for loan losses	673,161	620,440
Non-interest income:		
Credit and debit card transaction	143,638	139,836
Account fees	28,071	28,924
First mortgage loan fees	20,575	16,147
Other	6,758	13,529
Total non-interest income	199,042	198,436
Non-interest expense:		
Salaries and employee benefits	292,231	261,069
Occupancy and equipment	44,296	59,006
Data processing	31,804	26,738
Loan servicing	129,044	123,367
Charter conversion professional fees	-	17,898
Other expenses	294,021	148,940
Total non-interest expense	791,396	637,018
Income before income taxes:	80,807	181,858
Income tax expense (benefit)	31,499	-
Net income:	49,308	181,858
Other Comprehensive Income (Loss)	(25,914)	-
Total Comprehensive Income (Loss)	$23,394	$181,858
Earning per common and common equivalent shares:		
Basic	$0.08	N/A
Diluted	$0.08	N/A

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

Part I: Financial Information
Allied First Bancorp, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Nin

	2002
Cash flows from operating activities	
Net Income	$436,12
Adjustment to reconcile net income to net cash from operating activities	
Depreciation	48,90
Amortization of premiums on securities	2,58
Provision for loan losses	175,00
Net Changes in	
Accrued interest receivable	(54,29
National Credit Union Share Insurance Fund deposit	618,80
Other assets	(48,83
Other liabilities	1,73
Net cash from operating activities	1,180,01
Cash flows from investing activities	
Purchase of available for sale securities	(5,202,55
Principal collected on mortgage backed securities	278,67
Purchase of Federal Home Loan Bank stock	(1,276,67
Net expenditures of premises and equipment	(42,19
Net changes in:	
Loans to customers	91,55
Time deposits with other financial institutions	(4,003,62
Net cash from investing activities	(10,154,81
Cash flows from financing activities	
Net change in	
Deposits	($3,095,90
Net proceeds from sale of common stock	5,278,03
Proceeds from the issuance of subordinated debt	1,000,00
Retirement of subordinated debt	(1,000,00
Net cash from financing activities	2,182,13
Increase (decrease) in cash and cash equivalents	(6,792,66
Cash and cash equivalents at beginning of period	16,455,20
Cash and cash equivalents at end of period	$9,662,53

5

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. Prior to September 1, 2001, Allied First Bank operated as Allied Pilots Association Federal Credit Union. 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 generally accepted accounting principles for complete 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 Allied First Bancorp, Inc. as of March 31, 2002 and June 30, 2001 and the results of its operations, for the three and nine months ended March 31, 2002 and 2001. Financial statement reclassifications have been made for the prior period to conform to classifications used as of and for the period ended March 31, 2002.

Operating results for the three and nine months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ended June 30, 2002.

(2) Plan of Stock Conversion

On September 1, 2001, Allied Pilots Association Federal Credit Union converted to Allied First Bank, sb an Illinois mutual savings bank as the first part in a two-part plan to improve the capital position of Allied Pilots Association Federal Credit Union. In conjunction with the first part of the plan, Allied First Bank issued subordinated capital notes, qualifying as Tier 2 capital, in the amount of $1 million on September 1, 2001. The subordinated capital notes had a term of five years, interest rate of 8.5% and were redeemable without any prepayment penalty. The issuance of the notes was sufficient to qualify Allied First Bank as adequately capitalized. In the second part of the Plan, on September 17, 2001, the Board of Directors of Allied First Bank adopted a Plan of Stock Conversion to convert from an Illinois mutual savings bank to an Illinois stock savings bank with the concurrent formation of a holding company. The purpose of the mutual to stock conversion was to increase the capital of Allied First Bank in order to enable it to meet the well-capitalized requirements of an FDIC insured institution and to support the future growth of the institution. The subordinated capital notes were retired upon completion of the stock conversion. On December 27, 2001, Allied First Bancorp, Inc. sold 608,350 shares of common stock at $10 per share and received proceeds of $5,278,032 net of conversion expenses of $805,468. Approximately 98% of the net proceeds were used by Allied First Bancorp, Inc. to acquire all of the capital stock of Allied First Bank.

