SECURITY FEDERAL CORP
Form 10-K
June 27, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2008 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: 0-16120

SECURITY FEDERAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

South Carolina	57-08580504
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
238 Richland Avenue West, Aiken, South Carolina	29801
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(803) 641-3000
Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, par value $0.01 per share
	(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ____ NO X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ____ NO X

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer X

Smaller reporting company ____

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ____ NO X

As of June 12, 2008, there were issued and outstanding 2,531,906 shares of the registrant's Common Stock, which are traded on the over-the-counter market through the OTC "Electronic Bulletin Board" under the symbol "SFDL." The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of September 30, 2007, was $44.3 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Registrant's Annual Report to Stockholders for the Fiscal Year Ended March 31, 2008. (Parts I and II)

2. Portions of the Registrant's Proxy Statement for the 2008 Annual Meeting of Stockholders. (Part III)

PART I

Item 1. Business

Security Federal Corporation

Security Federal Corporation (the "Company") was incorporated under the laws of the State of Delaware in July 1987 for the purpose of becoming the savings and loan holding company for Security Federal Bank ("Security Federal" or the "Bank") upon the Bank's conversion from mutual to the stock form (the "Conversion"). Effective August 17, 1998, the Company changed its state of incorporation from Delaware to South Carolina.

As a South Carolina corporation, the Company is authorized to engage in any activity permitted by South Carolina General Corporation Law. The Company is a unitary savings and loan holding company. Through the unitary holding company structure, it is possible to expand the size and scope of the financial services offered beyond those currently offered by the Bank. The holding company structure also provides the Company with greater flexibility than the Bank would have to diversify its business activities, through existing or newly formed subsidiaries, or through acquisitions or mergers of stock thrift institutions as well as other companies. There are no current arrangements, understandings or agreements regarding any such acquisition. Future activities of the Company, other than the continuing operations of Security Federal, will be funded through dividends from Security Federal and through borrowings from third parties. See "Regulation Savings and Loan Holding Company Regulation" and "Taxation." Activities of the Company may also be funded through sales of additional securities or income generated by other activities of the Company. At this time, there are no plans regarding sales of additional securities or other activities.

At March 31, 2008, the Company had assets of approximately $840.0 million, deposits of approximately $590.9 million and shareholders' equity of approximately $47.5 million.

The executive office of the Company is located at 238 Richland Avenue West, Aiken, South Carolina 29801, and its telephone number is (803) 641-3000.

Security Federal Bank

General. Security Federal is a federally chartered stock savings bank headquartered in Aiken, South Carolina. Security Federal, with 11 branch offices in Aiken and Lexington Counties, was originally chartered under the name Aiken Building and Loan Association on March 27, 1922. It received its federal charter and changed its name to Security Federal Savings and Loan Association of Aiken on March 7, 1962, and later changed its name to Security Federal Savings Bank of South Carolina, on November 11, 1986. Effective April 8, 1996, the Bank changed its name to Security Federal Bank. The Bank converted from the mutual to the stock form of organization on October 30, 1987.

In October 1993, Security Federal increased its branch network to nine offices with the completion of its acquisition of four former NationsBank of South Carolina, N.A. branches located in Aiken County. In February 1996, Security Federal opened a new branch office in the Aiken Wal-Mart Superstore. The Bank opened a branch in West Columbia, Lexington County, South Carolina, in December 2000, which provided the Bank with the opportunity to expand its market area. In August 2003, the Bank opened a new branch in Lexington, South Carolina. During February 2004, the Bank completed the sale of its Denmark, South Carolina branch office to South Carolina Bank and Trust, N.A. of Orangeburg, South Carolina. In January 2006, the Bank closed its branch in the Aiken Wal-Mart Superstore and replaced it with a free standing branch on an out parcel in the Aiken Exchange Shopping Center. In December 2007, the Bank opened a new full service branch office in Evans, Georgia, and a new full service branch office in Columbia, South Carolina.

The principal business of Security Federal is accepting deposits from the general public and originating mortgage loans to enable borrowers to purchase or refinance one- to four-family residential real estate. The Bank also makes multi-family residential and commercial real estate loans, consumer loans, commercial loans, as well as construction loans on single family residences, multi-family dwellings and commercial real estate, and loans for the acquisition, development and construction of residential subdivisions and commercial projects. Additional financial services are provided by three of the Bank's wholly owned subsidiaries, Security Federal Insurance, Inc., Security Federal Investments, Inc. and Security Federal Trust, Inc.

Security Federal's income is derived primarily from interest and fees earned in connection with its lending activities, and its principal expenses are interest paid on savings deposits and borrowings and operating expenses.

Selected Consolidated Financial Information

This information is incorporated by reference to page 7 of the 2008 Annual Report to Stockholders ("Annual Report").

Yields Earned and Rates Paid

This information is incorporated by reference to page 15 of the Annual Report.

Rate/Volume Analysis

This information is incorporated by reference to page 14 of the Annual Report.

Lending Activities

General. The primary source of revenue for the Bank is interest and fee income from lending activities. One of the principal lending activities of the Bank is making conventional first mortgage real estate loans to enable borrowers to purchase or refinance one- to four-family residential real property. The Bank also makes multi-family residential and commercial real estate and consumer and commercial loans. The Bank continues to emphasize the origination of adjustable rate residential mortgage loans, subject to market conditions, for retention in its portfolio. In addition, the Bank originates construction loans on single family residences, multi-family dwellings and commercial real estate, and loans for the acquisition, development and construction of residential subdivisions and commercial projects.

Residential adjustable rate mortgage loans ("ARMs") constituted approximately 22.9% of the Bank's total outstanding loan portfolio at March 31, 2008.

The loan-to-value ratio, maturity and other provisions of loans made by the Bank reflect its policy of making the maximum loan permissible consistent with applicable regulations, established lending policies and market conditions. The Bank requires title insurance (or acceptable legal opinions on smaller loans secured by real estate) and fire insurance, and flood insurance where applicable, on loans secured by improved real estate.

Loan Portfolio Composition. The following table sets forth information concerning the compo the Bank's loan portfolio in dollar amounts and in percentages by type of loan, and presents a reconciliation of total loans receivable before net items.

	At March 31,								
	2008		2007		2006		2005		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amoun
	(Dollars in Thousands)								
TYPE OF LOAN:									
Fixed rate loans									
Residential real estate...........	$ 12,036	2.3%	$ 11,620	2.6%	$11,594	3.0%	$31,336	9.3%	$43,
Commercial business and commercial real estate.......	154,558	28.9	126,987	28.2	99,446	25.4	77,202	22.8	62,
Consumer...........	37,026	6.9	37,123	8.2	32,342	8.3	27,047	8.0	26,
Total fixed rate loans...........	203,620	38.1	175,730	39.0	143,382	36.7	135,585	40.1	133,
Adjustable rate loans									
Residential real estate...........	122,123	22.9	115,422	25.6	111,753	28.6	93,564	27.7	67,
Commercial business and commercial real estate...........	178,829	33.4	132,221	29.4	109,768	28.0	85,015	25.2	58,
Consumer...........	29,806	5.6	26,687	5.9	26,271	6.7	23,797	7.0	19,
Total adjustable rate loans......	330,758	61.9	274,330	61.0	247,792	63.3	202,376	59.9	144,
Total loans......	534,378	100.0%	450,060	100.0%	391,174	100.0%	337,961	100.0%	278,
Less									
Loans in process...	8,064		6,443		9,185		14,627		12,
Deferred fees and discounts.........	315		281		175		161		
Allowance for loan losses............	8,067		7,297		6,705		6,284		5,
Total loans receivable.......	$517,932		$436,039		$375,109		$316,889		$259,

The total amount of loans due after March 31, 2009, which have predetermined or fixed interes $141.7 million, while the total amount of loans due after that date which have floating or adjust interest rates is $166.3 million.

The following table sets forth information concerning the composition of the Bank's loan port dollar amounts and in percentages by type of loan, and presents a reconciliation of total loans r before net items.

	At March 31,								
	2008		2007		2006		2005		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amoun
	(Dollars in Thousands)								
TYPE OF LOAN:									
Real Estate Loans:									
Residential real estate..........	$116,184	21.7%	$109,532	24.3%	$99,561	25.4%	$105,516	31.2%	$95,
Residential construction....	17,975	3.4	17,510	3.9	23,786	6.1	19,384	5.8	15,
Total real estate loans..........	134,159	25.1	127,042	28.2	123,347	31.5	124,900	37.0	111,
Commercial business and commercial real estate...........	333,387	62.4	259,208	57.6	209,214	53.5	162,217	48.0	121,
Consumer loans:									
Deposit account..	1,569	0.3	1,647	0.4	1,180	0.3	1,145	0.3	1,
Home equity lines...........	22,693	4.2	20,086	4.4	20,059	5.1	16,918	5.0	13,
Consumer first and second mortgages.......	19,076	3.6	22,868	5.1	22,144	5.7	22,327	6.6	15,
Premium finance..	778	0.1	892	0.2	--	-	--	-	
Other...........	22,716	4.3	18,317	4.1	15,230	3.9	10,454	3.1	15,
Total consumer loans..........	66,832	12.5	63,810	14.2	58,613	15.0	50,844	15.0	45,
Total loans.....	534,378	100.0%	450,060	100.0%	391,174	100.0%	337,961	100.0%	278,
Less:									
Loans in process..	8,064		6,443		9,185		14,627		12,
Deferred fees and discounts........	315		281		175		161		
Allowance for loan losses...........	8,067		7,297		6,705		6,284		5,
Total loans receivable......	$517,932		$436,039		$375,109		$316,889		$259,

5

The following schedule illustrates the maturities of Security Federal's loan portfolio at March 31, 2008. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period when the contract is due. This schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	At March 31, 2008			
	Residential Real Estate	Consumer	Commercial Business and Commercial Real Estate	Total
	(In Thousands)			
Six months or less (1).......	$ 7,459	$ 7,832	$ 96,190	$111,481
Over six months to one year..	4,825	2,669	53,187	60,681
Over one year to three years.	687	9,230	85,170	95,087
Three to five years..........	416	11,479	63,753	75,648
Over five to ten years.......	2,993	9,764	20,273	33,030
Over ten years...............	109,714	25,858	14,814	150,386
Total (2)..................	$ 126,094	$ 66,832	$ 333,387	$526,313

(1) Includes demand loans, loans having no stated maturity, overdraft loans and equity line of credit loans.
(2) Loan amounts are net of undisbursed funds for loans in process of $8.1 million.

Loan Originations, Purchases and Sales. The following table shows the loan origination, purchase, sale and repayment activities of the Bank for the periods indicated.

	Year Ended March 31,				
	2008	2007	2006	2005	2004
	(In Thousands)				
Originated:					
Adjustable rate - residential real estate....................	$ 47,432	$40,380	$ 45,259	$43,578	$ 47,263
Fixed rate - residential real estate (1)....................	39,268	30,542	28,946	41,746	73,291
Consumer........................	31,663	34,748	33,621	29,290	26,829
Commercial business and commercial real estate.........	311,839	283,749	198,360	134,439	91,562
Total consumer/commercial business real estate..........	343,502	318,497	231,981	163,729	118,391
Total loans originated......	$430,202	$389,419	$306,186	$249,053	$238,945
Purchased......................	$ 15,618	$ 10,200	$ 5,060	$ 6,536	$ 3,500
Acquired in acquisition of Collier Jennings Financial Corporation...................	--	708	-	-	--
Less:					
Sold:					
Fixed rate - residential real estate.......	$ 38,502	$ 30,333	$ 29,903	$25,957	$63,497
Fixed rate -					

commercial real estate........	4,695	8,106	-	--	--
Adjustable rate -					
commercial real estate........	4,000	3,240	2,300	-	--
Principal repayments............	315,108	299,763	225,830	169,851	157,979
Increase (decrease) in other items, net.....................	1,622	(2,044)	(5,007)	2,787	4,230
Net increase....................	$ 81,893	$ 60,929	$ 58,220	$56,994	$16,739

(1) Includes newly originated fixed rate loans held for sale and construction/permanent loans converted to fixed rate loans and sold.

In addition to interest earned on loans, the Bank receives loan origination fees or "points" for originating loans. Loan points are a percentage of the principal amount of the mortgage loan which are charged to the borrower for the

6

creation of the loan. The Bank's loan origination fees are generally 1% on conventional residential mortgages, and 0.25% to 1% on commercial real estate loans and commercial business loans. The total fee income (including amounts amortized to income as yield adjustments) for the fiscal year ended March 31, 2008 was $1.3 million.

Loan origination and commitment fees are volatile sources of income. These fees vary with the volume and type of loans and commitments made and purchased and with competitive conditions in mortgage markets, which in turn are governed by the demand for and availability of money.

The following table shows deferred mortgage loan origination fees recognized as income by the Bank expressed as a percentage of the dollar amount of total mortgage loans originated (and retained in the Bank's portfolio) and purchased during the periods indicated and the dollar amount of deferred loan origination fees at the end of each respective period.

	At or For the Year Ended March 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Net deferred mortgage loan origination fees earned during the period (1)........................	$ 103	$ 173	$ 170
Mortgage loan origination fees earned as a percentage of total portfolio mortgage loans originated during the period...........................	0.2%	0.4%	0.4%
Net deferred mortgage loan origination fees in loan portfolio at end of period..............................	$ 115	$ 114	$ 175

(1) Includes amounts amortized to interest income as yield adjustments; does not include fees earned on loans sold.

The Bank also receives other fees and charges related to existing loans, conversion fees, assumption fees, late charges and other fees collected in connection with a change in borrower or other loan modifications.

Security Federal currently sells substantially all conforming fixed rate loans with terms of 15 years or greater in the secondary mortgage market. These loans are sold in order to provide a source of funds and as one of the strategies available to close the gap between the maturities of the Bank's interest-earning assets and interest-bearing liabilities. Currently, most fixed rate, long-term mortgage loans are being originated based on Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") underwriting standards.

Secondary market sales have been made primarily to Freddie Mac, or other banks or investors. Freddie Mac is a quasi-governmental agency that purchases residential mortgage loans from federally insured financial institutions and certain other lenders. All loans sold to Freddie Mac are without recourse to Security Federal and generally all other loans sold to other investors are without recourse. For the past few years, substantially all loans have been sold on a service released basis.