(3) Earnings Per Share

The conversion to a stock based institution occurred on December 27, 2001. Earnings per share information is only presented for the period January 1, 2002 through March 31, 2002. Earnings per share was computed based on 608,350 shares issued and outstanding. There are no dilutive potential common shares. Earnings per share information is not material for the other periods presented.

PART II
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

Except for historical information contained herein, the matters discussed in this document, and other information contained in Allied First Bancorp, Inc.'s SEC filings, may express "forward-looking statements." Those "forward-looking statements" may involve risk and uncertainties, including statements concerning future events, performance and assumptions and other statements that are other than statements of historical facts. Allied First Bancorp, Inc. wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Readers are advised that various factors--including, but not limited to, changes in laws, regulations or generally accepted accounting principles; Allied First Bancorp, Inc.'s competitive position within the markets served; increasing consolidation within the banking industry; unforeseen changes in interest rates; any unforeseen downturns in the local, regional or national economies--could cause Allied First Bancorp, Inc.'s actual results or circumstances for future periods to differ materially from those anticipated or projected. This report speaks only as of its date, and Allied First Bancorp, Inc. disclaims any duty to update the information herein.

COMPARISON OF THREE-MONTH AND NINE-MONTH PERIODS ENDED MARCH 31, 2002 AND 2001

GENERAL

Net income for the three-month and nine-month periods ended March 31, 2002, was $49,000 and $436,000, respectively, compared to net income of $182,000 and $565,000 for the equivalent periods in 2001. As a former credit union, the organization was not subject to federal income taxes or state income taxes for the fiscal year ended June 30, 2001. Effective September 1, 2001, Allied First Bancorp, Inc. was subject to federal and state income taxes. As a result of the change in tax status and in accordance with Financial Accounting Standards No. 109, Accounting for Income Taxes, Allied First Bank recorded a net deferred tax asset in the amount of $205,000 on September 1, 2001.

NET INTEREST INCOME

Net interest income for the three-month period ended March 31, 2002, was $728,000 compared to $681,000 for the same period in 2001. This is a 6.90% increase over the same period in 2001 and resulted in a net spread of 2.77% for the three months ended March 31, 2002 compared to 2.58% for the same period in

2001. The net interest income for the nine-month period ended March 31, 2002, was $2,197,000 compared to $2,073,000 for the same period in 2001, an increase of 5.98% and resulted in a net spread of 2.84% compared to 2.77% in 2001. The increase in net interest income and the corresponding increase in net interest spread was due to our interest bearing liabilities repricing faster than our interest earning assets in the declining interest rate environment in 2001.

Total average earning assets increased $4,713,000 and $7,271,000, respectively, for the three-month and nine-month periods ended March 31, 2002, over the comparative periods in 2001. Total average interest earning investment balances increased $5,775,000 and $8,352,000, respectively, for the three-month and nine-month periods over one-year ago. Total average loans decreased $1,062,000 and $1,081,000, respectively, for the three-month and nine-month periods over one-year ago. The yields on total average earning assets were 6.06% and 7.98% for the three-month periods ended March 31, 2002, and 2001 and 6.66% and 8.33% for the nine-month periods, ended March 31, 2002 and 2001, respectively. Allied First Bank has a loan portfolio with a large concentration in short term consumer loans which reprice quickly. This coupled with a declining interest rate environment accounted for lower yields in earning assets for the periods presented.

INTEREST INCOME

Interest income for the three months and nine months ended March 31, 2002 was $1,266,000 and $4,121,000, respectively, compared to $1,571,000 and $4,703,000 for the same period in 2001. The decrease was primarily due to lower loan yields during 2001. The yield on loans decreased to 7.78% for the nine months ended March 31, 2002 from 8.97% for the same period in 2001.