In fiscal 2008, Security Federal sold $38.5 million in fixed rate residential loans on a service released basis on the secondary market. Loans closed but not yet settled with Freddie Mac or other investors, are carried in the Bank's "loans held for sale" portfolio. At March 31, 2008, the Bank had $2.3 million of loans held for sale. These loans are fixed rate residential loans that have been originated in the Bank's name and have closed. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with the Bank's customers. Therefore, these loans present very little market risk for the Bank. The Bank usually delivers to and receives funding from the investor within 30 days. Security Federal originates all of its loans held for sale on a "best efforts" basis. Best efforts means that the Bank suffers no penalty if it is unable to deliver a loan to a potential investor.

The Bank also originates and holds adjustable and fixed rate construction loans. The construction loans are for one year terms. At March 31, 2008, the Bank held $18.0 million, or 3.4% of the total loan portfolio, in construction

loans to individuals in its residential portfolio. At March 31, 2008, the Bank also held approximately $6.4 million in longer term fixed rate residential mortgage loans. These loans, which were 1.2% of the entire loan portfolio at March 31, 2008, had converted from ARM loans to fixed rate loans during the previous 60 months, and had remaining maturities of 10 to 29 years. The Bank no longer originates ARM loans with conversion features nor has any loans in its portfolio with conversion features.

Loan Solicitation and Processing. The Bank actively solicits mortgage loan applications from existing customers, real estate agents, builders, real estate developers and others. The Bank also receives mortgage loan applications as a result of customer referrals and from walk-in customers.

Detailed loan applications are obtained to determine the borrower's creditworthiness and ability to repay. The more significant items on loan applications are verified through the use of credit reports, financial statements and confirmations. After analysis of the loan application and property or collateral involved, including an appraisal of the property (residential appraisals are obtained through independent fee appraisers), the lending decision is made in accordance with the underwriting guidelines of the Bank. These guidelines are generally consistent with Freddie Mac and Fannie Mae guidelines for residential real estate loans. With respect to commercial real estate loans, the Bank also reviews the capital adequacy of the business, the income potential of the property, the ability of the borrower to repay the loan and honor its other obligations, and general economic and industry conditions.

Upon receipt of a loan application and all required related information from a prospective borrower, the loan application is submitted for approval or rejection. The residential mortgage loan underwriters approve loans which meet Freddie Mac and Fannie Mae underwriting requirements, not to exceed $417,000 per loan, Federal Housing Administration ("FHA") loans not to exceed $200,161 and Veterans' Administration ("VA") loans not to exceed $417,000. The Chairman of the Company, the Chief Executive Officer of the Bank, or the President of the Bank individually have the authority to approve loans of $300,000 or less, except as set forth above for conforming conventionally underwritten, single family mortgage loans, which are approved by the underwriters. The two Executive Vice Presidents/Lending and the Senior Vice President/Mortgage Lending have the authority to approve loans up to $250,000. Loans in excess of $300,000 up to $500,000 require the approval of any two of the Chairman of the Company, the Chief Executive Officer of the Bank, the President of the Bank and the Senior Vice President/Mortgage Lending or either of the two Executive Vice Presidents/Lending. Commercial, consumer and all non-conforming real estate loans in excess of $350,000 up to $500,000 require approval of any two of the Chairman of the Company, the Chief Executive Officer of the Bank, or the President of the Bank, and any loan in an amount in excess of $500,000 must be approved by the Bank's Executive Committee, which operates as the Bank's Loan Committee. The loan approval limits shown are the aggregate of all loans to any one borrower or entity, not including loans that are the borrower's primary residence, and are conventionally underwritten.

The general policy of Security Federal is to issue loan commitments to qualified borrowers for a specified time period. These commitments are generally for a period of 45 days or less. With management approval, commitments may be extended for a longer period. As of March 31, 2008, Security Federal had $585,000 of residential mortgage loan commitments for portfolio loans issued (excluding undisbursed portions of construction loans in process). Security Federal had outstanding commitments available on retail lines of credit (including home equity and other consumer loans) totaling $30.5 million as of March 31, 2008. See Note 16 of the Notes to Consolidated Financial Statements contained in the Annual Report.

Permanent Residential Mortgage Lending. Permanent residential real estate mortgage loans constituted approximately 21.7% of the Bank's total outstanding loan portfolio at March 31, 2008.

Security Federal offers a variety of ARMs which offer adjustable rates of interest, payments, loan balances or terms to maturity which vary according to specified indices. The Bank's ARMs generally have a loan term of 15 to 30 years with initial rate adjustments every one, three, five or seven years during the term of the loan. After the initial rate adjustment, the loan rate then adjusts annually. Most of the Bank's ARMs contain a 200 basis point limit as to the maximum amount of change in the interest rate at any adjustment period and a 500 or 600 basis point limit over the life of the loan. The Bank generally originates ARMs to hold in its portfolio. These loans are generally made consistent with Freddie Mac and Fannie Mae guidelines. At March 31, 2008, residential ARMs totaled $122.1 million, or 22.9%

of the Bank's loan portfolio. For the year ended March 31, 2008, the Bank originated $86.7 million in residential real estate loans, 54.7% of which had adjustable rates of interest.

There are unquantifiable risks resulting from possible increased costs to the borrower as a result of periodic repricing. Despite the benefits of ARMs to the Bank's asset/liability management program, these loans also pose potential additional risks, primarily because as interest rates rise, the underlying payment by the borrower rises, increasing the potential for default. At the same time, marketability of the underlying property may be adversely affected by higher interest rates.

When making a one- to four-family residential mortgage loan, the Bank evaluates both the borrower's creditworthiness and his or her general ability to make principal and interest payments, and the value of the property that will secure the loan. The Bank generally makes loans on one- to four-family residential properties in amounts of 95% or less of the appraised value thereof. Where loans are made in amounts which exceed 80% of the appraised value of the underlying real estate, the Bank's general policy is to require private mortgage insurance on the portion of the loan in excess of 80% of the appraised value. In general, the Bank restricts its residential lending to South Carolina and the nearby Augusta, Georgia market.

The Bank also provides construction financing for single family dwellings to owner-occupants. Construction loans are generally made for periods of six months to one year with either adjustable or fixed rates. At March 31, 2008, residential construction loans on one- to four-family dwellings to owner-occupants totaled $18.0 million, or 3.4%, of the Bank's loan portfolio. On loans of this type, the Bank seeks to evaluate the financial condition and prior performance of the builder, as well as the borrower's creditworthiness and his or her general ability to make principal and interest payments, and the value of the property that will secure the loan. On construction loans offered to individuals (non-builders), the Bank offers a construction/permanent loan. The construction portion of the loan has an adjustable rate (typically prime) or a fixed rate (typically prime plus 0.25%) during the construction period. After construction, the loan then automatically converts to an ARM loan. The borrower also has the option, after the construction period only, to convert the loan to a fixed rate loan which the Bank then sells on the secondary market immediately on a service released basis.

Commercial Business and Commercial Real Estate Loans. The commercial business and commercial real estate loans originated by the Bank are primarily secured by business properties, churches, income property developments, undeveloped land, business equipment, furniture and fixtures, inventory and receivables. At March 31, 2008, the Bank had approximately $333.4 million, or 62.4%, of the Bank's total loan portfolio, in commercial business and commercial real estate loans. Approximately $183.4 million, or 55.0% of these loans were secured primarily by real estate at March 31, 2008. Included in these loans is approximately $31.1 million in loans for the construction of single family dwellings to builders with a term of typically one year. Not included in these loans are approximately $45.9 million in acquisition and development loans with terms of typically two to three years. Loans secured by commercial real estate are typically written for terms of 10 to 20 years. Commercial loans not secured by real estate are typically based on terms of three to 60 months. Fixed rate loans typically balloon at the end of three to seven years. Adjustable rate loans are usually tied to the prime interest rate or LIBOR as quoted in the Wall Street Journal, and adjust daily, monthly or annually. Some adjustable rate loans have interest rate caps, although most of these loans have a five year balloon.

Commercial business and commercial real estate lending entails significant additional credit risk when compared to residential lending. Commercial loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience of these loans is typically dependent upon the successful operation of the business or real estate project. These risks can be significantly affected by supply and demand conditions in the market for office and retail space, condominiums and apartments, and by adverse conditions in the local economy. Although commercial loans generally involve more risk than residential loans, they also typically provide a greater yield and are more sensitive to changes in interest rates.

The Bank's underwriting standards for commercial business and commercial real estate lending include a determination of the borrower's current financial condition, ability to pay, past earnings and payment history. In addition, the current financial condition and payment history of all principals are reviewed. Typically, the Bank requires the principal or owners of a business to guarantee all loans made to their business by the Bank. Although the

creditworthiness of the business and its principals is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Properties securing commercial loans originated by the Bank are generally appraised at the time of the loan by appraisers designated by the Bank. Although the Bank is permitted to invest in loans up to 100% of the appraised value of a property on a commercial loan, the Bank currently seeks to invest in loans with a loan to value ratio of 75% to 85%.

At March 31, 2008, the Bank did not have any commercial business or commercial real estate loans to one borrower in excess of $7.0 million. Federal law restricts the Bank's permissible lending limits to one borrower to the greater of $500,000 or 15% of unimpaired capital and surplus. The Bank has only infrequently made loans to one borrower equal to the amount federal law allows, or approximately $8.9 million as calculated at March 31, 2008.

Consumer Loans. The Bank originates consumer loans for any personal, family or household purpose, including the financing of home improvements, loans to individuals for residential lots for a future home, automobiles, boats, mobile homes, recreational vehicles and education. The Bank also makes consumer first and second mortgage loans secured by residences. These loans typically do not qualify for sale in the secondary market, but are generally not considered sub-prime lending. In addition, the Bank has expanded its home equity lending program. Home equity loans are secured by mortgage lines on the borrower's principal or second residence. At March 31, 2008, the Bank had $22.7 million of home equity lines of credit outstanding and $23.8 million of additional commitments of home equity lines of credit. The Bank also makes secured and unsecured lines of credit available. Although consumer loans involve a higher level of risk than one- to four-family residential mortgage loans, they generally provide higher yields and have shorter terms to maturity than one- to four-family residential mortgage loans. At March 31, 2008, the Bank had total consumer loans of $66.8 million, or 12.5% of the Bank's loan portfolio.

The Bank's underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income is determined by verification of gross monthly income from primary employment, and from any verifiable secondary income. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

The Bank also has a credit card program. As of March 31, 2008, the Bank had issued 1,511 Visa credit cards with total approved credit lines of $5.5 million, of which $1.8 million was outstanding.

Loan Delinquencies and Defaults

General. The Bank's collection procedures provide that when a real estate loan is approximately 20 days past due, the borrower is contacted by mail and payment is requested. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and establish a program to bring the loan current. In certain instances, the Bank may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his financial affairs. If the loan continues in a delinquent status for 60 days or more, the Bank generally initiates foreclosure proceedings after the customer has been notified by certified mail. At March 31, 2008, the Bank had property acquired as the result of foreclosures and other property repossessed classified as repossessed assets valued at $767,000.

Delinquent Loans. The following table sets forth information concerning delinquent loans at March 31, 2008. The amounts presented represent the total remaining principal balances of the delinquent loans (before specific reserves for losses), rather than the actual payment amounts which are overdue.

	Real Estate				Non-Real Estate			
	Residential		Commercial		Consumer		Commercial Business	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in Thousands, number of loans are actual)							
Loans delinquent for:								
30 - 59 days............	13	$1,520	22	$5,322	34	$1,025	18	$ 6,51
60 - 89 days............	1	94	2	1,031	8	54	3	
90 days and over........	5	609	11	1,168	10	416	8	3,82
Total delinquent loans..	19	$2,223	35	$7,521	52	$1,495	29	$10,35

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered to be of lesser quality as "substandard," "doubtful" or "loss" assets. The regulations require savings associations to classify their own assets and to establish prudent general allowances for loan losses for assets classified "substandard" or "doubtful." For the portion of assets classified as "loss," an institution is required to either establish specific allowances of 100% of the amount classified or charge off such amount. In addition, the Office of Thrift Supervision ("OTS") may require the establishment of a general allowance for losses based on assets classified as "substandard" and "doubtful" or based on the general quality of the asset portfolio of an association. See "Regulation Federal Regulation of Savings Institutions."Assets which do not currently expose the savings association to sufficient risk to warrant classification in one of the aforementioned categories but possess potential weaknesses are designated "special mention" by management.

At March 31, 2008, approximately $16.0 million of the Bank's loans were classified "substandard" compared to $10.8 million at March 31, 2007. In fiscal 2005, the Bank began applying stricter standards in securitizing its loan portfolio for classification purposes in conjunction with the formation of a Credit Administration Department. At March 31, 2008, $1.6 million were classified as "special mention" compared to $2.3 million at March 31, 2007. The Bank had no loans classified as "doubtful" or "loss" at March 31, 2008. As of March 31, 2008, there were loans totaling $187,000 which were troubled debt restructurings within the meaning of Statement of Financial Accounting Standard ("SFAS") No. 15. The Bank's policy is to classify all troubled debt restructurings as substandard. The Bank's classification of assets is consistent with OTS regulatory classifications.

Non-performing Assets. Loans are placed on non-accrual status when the collection of principal and/or interest becomes doubtful. In addition, all loans are placed on non-accrual status when the loan becomes 90 days or more contractually delinquent. All consumer loans more than 90 days delinquent are charged against the consumer loan allowance for loan losses unless there is adequate collateral which is in the process of being repossessed or foreclosed on. At March 31, 2008, the Bank did not have any troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than market rate. Other loans of concern are those loans (not delinquent more than 60 days) that management has determined need to be closely monitored as the potential exists for increased risk on these loans in the future. Nonperforming loans are reviewed monthly on a loan by loan basis. Charge-offs, whether partial or in full, associated with these loans will vary based on estimates of recovery for each loan.

The following table sets forth the amounts and categories of risk elements in the Bank's loan portfolio.

	At March 31,				
	2008	2007	2006	2005	2004
	(Dollars in Thousands)				

Loans Delinquent 60 to 89 Days:					
Residential	$ 94	$ 621	$ 182	$ 73	$ 72
Consumer	54	97	5	13	73
Commercial business and real estate	1,039	1,031	420	13	88
Total	$1,187	$1,749	$ 607	$ 99	$ 233
Total as a percentage of total assets	0.14%	0.24%	0.09%	0.02%	0.04%
Non-Accruing Loans Delinquent 90 Days or More:					
Residential	$ 609	$ 353	$ 412	$ 569	$ 559
Consumer	416	142	133	140	243
Commercial business and real estate	4,994	560	646	1,721	1,242
Total	$6,019	$1,055	$1,191	$ 2,430	$2,044
Total as a percentage of total assets	0.72%	0.14%	0.18%	0.42%	0.39%
Troubled debt restructurings	$ 187	$ 204	$ 418	$ 434	$ 646(1)
Repossessed assets	$ 767	$ 25	$ 91	$ 53	$ 51
Allowance for loan losses	$8,067	$7,297	$6,705	$ 6,284	$5,764

(1) $201,000 of troubled debt restructurings are included in non-accruing loans.