INTEREST EXPENSE

Interest expense for the three months and nine months ended March 31, 2002 was $538,000 and $1,924,000, respectively, compared to $890,000 and $2,630,000 for the same period in 2001. The decrease was primarily due to lower rates paid on interest-bearing liabilities for 2001 which was 3.29% and 3.82% for such periods, respectively, which represented a 211 and 174 basis point decrease over the same periods in 2001.

8

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

Allied First Bancorp, Inc.
Three Months Ended March 31
(Dollars In Thousands)

	2002			
INTEREST EARNING ASSETS	Average Balance	Interest	Average Rate	Average Balance
Loans	$63,661	$1,137	7.14%	$64,723
Available for sale securities	3,101	45	5.80%	-
Federal Home Loan Bank Stock	1,514	19	5.02%	233
Interest earning balances	15,227	65	1.71%	13,834

Total interest-earning assets	83,503	1,266	6.06%	78,790
NON-INTEREST EARNING ASSETS				
Premises and equipment	81			99
Allowance for loan losses	(701)			(649)
Other non-earning assets	662			566
Total assets	$83,545			$78,806
INTEREST BEARING LIABILITIES				
Savings	$11,959	$ 35	1.17%	11,603
Money market	35,971	259	2.88%	33,888
Time deposits	17,471	244	5.59%	20,488
Subordinated debt	-	-	0.00%	-
	65,401	538	3.29%	65,979
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	8,028			8,564
Other liabilities	280			336
Equity	9,836			3,827
Total liabilities and equity	$83,545			$78,706
Net Interest/Spread		$ 728	2.77%	
Margin			3.49%	

9

Allied First Bancorp, Inc
Nine Months Ended March 3
(Dollars in Thousands)

2002		
Average	Average	Average

INTEREST EARNING ASSETS	Balance	Interest	Rate	Balance
Loans	$64,660	$3,775	7.78%	$65,741
Available for sale securities	1,450	62	5.70%	-
Federal Home Loan Bank Stock	943	42	5.94%	226
Interest earning balances	15,473	242	2.09%	9,288
Total interest-earning assets	82,526	4,121	6.66%	75,255
NON-INTEREST EARNING ASSET				
Premises and equipment	82			103
Allowance for loan losses	(679)			(668)
Other non-earning assets	755			580
Total assets	$82,684			$75,270
INTEREST BEARING LIABILITIES				
Savings	$12,505	$ 151	1.61%	$11,869
Money market	36,253	913	3.36%	30,550
Time deposits	18,025	833	6.16%	20,567
Subordinated debt	424	27	8.49%	40
	67,207	1,924	3.82%	63,026
NON-INTEREST BEARING LIABILITIES AND EQUITY				
Checking	8,264			8,081
Other liabilities	372			336
Equity	6,841			3,827
Total liabilities and equity	$82,684			$75,270
Net Interest/Spread		$2,197	2.84%	
Margin			3.55%	

PROVISION FOR LOAN LOSSES

The provision for loan losses was $55,000 and $175,000, respectively, for the three-month and nine-month periods ended March 31, 2002 and $61,000 and $186,000 for the same periods in 2001. 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 $68,000 have been recorded for the three-month period ended March 31, 2002, compared to $38,000 of net charge-offs for the same period in 2001. Net charge-offs of $123,000 have been recorded for the nine-month period ended March 31, 2002, compared to $221,000 of net charge-offs for the same period in 2001. The allowance for loan losses was $680,000 or 1.06% of gross loans as of March 31, 2002, compared to $627,000 or 0.98% of net loans at June 30, 2001.

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.

About 96% 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 recent terrorist attacks on the United States have adversely affected the airline industry. As a result of these events, the stability of the employment and income of airline pilots has been adversely affected. These layoffs could negatively affect the ability of our customers to repay their loans, although the effect of the layoffs on our loan delinquencies and loan losses cannot be identified with reasonable certainty at this time. As a result of these events, we may have higher loan delinquencies and defaults in future periods. At March 31, 2002, our delinquent loan past due 60 days or more was 0.22% or $140,000 of our loan portfolio compared to 0.03% or $20,000 at June 30, 2001.

NON-INTEREST INCOME

Non-interest income remained relatively stable over all periods presented. Non-interest income for the three-month periods ended March 31, 2002 and 2001 was $199,000 and $198,000, respectively, and for the nine-month periods was $590,000 and $579,000.

NON-INTEREST EXPENSE

Non-interest expense for the three-month period ended March 31, 2002 and 2001 was $791,000 and $637,000, respectively, and was $2,280,000 and $1,901,000, respectively, for the nine-month period ended March 31, 2002 and 2001. For the nine-month period ended March 31, 2002, compensation and employee benefits increased 17.41% over the same nine-month period in 2001. For the three-month period ended March 31, 2002 compensation and employee benefits increased 11.94% over the same three-month period in 2001. The increase in compensation and employee benefits in both periods presented are a result of rising insurance premiums for health care coverage, additional qualified

participants in the pension plan and an increase in staff, compensation and benefits expenses. Occupancy and equipment expense decreased 24.93% for the three-month period ended March 31, 2002 over that same three-month period ended in 2001. Occupancy and equipment expense decreased 16.15% for the nine-month period ended March 31, 2002 over the same nine-month period ended March 31, 2001. The decline in occupancy and equipment expenses in both the nine-month period and the three-month period ended March 31, 2002 over the same periods ended 2001 are a result of a number of fixed assets becoming fully depreciated during 2001 year. Data processing expenses increased in the year 2001 and 2002 as a result of adding and updating systems for the conversion from a credit union to a bank. For the nine-month period ended March 31, 2002, other expenses increased 53.36% over the same period nine-month period in 2001. For the three-month period ended March 31, 2002 other expenses 97.41% over the same three-month period in 2001. The increase in other expenses for the nine-month period ending March 31, 2002 over the same nine-month period ending 2001 was a result of increased consulting services in connection with the conversion from a credit union to a bank. The sharp rise in other expenses for the three-month period ended March 31, 2002 over the same period in 2001 is a result of an increase of $14,000 in regulatory fees, an increase of $63,000 in professional fees, and a $24,000 increase in advertising expenses. The increase in professional services is a result of the additional reporting requirements for a stock bank. The increase in advertisement expense is a result of increased promotional activities.

INCOME TAXES

Due to credit unions being not-for-profit organizations, we were not subject to federal or state income taxes during 2000 and during the first eight months of 2001. The provision for income taxes for the three-month period ended March 31, 2002 was $31,000. For the nine months ended March 31, 2002 a net tax benefit of $103,000 was recorded. As a result of the change in tax status and in accordance with Financial Accounting Standards No. 109, Accounting for Income Taxes, Allied First Bancorp, Inc. recorded a net deferred tax asset in the amount of $205,000 on September 1, 2001. The recording of the deferred tax asset was reflected as an income tax benefit on our income statement.

REGULATORY CAPITAL REQUIREMENTS

Pursuant to federal law, Allied First Bank must meet three separate minimum capital ratio requirements. As of March 31, 2002, Allied First Bank had core capital, Tier I risk-based and risk-based ratios of 11.40%, 14.43% and 15.38% compared to well-capitalized requirements of 5.00%, 6.00% and 10.00%, 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 marketable securities. At March 31, 2002, Allied First Bank had $9.7 million in cash and cash equivalents that could be used for its funding needs. Cash and cash equivalents decreased by $6.8 million compared to the period ending June 30, 2001 and securities available for sale increased by $4.9 million, time deposits with other institutions increased $4.0 million and Federal Home Loan Bank stock increased $1.3 million.

As of March 31, 2002, 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 Allied First Bancorp, Inc.'s liquidity, capital resources or operations.

Part II - Other Information

Item 1 - Legal Proceedings - Not Applicable.

Item 2 - Changes in Securities - 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 - Not Applicable

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: May 14, 2002

/s/ Kenneth L. Bertrand

Kenneth L. Bertrand
President and Chief Executive Officer

Date: May 14, 2002

/s/ Brian K. Weiss

Brian K. Weiss
Chief Financial Officer

13