For the fiscal year ended March 31, 2008, the interest income which would have been recognized with respect to non-accruing loans, had such loans been current in accordance with their original terms and with respect to troubled debt restructurings, had such loans been current in accordance with their original terms, totaled $238,000 compared to $107,000 for the year ended March 31, 2007.

At March 31, 2008, non-accruing loans totaled $6.0 million, compared to $1.1 million and $1.2 million at March 31, 2007 and 2006, respectively. Included in non-accruing loans at March 31, 2008 were five residential real estate loans totaling $609,000, 19 commercial loans totaling $5.0 million and 10 consumer loans totaling $416,000. Of the 10 consumer loans on non-accrual status at fiscal year end, no loan exceeded $180,000. Of the 19 commercial loans on non-accrual status at fiscal year end, no loan exceeded $1.4 million.

The Bank had five loans totaling $187,000 at fiscal year end which were troubled debt restructurings compared to five loans of $204,000 at March 31, 2007. The five troubled debt restructurings were three consumer loans totaling $170,000 secured by residential dwellings, a $9,000 consumer loan secured by a second mortgage on a residence, and a $8,000 unsecured commercial loan. The $9,000 consumer loan was 60 days delinquent at March 31, 2008. The remaining four loans were current at March 31, 2008.

At March 31, 2008, repossessed assets had an outstanding carrying value of $767,000 and consisted of four single family dwellings, two residential lots, and a tractor.

Provision for Losses on Loans and Repossessed Assets. Security Federal recognizes that it will experience credit losses during the course of making loans and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the underlying security for the loan. The Bank seeks to establish and maintain sufficient reserves for estimated losses on specifically identified loans and real estate where such losses can be estimated. Additionally, general reserves for estimated possible losses are established on specified portions of the Bank's portfolio such as consumer loans and higher risk residential construction mortgage loans based on management's estimate of the potential loss for loans which normally can be classified as higher risk. Specific and general reserves are based on, among other criteria (1) the risk

characteristics of the loan portfolio, (2) current economic conditions on a local as well as a statewide basis, (3) actual losses experienced historically and (4) the level of reserves for possible losses in the future. Additionally, the Bank maintains a reserve for uncollected interest on loans 90 days or more past due.

At March 31, 2008, total reserves relating to loans were $8.1 million. In determining the adequacy of the reserve for loan losses, management reviews past experience of loan charge-offs, the level of past due and non-accrual loans, the size and mix of the portfolio, general economic conditions in the market area, and individual loans to identify potential credit problems. Commercial business, commercial real estate and consumer loans have increased to $400.2 million, or 74.9% of the Bank's total loan portfolio at March 31, 2008, and it is anticipated there will be a continued emphasis on this type of credit. Although commercial and consumer loans carry a higher level of credit risk than conventional residential mortgage loans, the level of reserves reflects management's continuing evaluation of this risk based on upon the Bank's past loss experience. At fiscal year end, the Bank's ratio of loans delinquent more than 60 days to total assets was 0.86%. These delinquent loans are considered to be well secured and are in the process of collection. Management uses four methods or calculations to estimate the adequacy of the reserve using the factors mentioned above. The reserve is management's best estimate for the reserve. There can be no guarantee that the estimate is adequate or accurate. Management believes that reserves for loan losses are at a level adequate to provide for inherent loan losses. Although management believes that it has considered all relevant factors in its estimation of future losses, future adjustments to reserves may be necessary if conditions change substantially from the assumptions used in making the original estimations. Regulators will from time to time evaluate the allowance for loan losses which is subject to adjustment based upon the information available to the regulators at the time of their examinations.

Management believes the Bank has no undue concentration of loans in any one particular industry. At March 31, 2008, the Bank had no allowance for losses on real estate owned.

The following table sets forth an analysis of the Bank's allowance for loan losses.

	At March 31,				
	2008	2007	2006	2005	2004
	(Dollars in Thousands)				
Balance at beginning					

of year..................	$ 7,297	$ 6,705	$ 6,284	$ 5,764	$ 4,911
Allowance acquired in acquisition..............	-	22	-	--	--
Provision charged to operations...............	895	600	660	780	1,200
Charge-offs:					
Residential real estate..	15	9	25	29	38
Commercial business and commercial real estate..	146	16	159	257	164
Consumer.................	89	108	117	157	467
Total charge-offs.......	250	133	301	443	669
Recoveries:					
Residential real estate..	1	-	4	-	--
Commercial business and commercial real estate..	83	23	33	112	16
Consumer.................	41	80	25	71	306
Total recoveries........	125	103	62	183	322
Balance at end of year....	$8,067	$7,297	$6,705	$6,284	$5,764
Ratio of net charge-offs during the year to average loans outstanding during the year	0.03%	0.01%	0.07%	0.09%	0.14%

13

The distribution of the Bank's allowance for loan losses at the dates indicated is summarize following table. The entire allowance is available to absorb losses from all loan categories.

	At March 31,								
	2008		2007		2006		2005		
	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amo
	(Dollars in Thousands)								
Residential............	$ 665	25.2%	$ 619	28.2%	$ 568	31.5%	$ 531	37.0%	$ 5
Consumer...............	3,712	12.5	3,339	14.2	3,068	15.0	2,876	15.0	2,6
Commercial business and commercial real estate................	3,690	62.3	3,339	57.6	3,069	53.5	2,877	48.0	2,6
Total.................	$8,067	100.0%	$7,297	100.0%	$6,705	100.0%	$6,284	100.0%	$5,7

Service Corporation

As a federally chartered savings bank, Security Federal is permitted by OTS regulations to invest up to 3% of its assets in the stock of service corporations, provided that any investment in excess of 2% of its assets must be primarily for community, inner-city or community development purposes. At March 31, 2008, Security Federal's net investment in its service corporations (including loans to service corporations) totaled $3.6 million. In addition to investments in service corporations, federal institutions are permitted to invest an unlimited amount in operating subsidiaries engaged solely in activities which a federal savings bank may engage in directly.

Security Federal Insurance, Inc. ("SFINS"), Security Federal Investments, Inc. ("SFINV") and Security Federal Trust, Inc. ("SFT"). SFINS, SFINV and SFT, wholly owned subsidiaries of the Bank, were formed during fiscal 2002 and began operating during the December 2001 quarter. SFINS is an insurance agency offering auto, business, health, home and life insurance, and premium finance. SFINV offers mutual funds, annuities and discount brokerage services. SFT offers a full range of trust and financial planning services. The operations of SFINS, SFINV and SFT are included in the Company's Consolidated Financial Statements.

Collier Jennings Financial Corporation. Collier Jennings Financial Corporation is a subsidiary of SFINS, a subsidiary of the Bank, which is described above. The Company acquired the insurance and premium finance businesses of Collier Jennings Financial Corporation and its subsidiaries, Collier-Jennings, Inc., The Auto Insurance Store, Inc., and Collier-Jennings Premium Pay Plans, Inc. (the "Collier-Jennings Companies"), effective as of June 30, 2006.

Security Financial Services Corporation ("SFSC"). SFSC was incorporated in 1975 as a wholly owned subsidiary of the Bank. Its primary activity was investment brokerage services. SFSC is currently inactive.

Investment Activities

Investment securities. The Bank has authority to invest in various types of liquid assets, including U.S. Treasury obligations and securities of various federal agencies, certificates of deposit at insured institutions, bankers' acceptances and federal funds. The Bank may also invest a portion of its assets in certain commercial paper and corporate debt securities. The Bank is also authorized to invest in mutual funds whose assets conform to the investments that a federal thrift institution is authorized to make directly. There are various restrictions on the foregoing investments. For example, the commercial paper must be appropriately rated by at least two nationally recognized investment rating services and the corporate debt securities must be appropriately rated by at least one such service. In addition, the average maturity of an institution's portfolio of corporate debt securities may not, at any one time, exceed six years, and the commercial paper must mature within nine months of issuance. Furthermore, an institution's total investment in the commercial paper and corporate debt securities of any one issuer may not exceed 1% of the institution's assets except that an institution may invest 5% of its assets in the shares of any appropriate mutual fund. See "Regulation Federal Regulation of Savings Associations."

As a member of the Federal Home Loan Bank ("FHLB") System, Security

Federal must maintain minimum levels of investments that are liquid assets as defined in Federal regulations. See "Regulation Federal Regulation of Savings Institutions Federal Home Loan Bank System." Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans.

Historically, the Bank has maintained its liquid assets above the minimum requirements imposed by OTS regulations and at a level believed adequate to meet requirements of normal daily activities, repayment of maturing debt and potential deposit outflows. Management regularly reviews and updates cash flow projections to assure that adequate liquidity is provided.

The following table sets forth the composition of the Company's portfolio of securities and other investments, not including mortgage-backed securities.

	At March 31,		
	2008	2007	2006
	(In Thousands)		
Interest bearing deposit at FHLB.............	$ 1,846	$ 1,795	$ 3,715
Total.....................................	$ 1,846	$ 1,795	$ 3,715
Investment Securities:			
Available for Sale:			
FHLB securities...........................	$32,517	$38,373	$ 24,005
Federal Farm Credit Bank securities........	15,173	9,214	2,941
Fannie Mae bonds..........................	3,006	2,930	979
Freddie Mac bonds.........................	-	64	230
Equity Securities.........................	89	104	103
Total securities available for sale.......	50,785	50,685	28,258
Held to Maturity:			
FHLB securities...........................	18,000	55,995	66,002
Federal Farm Credit Bank securities........	2,000	7,989	8,986
Equity Securities.........................	155	155	--
Total securities held to maturity.........	20,155	64,139	74,988
Total securities (1).......................	70,940	114,824	103,246
FHLB stock.................................	9,497	8,209	7,150
Total securities and FHLB stock (1)..........	$80,437	$123,033	$110,396

(1) Does not include mortgage-backed securities.

At March 31, 2008, the Company did not have any investment securities (exclusive of obligations of the U.S. Government and federal agencies) issued by any one entity with a total book value in excess of 10% of stockholders' equity.

FHLB securities, Federal Farm Credit Bank securities, Fannie Mae bonds and Freddie Mac bonds are all securities that are issued by government sponsored enterprises (GSEs). GSE securities are not backed by the full faith and credit of the United States government.

The following table sets forth the maturities or repricing of investment securities and FHLB stock at March 31, 2008, and the weighted average yields of such securities and FHLB stock (calculated on the basis of the cost and effective yields weighted for the scheduled maturity of each security). Callable securities are shown at their likely call dates based on current interest rates. The table was prepared using amortized cost.

	Maturing or Repricing							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in Thousands)							
U.S. Government sponsored enterprises...	$28,595	5.15%	$22,144	5.16%	$ --	--%	$ --	--%
FHLB stock (1).	9,497	6.00	-	--	--	--	--	--
Other equity securities....	103	0.20	-	-	-	-	-	--
Total (2)....	$38,195	5.35%	$22,144	5.16%	$ --	--%	$ --	--%

(1) FHLB stock has no stated maturity date.
(2) Excludes mortgage-backed securities and equity securities totaling $190.5 million with a yield of 5.05%.

For information regarding the market value of the Bank's securities portfolios, see Notes 3 and 4 of the Notes to Consolidated Financial Statements contained in the Annual Report.

Mortgage-backed Securities. Security Federal has a portfolio of mortgage-backed securities which it holds in both an available for sale and a held to maturity portfolio. Mortgage-backed securities can serve as collateral for borrowings and, through repayments, as a source of liquidity. Under the Bank's risk-based capital requirement, mortgage-backed securities have a risk weight of 20% (or 0% in the case of Government National Mortgage Association ("Ginnie Mae") securities) in contrast to the 50% risk weight carried by residential loans. See "Regulation."

The following table sets forth the composition of the mortgage-backed securities available for sale portfolio at fair value at the dates indicated.

	At March 31,		
	2008	2007	2006
	(In Thousands)		
Available for Sale:			
Freddie Mac........................	$ 34,250	$ 18,591	$ 21,196
Fannie Mae.........................	84,965	67,675	74,498
Ginnie Mae.........................	74,159	48,815	39,493
Total............................	$193,374	$135,081	$135,187

At March 31, 2008, 2007 and 2006, the Company did not have any mortgage-backed securities held to maturity.

At March 31, 2008, the Company did not have any mortgage-backed securities (exclusive of obligations of agencies of the U.S. Government) issued by any one entity with a total book value in excess of 10% of stockholders equity.

Freddie Mac and Fannie Mae mortgage-backed securities are GSE issued securities. GSE securities are not backed by the full faith and credit of the United States government. Ginnie Mae mortgage-backed securities are backed by the full faith and credit of the United States government.

For information regarding the market values of Security Federal's mortgage-backed securities portfolio, see Notes 3 and 4 of the Notes to Consolidated Financial Statements contained in the Annual Report.

The following table sets forth the final maturities or initial repricings, whichever occurs the weighted average yields of the mortgage-backed securities at March 31, 2008. Not considered preparation of the table below is the effect of scheduled payments or anticipated prepayments. T prepared using amortized cost.

	The Earliest of Maturing or Repricing								March
	Less Than 1 Year		1 to 5 Years		5 to 10 Years		Over Ten Years		Ba Outs
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
					(Dollars in Thousands)				
Fannie Mae......	$ 2,415	3.84%	$ 6,249	4.07%	$ 3,474	4.61%	$21,727	5.15%	$ 33,8
Freddie Mac.....	20,237	5.04	26,356	4.75	18,407	4.54	18,818	5.33	83,8
Ginnie Mae......	22,846	5.25	10,410	5.30	435	5.97	39,080	5.39	72,7
Total...........	$45,498	5.08%	$43,015	4.78%	$22,316	4.58%	$79,625	5.31%	$190,4

Sources of Funds

Deposit accounts have traditionally been a principal source of the Bank's funds for use in lending and for other general business purposes. In addition to deposits, the Bank derives funds from loan repayments, cash flows generated from operations (including interest credited to deposit accounts), FHLB of Atlanta advances, the sale of securities under agreements to repurchase, and loan sales. Scheduled loan payments are a relatively stable source of funds while deposit inflows and outflows and the related cost of such funds have varied widely. FHLB of Atlanta advances and the sale of securities under agreements to repurchase may be used on a short-term basis to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels and may be used on a longer term basis in support of expanded lending activities. The availability of funds from loan sales is influenced by general interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Annual Report.

Deposits. The Bank attracts both short-term and long-term deposits from the general public by offering a wide assortment of account types and rates. In recent years, market conditions have required the Bank to rely increasingly on short-term accounts and other deposit alternatives that are more responsive to market interest rates than the savings accounts and regulated fixed interest rate, fixed-term certificates that were the Bank's primary source of deposits before 1978. The Bank offers regular savings accounts, checking accounts, various money market accounts, fixed interest rate certificates with varying maturities, negotiated rate $100,000 or above jumbo certificates of deposit ("Jumbo CDs") and individual retirement accounts.

At March 31, 2008, the Bank had no brokered deposits. In addition, the Bank believes that, based on its experience over the past several years, its savings and transaction accounts are stable sources of deposits.

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs for the periods indicated.

	At March 31,					
	2008		2007		2006	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Interest Rate Range						
for 2008:						
Savings accounts 0% - 1.00%..........	$15,966	2.7%	$ 17,459	3.3%	$ 17,795	3.7%
NOW and other transaction accounts 0% - 1.98%..	100,586	17.0	105,515	20.1	105,348	22.0
Money market funds 1.09% - 3.01%........	143,225	24.3	145,492	27.8	151,494	31.6
Total non-certificates........	$259,777	44.0%	$268,466	51.2%	$274,637	57.3%
Certificates:						
0.00-1.99%...........	$ -	--%	$ -	--%	$ 60	--%
2.00-2.99%...........	14,047	2.4	2,972	0.6	26,836	5.6
3.00-3.99%...........	59,527	10.1	36,045	6.9	72,832	15.2
4.00-4.99%...........	68,149	11.5	35,617	6.8	94,241	19.7
5.00-5.99%...........	189,350	32.0	180,638	34.5	10,623	2.2
Total certificates...	331,073	56.0	255,272	48.8	204,592	42.7

Total deposits.......	$590,850	100.0%	$523,738	100.0%	$479,229	100.0%

The Bank relies to a limited extent upon locally obtained Jumbo CDs to maintain its deposit levels. At March 31, 2008, Jumbo CDs constituted 21.1% of the Bank's total deposits. Security Federal has not relied heavily on Jumbo CDs to manage interest rate sensitivity.

The following table sets forth the deposit flows at the Bank during the periods indicated.

	Years Ended March 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Opening balance.....................	$ 523,738	$ 479,229	$ 430,287
Net deposits........................	67,112	44,509	48,942
Ending balance......................	590,850	523,738	479,229
Net increase........................	$ 67,112	$ 44,509	$ 48,942
Percent increase....................	$12.8%	9.3%	11.4%

The following table shows rate and maturity information for the Bank's certificates of deposit as of March 31, 2008.

	2.00-2.99%	3.00-3.99%	4.00-4.99%	5.00-5.99%	Total
Certificate accounts maturing in quarter ending:			(In Thousands)		
June 30, 2008..............	$ 5,495	$ 7,629	$10,183	$ 52,582	$ 75,889
September 30, 2008.........	3,137	7,896	11,748	82,749	105,530
December 31, 2008..........	35	31,975	33,903	47,696	113,609
March 31, 2009.............	3,623	7,114	7,013	828	18,578
June 30, 2009..............	567	2,124	153	426	3,270
September 30, 2009.........	142	658	219	400	1,419
December 31, 2009..........	-	722	276	562	1,560
March 31, 2010.............	1,021	526	266	-	1,813
June 30, 2010..............	-	108	419	-	527
September 30, 2010.........	-	224	209	261	694
December 31, 2010..........	-	5	246	100	351
Thereafter.................	27	546	3,514	3,746	7,833
Total....................	$14,047	$59,527	$68,149	$189,350	$331,073

The following table indicates the amount of the Bank's deposits of $100,000 or more by time remaining until maturity at March 31, 2008.

	Certificates of Deposit	Savings, NOW and Money Market Accounts

Maturity Period	(In Thousands)	
Three months or less..............	$ 35,114	$ 122,043
Over three through six months.....	44,386	--
Over six through twelve months....	62,808	--
Over twelve months................	7,220	--
Total...........................	$ 149,528	$ 122,043

Borrowings

As a member of the FHLB of Atlanta, the Bank is required to own capital stock in the FHLB of Atlanta and is authorized to apply for advances from the FHLB of Atlanta. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB of Atlanta may prescribe the acceptable uses to which these advances may be put, as well as limitations on the size of the advances and repayment provisions. See Note 10 of the Notes to Consolidated Financial Statements contained in the Annual Report for information regarding the maturities and rate structure of the Bank's FHLB advances. Federal law contains certain collateral requirements for FHLB advances. See "Regulation Federal Regulation of Savings Institutions Federal Home Loan Bank System."

At March 31, 2008, the Company had $5.2 million in junior subordinated debentures. Half of the debentures have a fixed rate of 6.88%, which balloons in September 2011. The other half of the debentures have a fixed rate that floats quarterly at 170 basis points over the three-month LIBOR rate, or 4.50% at March 31, 2008. The blended rate was 5.69% at March 31, 2008. The debentures are callable by the Company in September 2011, and quarterly thereafter, with a final maturity date of December 15, 2036. See Note 11 of the Notes to Consolidated Financial Statements contained in the Annual Report for more information.

The following table sets forth the maximum month-end balance and average balance of FHLB advances, other borrowings and junior subordinated debentures for the periods indicated.

	Years Ended March 31,		
	2008	2007	2006
	(In Thousands)		
Maximum Balance:			
FHLB advances.....................	$ 179,142	$ 159,376	$ 132,513
Other borrowings..................	13,635	8,088	7,290
Junior subordinated debentures.....	5,155	5,155	--
Average Balance:			
FHLB advances.....................	$ 170,606	$ 145,299	$ 121,526
Other borrowings..................	10,171	7,080	6,201
Junior subordinated debentures.....	5,155	2,721	--

At March 31, 2008, the Bank had $9.8 million in retail repurchase agreements with an average rate of 3.01%. These repurchase agreements are included in "Other Borrowings" in the consolidated financial statements and the table above.

The following table sets forth information as to the Bank's borrowings and the weighted average interest rates thereon at the dates indicated.

	At March 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Balance:			
FHLB advances.....................	$178,234	$153,049	$131,363
Other borrowings..................	12,784	8,088	7,290
Junior subordinated debentures....	5,155	5,155	--
Weighted Average Interest Rate at Fiscal Year End:			
FHLB advances.....................	4.18%	4.36%	3.74%
Other borrowings..................	3.62	4.41	4.43
Junior subordinated debentures....	5.69	6.97	--
During Fiscal Year:			
FHLB advances.....................	4.46%	4.23%	3.55%
Other borrowings..................	3.29	4.49	3.38
Junior subordinated debentures....	7.03	7.05	--

Competition

The Bank serves the counties of Aiken and Lexington, South Carolina through its 13 full service branch offices located in Aiken, North Augusta, Graniteville, Langley, Clearwater, Wagener, Lexington and West Columbia, South Carolina, and a branch office in Columbia County, Evans, Georgia, which opened in December 2007.

Security Federal faces strong competition both in originating loans and in attracting deposits. Competition in originating loans comes primarily from other thrift institutions, commercial banks, mortgage bankers and credit unions who also make loans in the Bank's market area. The Bank competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it makes and the quality of services it provides to borrowers.

The Bank faces substantial competition in attracting deposits from other thrift institutions, commercial banks, money market and mutual funds, credit unions and other investment vehicles. The ability of the Bank to attract and retain deposits depends on its ability to provide an investment opportunity that satisfies the requirements of investors as to rate

of return, liquidity, risk and other factors. The Bank attracts a significant amount of deposits through its branch offices primarily from the communities in which those branch offices are located. Therefore, competition for those deposits is principally from other thrift institutions and commercial banks located in the same communities. The Bank competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

The authority to offer money market deposits, and expanded lending and other powers authorized for thrift institutions by federal law, have resulted in increased competition for both deposits and loans between thrift institutions and other financial institutions such as commercial banks and credit unions.

Personnel

At March 31, 2008, the Bank employed 195 full-time and 22 part-time employees. The Bank employees are not represented by any collective bargaining agreement. Management of the Bank considers its relations with its employees to be good.

Executive Officers of the Registrant. The following table sets forth information regarding the executive officers of the Company and the Bank.

Name	Age at March 31, 2008	Position: Company	Position: Bank
Timothy W. Simmons	62	President and Chief Executive Officer	Chairman of the Board and Chief Executive Officer
T. Clifton Weeks	81	Chairman of the Board	
Roy G. Lindburg	47	Chief Financial Officer	Chief Financial Officer
J. Chris Verenes	52		President

Biographical Information. The following is a description of the principal occupation and employment of the executive officers of the Corporation and the Bank during at least the past five years:

Timothy W. Simmons has been President of the Company since 1987 and Chief Executive Officer since June 1994. Mr. Simmons was elected President and Chief Operating Officer of the Bank in January 1987 and served in these capacities from March 1987 to December 2001. In May 1988, Mr. Simmons became Chief Executive Officer of the Bank and in January 2002, he was elected Chairman of the Bank's Board of Directors.

T. Clifton Weeks has been Chairman of the Board of the Company since July 1987 and was Chief Executive Officer of the Company from July 1987 until June 1994. Mr. Weeks served as Chairman of the Board of the Bank from January 1987 until January 2002 and was Chief Executive Officer of the Bank from 1987 until May 1988. Prior thereto, he served as President and Managing Officer of the Bank beginning in 1958.

Roy G. Lindburg has been Chief Financial Officer of the Company and the Bank since January 1995. He was named Executive Vice President in 2005.

J. Chris Verenes was elected President of the Bank effective January 26, 2004. Prior to that, he held a variety of management positions with Washington Group International, an engineering and construction company that manages and operates major government sites throughout the United States for the Department of Energy. He was Director of Planning and Administration from

2001 to January 2004, Chief of Staff during 2001, Director of Strategic Programs for the business unit from 2000 to 2001 and Deputy Manager of Business from 1996 to 2000. Prior to his employment by Washington Group International, Mr. Verenes served as Controller for Riegel Textile Corporation, as Director of Control Data and Business and Technology Center, and as Executive Director of the South Carolina Democratic Party.

REGULATION

The following is a brief description of certain laws and regulations which are applicable to the Company and the Bank. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Legislation is introduced from time to time in the United States Congress that may affect our operations. In addition, the regulations governing us may be amended from time to time by the OTS. Any such legislation or regulatory changes in the future could adversely affect us. We cannot predict whether any such changes may occur.

General

The Bank, as a federally-chartered savings institution, is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as its deposits insurer. The Bank is a member of the FHLB System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund administered by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OTS and, under certain circumstances, the FDIC to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Company and the Bank and their operations. The Company, as a savings and loan holding company, is required to file certain reports with, are subject to examination by, and otherwise must comply with the rules and regulations of the OTS. The Company is also subject to the rules and regulations of the SEC under the federal securities laws. See "-- Savings and Loan Holding Company Regulations."

Federal Regulation of Savings Institutions

Office of Thrift Supervision. The OTS has extensive authority over the operations of savings institutions. As part of this authority, the Bank is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS and the FDIC. The OTS also has extensive enforcement authority over all savings institutions and their holding companies, including the Bank and the Company. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders and initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required.

In addition, the investment, lending and branching authority of the Bank also are prescribed by federal laws, which prohibit the Bank from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the OTS. Federal savings institutions are also generally authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

All savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's OTS assessment for the fiscal year ended March 31, 2008 was $164,000.

The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At March 31, 2008, the Bank's lending limit under

this restriction was $8.9 million and, at that date, the Bank's largest single loan to one borrower was $7.0 million, which was performing according to its original terms.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Atlanta, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. At March 31, 2008, the Bank had $178.2 million of outstanding advances from the FHLB of Atlanta under an available credit facility of $252.0 million, which is limited to available collateral. See Business Sources of Funds Borrowings.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Atlanta. At March 31, 2008, the Bank had $9.5 million in FHLB stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its FHLB stock. Over the past two fiscal years these dividends have averaged 5.91% and were 6.00% for the fiscal year ended March 31, 2008.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

Federal Deposit Insurance Corporation. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

As authorized by the Federal Deposit Insurance Reform Act of 2005, which was enacted in 2006 ("Reform Act"), the FDIC amended its risk-based assessment system. Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the FDIC assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit was $235,000, which offset the Bank's assessment that was paid during the year ended March 31, 2008. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the Deposit Insurance Fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporations. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended March 31, 2008, the annualized FICO assessment was equal to seven basis points for each $100 in domestic deposits maintained at an institution.

The Reform Act provided the FDIC with authority to adjust the Deposit Insurance Fund ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the FDIC as the level that the fund should achieve, was established by the agency at 1.25% for 2008.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Capital Requirements. The OTS's capital regulations require federal savings institutions to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier I risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier I) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At March 31, 2008, the Bank met each of these capital requirements. For additional information, see Note 13 of the Notes to Consolidated Financial Statements included in the Annual Report.

Prompt Corrective Action. The OTS is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based

capital ratio less than 6%, a Tier I capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OTS regulations also require that a capital restoration plan be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At March 31, 2008, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the OTS.

Qualified Thrift Lender Test. All savings institutions, including the Bank, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments." As of March 31, 2008, the Bank maintained 98.5% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Limitations on Capital Distributions. OTS regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. The Bank may pay dividends to the Company in accordance with this general authority.

Savings institutions proposing to make any capital distribution need not submit written notice to the OTS prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. See " Capital Requirements."

Activities of Savings Institutions and their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that it controls, the savings institution must notify the FDIC and the OTS 30 days in advance and provide the information each agency may, by regulation, require. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OTS may determine that the continuation by a savings institution of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the institution or is inconsistent with sound banking practices or with the purposes of the Federal Deposit Insurance Act. Based upon that determination, the FDIC or the OTS has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the Deposit Insurance Fund. If so, it may require that no member of the Deposit Insurance Fund engage in that activity directly.

Transactions with Affiliates. The Bank's authority to engage in transactions with "affiliates" is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Company and its non-savings institution subsidiaries are affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits a company from making loans to its executive officers and directors. However, there is a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, the Bank's authority to extend credit to executive officers, directors and 10% stockholders ("insiders"), as well as entities such persons control, is limited. The law restricts both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

Community Reinvestment Act. Under the Community Reinvestment Act, every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the OTS, in connection with its examination of the Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the Bank. An unsatisfactory rating may be used as the basis for the denial of an application by the OTS. Due to the heightened attention being given to the Community Reinvestment Act in the past few years, the Bank may be required to devote additional funds for investment and lending in its local community. The Bank was examined for Community Reinvestment Act compliance and received a rating of satisfactory in its latest examination.

Affiliate Transactions. The Company and the Bank are separate and distinct legal entities. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company, generally limiting any single transaction to 10% of the Bank's capital and surplus and limiting all such transactions to 20% of the Bank's capital and surplus. These transactions also must be on terms and conditions consistent with safe and sound banking practices that are substantially the same as those prevailing at the time for transactions with unaffiliated companies.

Federally insured savings institutions are subject, with certain exceptions, to certain restrictions on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, these institutions are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring action against all "institution-affiliated parties," including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or $1.1 million per day in especially egregious cases. The

FDIC has the authority to recommend to the Director of the OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. As required by statute, the federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to meet any standard prescribed by the guidelines, it may require the institution to submit an acceptable plan to achieve compliance with the standard.

Environmental Issues Associated with Real Estate Lending. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress asked to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan.

To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Bank is subject to OTS regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In

March 2006, Congress re-enacted certain expiring provisions of the USA Patriot Act.

Savings and Loan Holding Company Regulation

General. The Company is a unitary savings and loan holding company subject to regulatory oversight of the OTS. Accordingly, the Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and its non-savings institution subsidiaries which also permits the OTS to restrict or prohibit activities that are determined to present a serious risk to the Bank.

Mergers and Acquisitions. The Company must obtain approval from the OTS before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for the Company to acquire control of a savings institution, the OTS would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the insurance fund, the convenience and the needs of the community and competitive factors.

Activities Restrictions. The Company and its non-savings institution subsidiaries are subject to statutory and regulatory restrictions on their business activities specified by federal regulations, which include performing services

and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the GLBA.

If the Bank fails the QTL test, the Company must, within one year of that failure, register as, and will become subject to, the restrictions applicable to bank holding companies. See " Federal Regulation of Savings Institutions Qualified Thrift Lender Test."

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") was signed into law in response to public concerns regarding corporate accountability in connection with several accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, including the Company.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, and required the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and related rules. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

TAXATION

Federal Taxation

General. The Company and the Bank report their income on a fiscal year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company.

Bad Debt Reserve. Historically, savings institutions such as the Bank which met certain definitional tests primarily related to their assets and the nature of their business ("qualifying thrift") were permitted to establish a reserve for bad debts and to make annual additions thereto, which may have been deducted in arriving at their taxable income. The Bank's deductions with respect to "qualifying real property loans," which are generally loans secured by certain interest in real property, were computed using an amount based on the Bank's actual loss experience, or a percentage equal to 8% of the Bank's taxable income, computed with certain modifications and reduced by the amount of any permitted additions to the non-qualifying reserve. Due to the Bank's loss experience, the Bank generally recognized a bad debt deduction equal to 8% of taxable income.

The thrift bad debt rules were revised by Congress in 1996. The new rules eliminated the 8% of taxable income method for deducting additions to the tax bad debt reserves for all thrifts for tax years beginning after December 31, 1995. These rules also required that all institutions recapture all or a portion of their bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). The Bank has no post-1987 reserves subject to recapture. For taxable years beginning after December 31, 1995, the Bank's bad debt deduction has been determined under the experience method using a formula based on actual bad debt experience over a period of years. The unrecaptured base year reserves will not be subject to recapture as long as the Bank continues to carry on the business of banking. In addition, the balance of the pre-1988 bad debt reserves continue to be subject to provisions of present law referred to below that require recapture in the case of certain excess distributions to shareholders.

Distributions. To the extent that the Bank makes "nondividend distributions" to the Company, these distributions will be considered to result in distributions from the balance of its bad debt reserve as of December 31, 1987 (or a lesser amount if the Bank's loan portfolio decreased since December 31, 1987) and then from the supplemental

reserve for losses on loans ("Excess Distributions"), and an amount based on the Excess Distributions will be included in the Bank's taxable income. Nondividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. The amount of additional taxable income created from an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if, after the Conversion, the Bank makes a "nondividend distribution," then approximately one and one-half times the Excess Distribution would be includable in gross income for federal income tax purposes, assuming a 34% corporate income tax rate (exclusive of state and local taxes). See "Regulation Federal Regulation of Savings Institutions Limitations on Capital Distributions" for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve.

Corporate Alternative Minimum Tax. The Code imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. The excess of the tax bad debt reserve deduction using the percentage of taxable income method over the deduction that would have been allowable under the experience method is treated as a preference item for purposes of computing the AMTI. In addition, only 90% of AMTI can be offset by net operating loss carryovers. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses). For taxable years beginning after December 31, 1986, and before January 1, 1996, an environmental tax of 0.12% of the excess of AMTI (with certain modification) over $2.0 million is imposed on corporations, including the Bank, whether or not an Alternative Minimum Tax is paid.

Dividends-Received Deduction. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends-received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

Audits. The Company, the Bank and its consolidated subsidiaries have been audited or their books closed without audit by the IRS with respect to consolidated federal income tax returns through March 31, 1999. See Note 12 of the Notes to Consolidated Financial Statements contained in the Annual Report for additional information regarding income taxes.

State Taxation

South Carolina has adopted the Internal Revenue Code as it relates to savings banks, effective for taxable years beginning after December 31, 1986. The Bank is subject to South Carolina income tax at the rate of 6%. The Bank has not been audited by the State of South Carolina during the past five years.

The Company's income tax returns have not been audited by federal or state authorities within the last five years. For additional information regarding income taxes, see Note 12 of the Notes to Consolidated Financial Statements contained in the Annual Report.

Item 1A. Risk Factors.

An investment in our common stock involves various risks which are particular to Security Federal Corporation, our industry, and our market area. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

An economic downturn, especially one affecting Aiken, Richland and Lexington Counties in South Carolina and Columbia County in Georgia and surrounding areas, could reduce our customer base, our level of deposits, demand for our financial products, and increase our delinquency rates on loans.

Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers located primarily in three counties of South Carolina and one county in Georgia. Our success depends on the growth in population, income levels, deposits, and housing starts in our primary market area. If the communities in our market area do not continue to expand, our business may not succeed. A local economic downturn could adversely affect the real estate markets in the communities in our market area, which would increase our loan losses on residential and commercial real estate. In that case, our allowance for loan losses may not be adequate, which would negatively impact our earnings. Further, a significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact these state and local markets and, in turn, also have a material adverse effect on our financial condition and results of operations.

Our loan portfolio in Lexington, Richland and Columbia Counties and surrounding area is relatively unseasoned. We also plan to build a branch office in Ballentine, South Carolina, which is another new lending area. We could experience higher than normal loan losses in newer loan markets.

Although we have hired experienced lending officers in Lexington, Richland and Columbia Counties, these market areas are relatively new to us. Many of our loans in these markets are acquisition and development loans and loans to builders for speculative housing, which have a higher degree of risk than single family permanent mortgage loans. Although we have not had increased delinquencies in these markets, we have not experienced an economic cycle of declining real estate values in these counties. We also plan to open a branch in Ballentine, South Carolina, which will be a new market area for us. We plan on hiring experienced lenders, although this may be difficult because competition for experienced commercial lenders is fierce. Because these market areas are new to us, we may experience increased loan losses that would require additional reserves and which would negatively impact our earnings.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Our profitability depends substantially upon our net interest income. Net interest income is the difference between the interest earned on loans and investments and interest paid on deposits and borrowings. Market interest rates for loans and deposits are highly sensitive to competition for these products. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, our earnings may be negatively affected. In addition, loan volume and quality and deposit volume and mix can be affected by market interest rates. Changes in levels of market interest rates could materially adversely affect our net interest spread, asset quality, origination volume and overall profitability.

During the fiscal year ended March 31, 2008 interest rates dropped quickly and significantly. Since September 18, 2007, the U.S. Federal Reserve decreased its target for federal funds rate seven times, from 5.25% to 2.00% for a total decrease of 325 basis points. Sudden significant decreases in these short-term market interest rates negatively impact margins as our assets tend to reprice faster than our liabilities in the short-term. However, sudden and significant increases in short-term market rates can also adversely affect our net interest margins and the value of our assets. We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

An inadequate allowance for loan losses would reduce our earnings.

We are exposed to the risk that our borrowers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to assure full repayment. Credit losses are

inherent in the lending business and could have a material adverse effect on our operating results. Volatility and deterioration in the economy may also increase our risk for credit losses. We evaluate the collectibility of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as:

* cash flow of the borrower and/or the project being financed;
* in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
* the credit history of a particular borrower;
* changes in economic and industry conditions; and
* the duration of the loan.

If our evaluation is incorrect and borrower defaults cause losses exceeding our allowance for loan losses, our earnings could be materially and adversely affected. We cannot assure you that our allowance will be adequate to cover loan losses inherent in our portfolio. We may experience losses in our loan portfolio or perceive adverse trends that require us to significantly increase our allowance for loan losses in the future, which would also reduce our earnings. In addition, Security Federal Bank's regulators, as an integral part of their examination process, may require us to make additional provisions for loan losses.

Our funding sources may prove insufficient to replace deposits and support our future growth.

We rely on customer deposits and advances from the FHLB of Atlanta and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, no assurance can be given that we would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors may be able to offer more services, more favorable pricing or greater customer convenience than we do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues among large banks, we expect additional institutions to try to exploit our market.

Technological developments have allowed competitors, including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to our target customers. If we are unable to implement, maintain and use such technologies effectively, we may not be able to offer products or achieve cost-efficiencies necessary to compete in our industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

We are exposed to a failure or breach of our technology.

As a financial services company, we are heavily dependent on our core processing system and computer networks to conduct our business. Although we have policies and procedures designed to prevent or limit the effect of

the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed.

The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Although we do our own core bank processing in-house, we rely on third-party service providers for much of our communications, information, operating and financial control systems technology. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality, as found in our existing systems, without the need to expend substantial resources, if at all. Any of these circumstances could have an adverse effect on our business.

Our ability to pay dividends is limited and we may be unable to pay future dividends. This could lead to appreciation of our common stock price as the sole return on an investor's investment.

Security Federal Corporation is a separate and distinct legal entity from its subsidiaries. We receive substantially all of our revenue from dividends from Security Federal Bank. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that Security Federal Bank may pay us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event Security Federal Bank is unable to pay dividends to us, we may not be able to service our debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from Security Federal Bank could have a material adverse effect on our business, financial condition and results of operations. Thus, no assurances can be made that we will continue to increase or even pay our quarterly dividend.

We may need to raise capital to support our growth. We may not be able to raise capital at the time we need it.

In order to sustain the high rate of growth we have experienced during the past few years, we may need to raise additional capital in the near future. Although there are various ways to raise capital, those methods may not be available at the time we need to raise additional capital. In the event we are unable to raise the capital we need, our growth, and future earnings, would be curtailed.

The integration of the Collier Jennings Companies may be difficult, which could have a negative impact on earnings.

We recently acquired the Collier Jennings Companies, a local insurance agency. The integration of the Collier-Jennings Companies may be difficult and may cause us not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of our business. The diversion of management's attention and any delays or difficulties encountered in connection with the acquisition could have an adverse effect on our business and results of operations following the acquisition or otherwise adversely affect our ability to achieve the anticipated benefits of the acquisition.

We are subject to extensive regulation from numerous governmental agencies, which could restrict our activities and impose financial requirements or limitations on the conduct of our business.

We are subject to extensive federal and state regulation and supervision, primarily through Security Federal Bank. Banking regulations are primarily intended to protect depositors' funds, the federal deposit insurance fund and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect

us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

We are dependent on key individuals, and the loss of one or more of these key individuals could limit our growth and adversely affect earnings.

Timothy W. Simmons, our Chief Executive Officer, is a very experienced banker and has long-standing ties to our community. The loss of Mr. Simmons, or other key personnel, could have a negative impact on earnings. The competition for seasoned, experienced, banking personnel is highly competitive in South Carolina and Georgia. The cost of attaining and retaining these individuals could increase in the future, which would negatively impact our operations. Our success depends on our ability to continue to attract, manage and retain other qualified personnel as we grow. We cannot assure you that we will continue to attract or retain such personnel.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

Our recent results may not be indicative of future results, and may not be an adequate measure of the risk of investing in our stock.

We may not be able to sustain our historical growth rate or our recent growth rates in loans and deposits. If we are unable to sustain our growth, this would negatively affect our earnings and the value of our common stock.

Item 2. Properties

During the third quarter ended December 31, 2007, Security Federal opened a new full service branch office in Evans, Georgia, and a new full service branch office in Columbia, South Carolina. At March 31, 2008, Security Federal owned the buildings and land for nine of its branch offices and the operations center, leased the land and owned the improvements thereon for two of its offices, and leased the remaining four offices, including its main office. The Company also leased three offices for Security Federal Insurance/Collier Jennings. The property related to the offices owned by Security Federal had a depreciated cost (including land) of approximately $12.7 million at March 31, 2008. At March 31, 2008, the aggregate net book value of leasehold improvements (excluding furniture and equipment) associated with leased premises was $2.7 million. In addition to the properties related to current Company offices, Security Federal owned five other properties at March 31, 2008. Three lots owned for future branch sites include one in Aiken County, South Carolina and two in Richland County, South Carolina, which had a combined book value of $2.2 million at March 31, 2008. Another lot in Aiken County, to be used for a possible new Operations Center, had a book value of $236,000. The other property consisting of land and a building, located adjacent to the 1705 Whiskey Road office, is currently leased and had a book value of approximately $200,000 at March 31, 2008. See Note 6 of the Notes to Consolidated Financial Statements contained in the Annual Report.

The following table sets forth the net book value of the offices owned (including land) and leasehold improvements on properties leased by Security Federal at March 31, 2008.

Location	Owned or Leased	Lease Expir- ation Date	Date Facility Opened/ Acquired	Gross Square Footage	Net Book Value
Main Office:					
238 Richland Avenue, W. Aiken, South Carolina	Leased	2016	2006	3,840	$812,000
Full Service Branch Offices					
100 Laurens Street, N.W. Aiken, South Carolina	Leased	2016	1959	3,840	816,000
1705 Whiskey Road S. Aiken, South Carolina	Owned	N/A	1980	10,000	1,328,000
313 East Martintown Road North Augusta, South Carolina	Owned	N/A	1973	4,356	869,000
1665 Richland Avenue, W. Aiken, South Carolina	Owned	N/A	1984	1,942	245,000
Montgomery & Canal Streets Masonic Shopping Center Graniteville, South Carolina	Leased	2007	1993 (1)	3,576	216,000

2812 Augusta Road Langley, South Carolina	Owned	N/A	1993 (1)	2,509	86,000

(table continued on the following page)

Location	Owned or Leased	Lease Expir- ation Date	Date Facility Opened/ Acquired	Gross Square Footage	Net Book Value
4568 Jefferson Davis Highway Clearwater, South Carolina	Owned	N/A	2008	2,287	$1,529,000
118 Main Street North Wagener, South Carolina	Owned	N/A	1993 (1)	3,600	177,000
1185 Sunset Boulevard West Columbia, South Carolina	Leased	2015	2000	10,000	532,000
2587 Whiskey Road Aiken, South Carolina	Owned	N/A	2006	4,000	1,516,000
5446 Sunset Boulevard Lexington, South Carolina	Owned(2)	N/A	2003	9,200	1,441,000
1900 Assembly Street Columbia, South Carolina	Owned(3)	N/A	2007	6,000	484,000
7004 Evans Town Center Evans, Georgia	Owned	N/A	2007	18,000	4,282,000
Operations Center: 871 East Pine Log Road Aiken, South Carolina	Owned	N/A	1988	10,000	724,000
Insurance Investments & Trust Offices 234 Richland Avenue, West Aiken, South Carolina	Leased	2016	2006	1,948	333,000
Insurance Office & Insurance Operations Center 517-521 Belvedere Clearwater Road North Augusta, South Carolina	Leased	2011	2006	4,600	30,000
Insurance Office 1557 F. Gordon Highway Augusta, Georgia	Leased	2008	2006	1,500	--

(1) Represents acquisition date.
(2) Security Federal has a lease on the land for this office which expires in 2018, but has options through 2063.
(3) Security Federal has a lease on the land for this office which expires

in 2027, but has options through 2047.

Item 3. Legal Proceedings

The Company is involved as plaintiff or defendant in various legal actions arising in the course of its business. It is the opinion of management, after consultation with counsel, that the resolution of these legal actions will not have a material adverse effect on the Company's financial condition and results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended March 31, 2008.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The information contained in the section captioned "Shareholders Information - Price Range of Common Stock" and "- Dividends" in the Annual Report is incorporated herein by reference.

Stock Repurchases. The following table sets forth the Company's repurchases of its outstanding common stock during the fourth quarter of the year ended March 31, 2008.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1 - January 31.....	707	$ 23.19	707	14,154
February 1 - February 29....	700	23.08	700	13,454
March 1 - March 31.......	4,289	23.08	4,289	9,165
Total..........	5,696	$ 23.09	5,696	9,165

These stock repurchases are being conducted pursuant to a repurchase program announced by the Company in May 2004, for the purchase of up to 5% of its outstanding shares, or approximately 126,000 shares, subject to market conditions.

Equity Compensation Plan Information. The equity compensation plan information presented under subparagraph (d) in Part III, Item 12 of this report is incorporated herein by reference.

Performance Graph. The following graph compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the NASDAQ Composite Index and a peer group of the SNL All Thrift Index. Total return assumes the reinvestment of all dividends and that the value of Common Stock and each index was $100 on March 31, 2003.

[PERFORMANCE GRAPH APPEARS HERE]

	Period Ending					
Index	03/31/03	03/31/04	03/31/05	03/31/06	03/31/07	03/31/08
Security Federal Corporation	$100.00	104.33	114.86	121.94	125.72	118.22
NASDAQ Composite	100.00	148.69	149.07	174.46	180.56	169.93
SNL Thrift Index	100.00	148.54	146.01	164.47	173.90	105.98

Item 6. Selected Financial Data

The information contained in the section captioned "Selected Consolidated Financial and Other Data" in the Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises principally from interest rate risk inherent in our lending, investing, deposit and borrowings activities. Management actively monitors and manages its interest rate risk exposure. In addition to other risks that we manage in the normal course of business, such as credit quality and liquidity, management considers interest rate risk to be a significant market risk that could have a potentially have a material effect on our financial condition and result of operations. The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations Asset and Liability Management" in the Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Report of Independent and Registered Accounting Firm*
Consolidated Balance Sheets, March 31, 2008 and 2007*
Consolidated Statements of Income For the Years Ended March 31, 2008, 2007 and 2006*
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income For the Years Ended March 31, 2008, 2007 and 2006*
Consolidated Statements of Cash Flows For the Years Ended March 31, 2008, 2007 and 2006*
Notes to Consolidated Financial Statements*
Quarterly Financial Data (unaudited)*

* Contained in the Annual Report filed as an exhibit hereto and incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A(T). Controls and Procedures

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

(b) Report of Management on Internal Control over Financial Reporting:

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance

regarding the reliability of financial reporting and the preparation of the

Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 20008, utilizing the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of March 31, 2008 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/Timothy W. Simmons	/s/Roy G. Lindburg
Timothy W. Simmons President and Chief Executive Officer (Principal Executive Officer)	Roy G. Lindburg Chief Financial Officer (Principal Financial and Accounting Officer)

(c) Changes in Internal Controls: In the year ended March 31, 2008, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

Item 9B. Other Information

There was no information to be disclosed by the Company in a report on Form 8-K during the fourth quarter of fiscal 2008 that was not so disclosed.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the section captioned " Proposal 1 Election of Directors" in the Proxy Statement is incorporated herein by reference.

For information regarding the executive officers of the Company and the Bank, see the information contained herein under the section captioned "Item 1. Business - Personnel - Executive Officers of the Registrant."

Audit Committee Financial Expert. The Audit Committee of the Company is composed of Directors Moore (Chairperson) and Clyburn. Each member of the Audit Committee is "independent" as defined in the Nasdaq Stock Market listing standards. The Board of Directors has determined there is no "audit committee financial expert" as defined by the SEC. The Board believes that the current members of the Audit Committee are qualified to serve based on their collective experience and background. Each member of the Audit Committee is independent as that term is used in Rule 10A-3 of the Exchange Act.

Code of Ethics. The Board of Directors has adopted a Code of Ethics for the Company's officers (including its senior financial officers), directors and employees. The Code is applicable to the Company's principal executive officer and senior financial officers, and requires individuals to maintain the highest standards of professional conduct. The Company has posted its Code of Ethics on its website www.securityfederalbank.com.

Compliance with Section 16(a) of the Exchange Act. The information contained under the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" is included in the Company's Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the section captioned "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners.

The information contained in the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

(b) Security Ownership of Management.

The information contained in the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

(c) Changes In Control

The Company is not aware of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

(d) Equity Compensation Plan Information

The following table sets forth certain information with respect to securities to be issued under the Company's equity compensation plans as of March 31, 2008.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
1999 Stock Option Plan..............	74,100	$21.31	78,892
2002 Stock Option Plan..............	23,000	21.39	12,375
2006 Stock Option Plan..............	14,000	23.03	36,000
Equity compensation plans not approved by security holders:	N/A	N/A	N/A
Total........	11,100	$21.55	127,267

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Transactions. The information contained in the section captioned "Meetings and Committees of the Board of Directors and Corporate Governance Matters - Corporate Governance - Related Party Transactions" in the Proxy Statement is incorporated herein by reference.

Director Independence. The information contained in the section captioned "Meetings and Committees of the Board of Directors and Corporate Governance Matters - Corporate Governance - Director Independence" in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the section captioned "Auditor " is included in the Company's Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements.

For a list of the financial statements filed as part of this report see Part II - Item 8.

2. Financial Statement Schedules.

All schedules have been omitted as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report filed as an exhibit hereto.

3. Exhibits:

3.1	Articles of Incorporation, as amended (1)
3.2	Bylaws (2)
4	Instruments defining the rights of security holders, including indentures (3)
10.1	1993 Salary Continuation Agreements (4)
10.2	Amendment One to 1993 Salary Continuation Agreements (5)
10.3	Form of 2006 Salary Continuation Agreement (6)
10.4	1987 Stock Option Plan (4)
10.5	1999 Stock Option Plan (7)
10.6	2002 Stock Option Plan (8)
10.7	2006 Stock Option Plan (9)
10.8	Form of incentive stock option agreement and non-qualified stock option agreement pursuant to the 2006 Stock Option Plan (9)
10.9	2004 Employee Stock Purchase Plan (10)
10.10	Incentive Compensation Plan (4)
13	Annual Report to Stockholders
14	Code of Ethics (11)
21	Subsidiaries of Registrant
23	Consent of Elliott Davis, LLC
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

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(1) Filed on June 26, 1998, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.

(2) Filed on May 5, 2008, as an exhibit to the Company's Current Report on Form 8-K and incorporated herein by reference.

(3) Filed on August 12, 1987, as an exhibit to the Company's Registration Statement on Form 8-A and incorporated herein by reference.

(4) Filed on June 28, 1993, as an exhibit to the Company's Annual Report on Form 10-KSB and incorporated herein by reference.

(5) Filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1993 and incorporated herein by reference.

(6) Filed on May 24, 2006 as an exhibit to the Company's Current Report on Form 8-K dated May 18, 2006 and incorporated herein by reference.

(7) Filed on March 2, 2000, as an exhibit to the Company's Registration Statement on Form S-8 (Registration Statement No. 333-31500) and incorporated herein by reference.

(8) Filed on January 3, 2003, as an exhibit to the Company's Registration Statement on Form S-8 (Registration Statement No. 333-102337) and incorporated herein by reference.

(9) Filed on August 22, 2006, as an exhibit to the Company's Registration Statement on Form S-8 (Registration Statement No. 333-136813) and incorporated herein by reference.

(10) Filed on June 18, 2004, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.

(11) Filed on June 29, 2006, as an exhibit to the Company's Annual Report on Form 10-K and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) 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.

SECURITY FEDERAL CORPORATION

Date: June 27, 2008

By:/s/Timothy W. Simmons

Timothy W. Simmons
President, Chief Executive Officer and Director
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/Timothy W. Simmons — June 27, 2008

Timothy W. Simmons
President, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/Roy G. Lindburg — June 27, 2008

Roy G. Lindburg
Chief Financial Officer and Director
(Principal Financial and Accounting Officer)

By: /s/T.Clifton Weeks T. Clifton Weeks Chairman of the Board and Director	June 27, 2008
By: J. Chris Verenes President of the Bank and Director of the Company and the Bank	, 2008
By: /s/Gasper L. Toole III Gasper L. Toole III Director	June 27, 2008
By: /s/Robert E. Alexander Robert E. Alexander Director	June 27, 2008
By: Thomas L. Moore Director	, 2008
By: William Clyburn Director	, 2008
By: /s/Frank M. Thomas, Jr. Frank M. Thomas, Jr. Director	June 27, 2008

INDEX TO EXHIBITS

Exhibit Number	
13	Annual Report to Stockholders
21	Subsidiaries of the Registrant
23	Consent of Elliott Davis, LLC
31.1	Certification of Chief Executive Officer of Security Federal Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer of Security Federal Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of

	2002
32	Certification of Chief Executive Officer and Chief Financial Officer of Security Federal Corporation Pursuant to Section 906 of the Sarbanes-Oxley Act

Exhibit 13

Annual Report to Stockholders

2008
Security Federal Corporation

March 31st, 2008

LETTER TO SHAREHOLDERS

Fellow Shareholders:

In keeping with our conservative but steady growth strategy, Security Federal Corporation, holding company of Security Federal Bank, is pleased to announce an increase in earnings for the year ending March 31, 2008. The Company reported net income of $4.3 million or $1.66 per share (basic) for the year ending March 31, 2008, a 3.7% increase from net income of $4.1 million or $1.59 per share (basic) for the year ending March 31, 2007. The increase in net income is a result of a $1.9 million increase in net interest income and a $629,000 increase in non-interest income offset partially by a $2.2 million increase in general and administrative expenses for the year ending March 31, 2008 when compared to the year ending March 31, 2007.

Total assets at March 31, 2008 were $840.0 million compared to $738.1 million at March 31, 2007, an increase of 13.8% for the year. Net loans receivable increased $81.9 million or 18.8% to $517.9 million at March 31, 2008 from $436.0 million at March 31, 2007. Total deposits were $590.9 million at March 31, 2008 compared to $523.7 million at March 31, 2007, an increase of 12.8%. Federal Home Loan Bank advances, subordinated debentures and other borrowings increased $29.9 million or 18% to $196.2 million at March 31, 2008 from $166.3 million at March 31, 2007.

We are pleased to announce that a quarterly dividend of $.08 per share will be paid on or about June 15, 2008 to shareholders of records as of May 31, 2008. This is a 14% increase in the quarterly dividend and is the seventieth consecutive quarterly dividend to shareholders since the Bank's conversion in October of 1987 from a mutual to a stock form of ownership. The dividend was declared as a result of the Bank's continued profitability.

Security Federal Bank has 13 full service branches located in Aiken, Clearwater, Graniteville, Langley, Lexington, North Augusta, Wagener, Columbia and West Columbia, South Carolina and Evans, Georgia. Additional financial services are offered through the Bank's three wholly owned subsidiaries, Security Federal Insurance Inc., Security Federal Investments Inc., and Security Federal Trust Inc.

Sincerely,

/s/T. Clifton Weeks	/s/Timothy W. Simmons
T. Clifton Weeks Chairman	Timothy W. Simmons President & Chief Executive Officer

CONTENTS:

- 2

THE MORE THINGS CHANGE
J. Chris Verenes, President, Security Federal Bank

Security Federal Bank was established in 1922 in Aiken, SC. Since that time, there have been 15 recessions, one depression and one World War. Security Federal weathered those challenges by sticking to the fundamentals -staying close to the customer, conservative lending practices, measured growth, and a long-term focus.

The last year has presented a new set of challenges for financial institutions marked by subprime loans and the credit crises. The federal government has responded to this by dramatically reducing interest rates in a short period of time. Security Federal could have exploited the mortgage boom in the short run by making subprime loans, but decided to stick to the fundamentals. That sound decision was based on our focus on the long run and our tradition of staying away from products that look "too good to be true". While this pumped up the earnings of many institutions for a while, our focus was on steady growth and investing for the future. This strategy has served us well. Nevertheless, we have been indirectly impacted in the short run.

Our fundamentals -loan growth, deposits, non-interest income -are projected to show healthy increases for the new fiscal year while our credit quality remains strong. However, the Federal Reserve's precipitous drop in interest rates has acted to immediately drive down the interest income we receive on many of our loans, while deposits....our source of funding, tend to re-price at a more gradual pace. This has resulted in a narrowing of our net interest margin. This unusual situation began to impact our earnings during the last quarter of the fiscal year, and should prove to be a challenge until later in the year when rates are predicted to stabilize and our deposits begin to re-price to reflect the current interest rate environment.

This challenge will subside in due time and institutions will go to great lengths to insure that they are protected from the failures of the past. The one thing that we have learned during the 86 years since our founding is that a new cycle of challenges will naturally occur after the memory of this crisis fades. After 15 recessions, one depression, one World War and a liquidity crisi, our focus will continue to be on the fundamentals.

-3

FINANCIAL HIGHLIGHTS

	Years Ended March 31st	
	2008	2007
Net Income	4,280,000	4,127,000
Earnings Per Share - Basic	1.66	1.59
Book Value Per Share	18.76	16.36
Total Interest Income	49,632,000	42,098,000
Total Interest Expense	29,544,000	23,933,000
Net Interest Income Before Provision For Loan Losses	20,088,000	18,165,000
Provision For Loan Losses	895,000	600,000
Net Interest Income After		

Provision For Loan Losses	19,193,000	17,565,000
Net Interest Margin	2.69%	2.76%
Total Loans Originated	422,085,000	379,593,000
Adjustable Rate Loans As A Percentage of Total Gross Loans	61.9%	61.0%

Financial Highlights

	2008	2007	2006	2005	2004
Net Income (In Thousands)	$4,280	$4,127	$3,813	$3,505	$4,263*

*Includes the sale of the Denmark branch.

	2008	2007	2006	2005	2004
Total Assets (In Millions)	$ 840	$ 738	$ 659	$ 586	$ 528

	2008	2007	2006	2005	2004
Return on Equity	9.54%	10.24%	10.27%	10.28%	13.67%

Allowance for Loan Losses (1)	2008	2007	2006	2005	2004
	1.53%	1.65%	1.76%	1.94%	2.17%

(1) Allowance for losses as a percentage of total loans.

Financial Highlights

	2008	2007	2006	2005	2004
Book Value Per Share	$18.76	$16.36	$14.82	$13.92	$13.30

	2008	2007	2006	2005	2004

Earnings Per Share - Basic	$1.66	$1.59	$1.51	$1.39	$1.70

Security Federal Corporation Stock Prices (at March 31st of each year)

2008	2007	2006	2005	2004	2003	2002	2001
23.00	24.75	24.25	23.00	21.00	20.26	21.67	20.00

2000	1999	1998	1997	1996	1995	1994
18.00	15.00	7.33	5.17	4.54	3.65	3.37

1993	1992	1991	1990	1989
2.75	2.54	2.46	2.40	1.83

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Selected Consolidated Financial and Other Data

	At Or For The Year Ended March 31,				
	2008	2007	2006	2005	2004
Balance Sheet Data	(Dollars In Thousands, Except Per Share Data)				
Total Assets	$840,030	$738,110	$658,678	$585,978	$528,005
Cash And Cash Equivalents	10,539	13,438	14,351	7,916	6,749
Investment And Mortgage-Backed Securities	264,312	249,905	238,433	241,076	245,715
Total Loans Receivable, Net (1)	517,932	436,038	375,109	316,889	259,895
Deposits	590,850	523,738	479,229	430,287	389,593
Advances From Federal Home Loan Bank	178,234	153,049	131,363	112,038	96,336
Total Shareholders' Equity	47,496	42,693	37,602	35,111	33,472
Income Data					
Total Interest Income	49,632	42,098	32,617	25,770	23,011
Total Interest Expense	29,544	23,933	15,969	11,525	9,606
Net Interest Income	20,088	18,165	16,648	14,245	13,405
Provision For Loan Losses	895	600	660	780	1,200
Net Interest Income After					

Provision For Loan Losses	19,193	17,565	15,988	13,465	12,205
Non-Interest Income(2)	4,489	3,861	2,630	2,524	5,235
General And Administrative Expense	17,322	15,157	13,027	10,773	10,725
Income Taxes	2,080	2,142	1,778	1,711	2,452
Net Income	$ 4,280	$ 4,127	$ 3,813	$ 3,505	$ 4,263

Per Common Share Data

Net Income Per Common Share (Basic)	$ 1.66	$ 1.59	$ 1.51	$ 1.39	$ 1.70
Cash Dividends Declared	$ 0.28	$ 0.24	$ 0.16	$ 0.11	$ 0.08

Other Data

Interest Rate Spread Information:					
Average During Period	2.44%	2.47%	2.52%	2.44%	2.66%
End Of Period	2.14%	2.51%	2.59%	2.45%	2.59%
Net Interest Margin (Net Interest Income/Average Earning Assets)	2.69%	2.76%	2.79%	2.64%	2.84%
Average Interest-Earning Assets To Average Interest-Bearing Liabilities	106.30%	108.00%	110.25%	109.07%	109.05%
Equity To Total Assets	5.65%	5.78%	5.71%	5.99%	6.34%
Non-Performing Assets To Total Assets (3)	0.81%	0.15%	0.20%	0.42%	0.40%
Return On Assets (Ratio Of Net Income To Average Total Assets)	0.54%	0.59%	0.62%	0.63%	0.87%
Return On Equity (Ratio Of Net Income To Average Equity)	9.54%	10.24%	10.27%	10.28%	13.67%
Equity To Assets Ratio (Ratio Of Average Equity To Average Total Assets)	5.66%	5.78%	6.03%	6.09%	6.36%
Dividend Pay-Out Ratio On Common Shares	16.90%	15.11%	10.67%	7.96%	4.75%
Number Of Full-Service Offices	13	11	11	11	11

(1) INCLUDES LOANS HELD FOR SALE.
(2) FOR 2004, INCLUDES APPROXIMATELY $1.5 MILLION IN GAIN ON SALE OF BRANCH
(3) NON-PERFORMING ASSETS CONSIST OF NON-ACCRUAL LOANS AND REPOSSESSED ASSETS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

General

The following discussion is presented to provide the reader with an understanding of the financial condition and results of operations of Security Federal Corporation and its subsidiaries. The investment and other activities of the parent company, Security Federal Corporation (the "Company"), have had no significant impact on the results of operations for the periods presented in the financial statements. The information presented in the following discussion of financial results is indicative of the activities of Security Federal Bank (the "Bank"), a wholly owned subsidiary of the Company. The Bank is a federally chartered stock savings bank that was founded in 1922. The Bank also has four wholly owned subsidiaries, Security Federal Insurance Inc. ("SFINS"), Security Federal Investments Inc. ("SFINV"), Security Federal Trust Inc. ("SFT"), and Security Federal Financial Services Corporation ("SFSC"). SFINS, SFINV, and SFT were formed in the fiscal year ended March 31, 2002 and began operating during the December 2001 quarter. SFINS has a wholly owned subsidiary, Collier Jennings Financial Corporation ("Collier Jennings"), which has three wholly owned subsidiaries Security Federal Auto Insurance, The Auto Insurance Store Inc., and Security Federal Premium Pay Plans Inc. SFSC was formed in 1975 and is currently inactive. In addition to the Bank, Security Federal Corporation has another wholly owned subsidiary, Security Federal Statutory Trust (the "Trust"), which issued and sold fixed and floating rate capital securities of the Trust. However, under current accounting guidance, the Trust is not consolidated in the Company's financial statements. Unless the context indicates otherwise, references to the Company shall include the Bank and its subsidiaries.

The principal business of the Bank is accepting deposits from the general public and originating consumer and commercial business loans as well as mortgage loans that enable borrowers to purchase or refinance one to four family residential real estate. The Bank also originates construction loans on single-family residences, multi-family dwellings and projects, and commercial real estate, as well as loans for the acquisition, development and construction of residential subdivisions and commercial projects.

The Bank's net income is dependent on its interest rate spread which is the difference between the average yield earned on its loan and investment portfolios and the average rate paid on its deposits and borrowings. The Bank's interest spread is influenced by interest rates, deposit flows, and loan demands. Levels of non-interest income and operating expense are also significant factors in earnings.

Forward-Looking Statements

This document, including information included or incorporated by reference, contents, and future filings by the Company on Form 10-K, Form 10-Q, and Form 8-K, and future oral and written statements by the Company and its management may contain forward-looking statements about the Company and its subsidiaries which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation: statements with respect to anticipated future operating and financial performance; growth opportunities; interest rates; acquisition and divestiture opportunities; and synergies, efficiencies, and cost-savings. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates, and intentions of management and are not guarantees of future performance. Factors which could affect results include interest rate trends, the general economic climate in the Company's market area and the nation as a whole, the ability of the Company to control costs and expenses, deposit flows, demand for mortgages and other loans, real estate values and vacancy rates, competition, pricing, loan delinquency rates and changes in federal regulation. These factors should be considered in evaluating "forward-looking statements," and undue reliance should not be placed on any such statements. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The important factors we discuss below and elsewhere in this document, identified in the Company's filings with the Securities and Exchange Commission ("SEC"), and presented by our management from time to time could cause actual results to differ materially from those indicated by the forward-looking statements made in this document.

Critical Accounting Policies

The Company has adopted various accounting policies which govern the application of accounting principles generally accepted in the United States in the preparation of the Company's financial statements. The significant accounting policies of the Company are described in Note 1 of the Notes to the Consolidated Financial Statements.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Critical Accounting Policies, Continued

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities; management considers these accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

Of these significant accounting policies, the Company considers its policies regarding the allowance for loan losses to be its most critical accounting policy because of the significant degree of management judgment involved in determining the amount of allowance for loan losses. The Company has developed policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Company's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations, and the discovery of information with respect to borrowers, which is not known to management at the time of the issuance of the consolidated financial statements. For a further discussion of the Company's estimation process and methodology related to the allowance for loan losses, see the discussion under the section entitled "Comparison of the Years Ended March 31, 2008 and 2007- Financial Condition" and "-Provision for Loan Losses" and "Comparison of the Years Ended March 31, 2007 and 2006- Financial Condition" and "- Provision for Loan Losses" included herein.

Asset and Liability Management

The Bank's program of asset and liability management seeks to limit the Bank's vulnerability to material and prolonged increases or decreases in interest rates, or "interest rate risk." The principal determinant of the exposure of the Bank's earnings to interest rate risk is the timing difference ("gap") between the repricing or maturity of the Bank's interest-earning assets and the repricing or maturity of its interest-bearing liabilities. If the maturities of the Bank's assets and liabilities were perfectly matched and the interest rates borne by its assets and liabilities were equally flexible and moved concurrently (neither of which is the case), the impact on net interest income of any material and prolonged changes in interest rates would be minimal.

A positive gap position generally has an adverse effect on net interest income during periods of falling interest rates. A positive one-year gap position occurs when the dollar amount of rate sensitive assets maturing or repricing within one year exceeds the dollar amount of rate sensitive liabilities maturing or repricing during that same one-year period. In a period of falling interest rates, the interest received on interest-earning assets will increase slower than the interest paid on interest-bearing liabilities, causing a decrease in net interest income. During periods of rising interest rates, the interest received on interest-earning assets will increase faster than interest paid on interest-bearing liabilities, thus increasing net interest income.

A negative gap position generally has an adverse effect on net interest income during periods of rising interest rates. A negative one-year gap position occurs when the dollar amount of rate sensitive liabilities maturing or repricing within one year exceeds the dollar amount of rate sensitive assets maturing or repricing during that same period. As a result, during periods of rising interest rates, the interest paid on interest-bearing liabilities will increase faster than interest received from interest-earning assets, thus reducing net interest income. The reverse is true in periods of declining interest rates, as discussed above, which generally results in an increase in net interest income.

The Bank's Board of Directors reviews the Interest Rate Exposure Report generated for the Bank by the Office of Thrift Supervision. This report measures the interest rate sensitivity of the Bank's net portfolio value ("NPV") on a quarterly basis under different interest rate scenarios. The Bank's sensitivity measure is well within the Bank's policy on changes in NPV. The Bank's asset and liability policies are directed toward maximizing long-term profitability while managing acceptable interest rate risk within the Bank's policies.

At March 31, 2008, the negative mismatch of interest-earning assets repricing or maturing within one year with interest-bearing liabilities repricing or maturing within one year was $12.2 million or (1.5)% of total assets compared to a positive mismatch of $1.7 million or 0.2% at March 31, 2007. For more information on the Bank's repricing position at March 31, 2008, see the tables on pages 11 and 12.

Asset and Liability Management, Continued

During the past year, the Bank originated, for investment purposes, approximately $47.4 million in adjustable rate residential real estate loans ("ARM's"), which are held for investment and not sold. The Bank's loan portfolio included $330.8 million of adjustable rate consumer loans, commercial loans, and mortgage loans or, approximately 61.9% of total gross loans at March 31, 2008. During fiscal 2008, the Bank originated $343.5 million in consumer and commercial loans, which are usually short term in nature. The Bank's portfolio of consumer and commercial loans was $400.2 million at March 31, 2008, $323.0 million at March 31, 2007, and $267.8 million at March 31, 2006. Consumer and commercial loans combined were 74.9% of total loans at March 31, 2008, 71.8% of total loans at March 31, 2007, and 68.5% at March 31, 2006.

At March 31, 2008, the Bank held approximately $6.4 million in longer term fixed rate residential mortgage loans. These loans, which amounted to 1.2% of the total loan portfolio, had converted from ARM loans to fixed rate loans during the previous 60 months. These fixed rate loans have remaining maturities ranging from 10 to 28 years. As of March 31, 2008, the Bank no longer has any ARM loans that have conversion features to fixed rate loans. On new originations, the Bank sells virtually all of its 15 and 30 year fixed rate mortgage loans at origination. Fixed rate residential loans sold to Freddie Mac and other institutional investors, on a service-released basis, totaled $38.9 million in fiscal 2008, $30.3 million in fiscal 2007, and $29.9 million in fiscal 2006. The Bank sells all its fixed rate mortgage loans on a service-release basis.

Certificates of deposit of $100,000 or more, referred to as "Jumbo Certificates," are normally considered to be interest rate sensitive because of their relatively short maturities. Many financial institutions have used Jumbo Certificates to manage interest rate sensitivity and liquidity. The Bank has not relied on Jumbo Certificates for liquidity or asset liability management. At March 31, 2008, the Bank had $149.5 million outstanding in Jumbo Certificates compared to $110.6 million at March 31, 2007. The Bank has no brokered deposits. The majority of the Bank's deposits originate from the Bank's immediate market area.

The following table sets forth the maturity schedule of certificates of deposit with balances of $100,000 or greater at March 31, 2008:

	At March 31, 2008 (In Thousands)
Within 3 Months	$ 35,114
After 3, Within 6 Months	44,386
After 6, Within 12 Months	62,808
After 12 Months	7,220
	$149,528

10

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Asset and Liability Management, Continued

The following table sets forth the Bank's interest-bearing liabilities and interest-earning assets repricing or maturing within one year. The table on the following page presents the Bank's entire interest-bearing liabilities and interest-earning assets into repricing or maturity time periods. Both tables present adjustable rate loans in the periods they are scheduled to reprice and fixed rate loans are shown in the time frame of corresponding principal amortization schedules. Adjustable and fixed rate loans are also adjusted for the Company's estimates of pre-payments. Mortgage-backed securities are shown at repricing dates, but also include prepayment estimates. Both tables also assume investments reprice at the earlier of maturity; the likely call date, if any, based on current interest rates; or the next scheduled interest rate change, if any. NOW accounts are assumed to have a decay rate of 20% the first year, money market accounts to have a decay rate of 65% the first year, and statement savings accounts to have a decay rate of 20% the first year. The balance, for all three products, is deemed to reprice in the one to three year category. Callable fixed rate Federal Home Loan Bank ("FHLB") advances are included in borrowings, and are deemed to mature at the expected call date or maturity, based on the stated interest rate of the advance and current market rates. Junior subordinated debentures are shown at their repricing date or call date.

	At March 31	
	2008	2007
	(Dollars In Thousands)	
Loans (1)	$348,908	$279,508
Mortgage-Backed Securities:		
Available For Sale	70,019	81,072
Investment Securities:		
Held To Maturity	16,000	27,000
Available For Sale	29,400	16,707
Other Interest-Earning Assets And FHLB Stock	11,343	10,004
Total Interest Rate Sensitive Assets Repricing Within 1 Year	$475,670	$414,291
Deposits	422,198	346,914
FHLB Advances And Other Borrowed Money	65,662	65,665
Total Interest Rate Sensitive Liabilities Repricing Within 1 Year	$487,860	$412,579
Gap	$(12,190)	$ 1,712
Interest Rate Sensitive Assets/Interest Rate Sensitive Liabilities	97.50%	100.04%
Gap As A Percent Of Total Assets	(1.5)%	0.2%

(1) LOANS ARE NET OF UNDISBURSED FUNDS AND LOANS IN PROCESS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Asset and Liability Management, Continued

The following table sets forth the interest sensitivity of the Bank's assets and liabilities at M
2008, on the basis of the factors and assumptions set forth in the table on the previous page.

	<Three Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	5 - 10 Years	> 10 Years
			(Dollars In Thousands)			
Interest-Earnings Assets						
Loans (1)	$256,013	$ 92,895	$ 94,744	$ 60,639	$ 17,396	$ 4,626
Mortgage-Backed Securities:						
Available For Sale, At Fair Value	24,611	45,408	52,191	50,039	18,643	2,481
Investment Securities: (2)						
Held To Maturity, At Cost	6,000	10,000	3,000	1,155	-	-
Available For Sale, At Fair Value	11,046	18,354	19,163	2,222	-	-
FHLB Stock, At Cost	-	9,497	-	-	-	-
Other Interest-Earning Assets	1,846	-	-	-	-	-
Total Financial Assets	$299,516	$ 176,154	$169,098	$114,055	$ 36,039	$ 7,107
Interest-Bearing Liabilities						
Deposits:						
Certificate Accounts	$ 75,886	$ 237,716	$ 11,122	$ 6,349	$ -	$ -
NOW Accounts	6,153	6,153	49,228	-	-	-
Money Market Accounts	46,548	46,548	50,129	-	-	-
Statement Savings Account	1,597	1,597	12,773	-	-	-
Borrowings (2)	50,662	15,000	25,000	37,277	68,234	-
Total Interest-Bearing Liabilities	$180,846	$ 307,014	$148,252	$ 43,626	$ 68,234	$ -
Current Period Gap	$118,670	$(130,860)	$ 20,846	$ 70,429	$(32,195)	$ 7,107
Cumulative Gap	$118,670	$ (12,190)	$ 8,656	$ 79,085	$ 46,890	$53,997
Cumulative Gap As A Percent Of Total Assets	14.1%	(1.5)%	1.0%	9.4%	5.6%	6.4%

(1) LOANS ARE NET OF UNDISBURSED FUNDS AND LOANS IN PROCESS.
(2) CALLABLE SECURITIES AND ADVANCES ARE SHOWN AT THEIR LIKELY CALL DATES BASED ON MANAGEMENT'S
AT MARCH 31, 2008.

In evaluating the Bank's exposure to interest rate risk, certain shortcomings inherent in the method of analysis presented in the foregoing tables must be considered. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Additionally, the interest rates of certain types of assets and liabilities may fluctuate in advance of changes in market interest rates. Loan repayment rates and withdrawals of deposits will likely differ substantially from the assumed rates previously set forth in the event of significant changes in interest rates due to the option of borrowers to prepay their loans and the ability of depositors to withdraw funds prior to maturity. Further, certain assets, such as ARMs, have features that restrict changes in interest rates on a short-term basis as well as over the life of the asset.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Financial Condition

Total assets at March 31, 2008 were $840.0 million, an increase of $101.9 million or 13.8% from $738.1 million at March 31, 2007. This increase was primarily the result of an increase in net loans receivable.

Total net loans receivable were $517.9 million at March 31, 2008, an increase of $81.9 million or 18.8% from $436.0 million at March 31, 2007. Residential real estate loans held for investment increased $6.4 million or 5.1% to $131.9 million at March 31, 2008. Typically, long term, newly originated fixed rate mortgage loans are not retained in the portfolio but are sold immediately. ARMs are typically retained in the portfolio. At March 31, 2008, the Bank held 91.0% of its residential mortgage loans in ARMs, while it had 9.0% in fixed rate mortgages. Consumer loans increased $3.0 million or 4.7% while commercial business and commercial real estate loans increased $74.2 million or 28.6% to $333.4 million at fiscal year end March 31, 2008 from $259.2 million at March 31, 2007. A large portion of the increased activity in commercial lending during fiscal 2008 took place in the Midlands area of South Carolina including Columbia, Lexington, and West Columbia and in Evans, Georgia. A significant portion of these loans are acquisition and development loans. Loans held for sale, which was $2.3 million at March 31, 2008, increased $766,000 from the previous fiscal year end. Total investments and mortgage-backed securities increased $14.4 million or 5.8% to $264.3 million at March 31, 2008. Cash and cash equivalents were $10.5 million at March 31, 2008 compared to $13.4 million at March 31, 2007. Premises and equipment increased $5.6 million or 35.5% to $21.5 million in fiscal 2008 as the Bank completed the construction of its Evans, Georgia branch building and construction of a new branch building in Clearwater, South Carolina to replace a previously leased location. The Company also completed leasehold improvements to a branch location in Columbia, South Carolina and renovations of its Whiskey Road Aiken branch building. The cash value of Bank Owned Life Insurance ("BOLI") was $8.3 million at March 31, 2008 compared to $5.8 million at March 31, 2007. The $2.5 million increase was attributable to accumulated BOLI earnings of $327,000 and an additional BOLI purchase of $2.2 million during the fiscal year ended March 31, 2008. BOLI, which earns tax-free yields, is utilized to partially offset the cost of the Company's employee benefits programs and provide key person insurance on certain officers of the Company.

Repossessed assets acquired in settlement of loans increased $742,000 to $767,000 at March 31, 2008 from $25,000 at March 31, 2007. At March 31, 2008, the balance consisted of the following six properties: two lots within one subdivision of Aiken, South Carolina, one lot within a subdivision of Columbia, South Carolina and three single-family residences.

The balance of loans in troubled debt restructurings decreased during the period. The Bank had five loans that were troubled debt restructurings totaling $187,000 at March 31, 2008 compared to five loans totaling $204,000 at March 31, 2007. The five troubled debt restructurings consisted of three consumer loans secured by first mortgages on residential dwellings totaling $170,000, a $9,000 consumer loan secured by a second mortgage on a residential dwelling, and a $8,000 unsecured commercial loan. The $9,000 consumer loan was delinquent at March 31, 2008 while the other four loans were current in payments. All troubled debt restructurings are reviewed for impairment. At March 31, 2008, the Bank held $4.5 million in impaired loans compared to $1.5 million at March 31, 2007.

Non-accrual loans totaled $6.0 million at March 31, 2008 compared to $1.1 million a year earlier and consisted of five residential real estate loans which comprised 10.1% of the balance, 11 commercial real estate loans which comprised 19.4% of the balance, 10 consumer loans which comprised 6.9% of the balance and eight commercial non-real estate loans which comprised 63.6% of the total balance. Non-accrual loans averaged $2.9 million in fiscal 2008 compared to $1.3 million during fiscal 2007. The increase in non-accrual loans is the result of a general decline in economic conditions and borrower cash flow during fiscal 2008. Despite the increase in non-accrual loans, these loans continue to represent less than 1% of the Company's total assets at March 31, 2008.

The Bank reviews its loan portfolio and allowance for loan losses on a monthly basis. Future additions to the Bank's allowance for loan losses are dependent on, among other things, the performance of the Bank's loan portfolio, the economy, changes in real estate values, and interest rates. There can be no assurance that additions to the allowance will not be required in future periods. Management continually monitors its loan portfolio for the impact of local economic changes. The ratio of allowance for loan losses to total loans was 1.53% at March 31, 2008 compared to 1.65% at March 31, 2007. The Bank continues to practice conservative lending and past due loans are monitored closely.

In July 2006, the Company acquired Collier Jennings Financial Corporation, an insurance agency specializing in consumer automobile insurance and premium financing. The resulting goodwill and other intangibles were $1.2 million and $443,000 at March 31, 2008, respectively. Collier Jennings is now a subsidiary of Security Federal Insurance Inc.

Financial Condition, Continued

Deposits at the Bank increased $67.1 million or 12.8% to $590.9 million at March 31, 2008 from $523.7 million at March 31, 2007. During fiscal 2008, the

Bank was very successful in attracting certificate of deposit accounts with aggressive pricing and advertising. Advances from the FHLB increased to $178.2 million at March 31, 2008 from $153.0 million a year earlier, an increase of $25.2 million or 16.5%. Other borrowed money, which consists of retail repurchase agreements and a line of credit with another financial institution, increased $4.7 million or 58.1% to $12.8 million at March 31, 2008 from $8.1 million at March 31, 2007. The Company issued its first trust preferred security issuance in September 2006. Gross proceeds of the issuance were $5.2 million and are classified as junior subordinated debentures on the consolidated balance sheet.

Total shareholders' equity was $47.5 million at March 31, 2008, an increase of $4.8 million or 11.3% from $42.7 million a year earlier. The increase was attributable to net income of $4.3 million, proceeds from the exercise of stock options of $105,000, proceeds from employee stock purchase plan purchases of $97,000, stock compensation expense of $21,000, and a net increase in other comprehensive income of $3.1 million, offset partially by the purchase of $2.1 million of treasury stock, and $723,000 in dividends paid.

Results of Operations

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. The table also distinguishes between the changes related to higher or lower outstanding balances and the changes due to the volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in rate (changes in rate multiplied by prior year volume); (2) changes in volume (changes in volume multiplied by prior year rate); and (3) net change (the sum of the prior columns). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change attributable to volume and the change attributable to rate.

	Fiscal Year 2008 Compared To 2007			Fiscal Year 2007 Compared To 2006		
	Volume	Rate	Net	Net	Rate	Net
			(In Thousands)			
Interest-Earning Assets:						
Loans: (1)						
Real Estate Loans	$ 316	$ 156	$ 472	$ 385	$ 558	$ 943
Other Loans	5,406	(425)	4,981	4,534	2,294	6,828
Total Loans	5,722	(269)	5,453	4,919	2,852	7,771
Mortgage-Backed Securities (2)	454	586	1,040	(629)	947	318
Investments (2)	242	813	1,055	635	745	1,380
Other Interest-Earning Assets	14	(28)	(14)	(9)	21	12
Total Interest-Earning Assets	$6,432	$1,102	$7,534	$4,916	$4,565	$9,481
Interest-Bearing Liabilities:						
Deposits:						
Certificate Accounts	$3,243	$1,028	$4,271	$2,092	$2,499	$4,591
NOW Accounts	(36)	39	3	(5)	119	114

Money Market Accounts	(119)	(187)	(306)	(303)	1,437	1,134
Savings Accounts	(7)	0	(7)	(9)	0	(9)
Total Deposits	3,081	880	3,961	1,775	4,055	5,830
Borrowings	1,362	288	1,650	1,158	976	2,134
Total Interest-Bearing Liabilities	4,443	1,168	5,611	2,933	5,031	7,964
Effect On Net Income	$1,989	$ (66)	$1,923	$1,983	$ (466)	$1,517

(1) INTEREST ON NON-ACCRUAL LOANS IS NOT INCLUDED IN INCOME, ALTHOUGH THEIR LOAN BALANCES ARE INCLUDED IN AVERAGE LOANS OUTSTANDING.

(2) SECURITIES AVAILABLE FOR SALE ARE COMPUTED USING THEIR HISTORICAL COST.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Results of Operations, Continued

The following table presents the total dollar amount of interest income from average interest-ear
for the periods indicated and the resultant yields as well as the interest expense on average
interest-bearing liabilities expressed both in dollars and rates. No tax equivalent adjustments

Averages For Fiscal Years Ended March 31,

(Dollars In Thousands)

	Yield/ Rate At March 31, 2008	2008 Average Balance	2008 Interest	2008 Yield/ Rate	2007 Average Balance	2007 Interest	2007 Yield/ Rate	2006 Average Balance	2006 Inte
Interest-Earning Assets:									
Mortgage Loans	6.24%	$123,893	$ 7,757	6.26%	$118,793	$ 7,285	6.13%	$112,223	$ 6,
Other Loans	6.75%	356,994	28,877	8.09%	289,925	23,896	8.24%	232,793	17,
Total Loans (1)	6.63%	480,887	36,634	7.62%	408,718	31,181	7.63%	345,016	23,
Mortgage-Backed Securities (2)	5.05%	144,041	6,813	4.73%	133,923	5,773	4.31%	150,107	5,
Investments (2)	3.94%	120,544	6,125	5.08%	115,253	5,070	4.40%	99,473	3,
Other Interest-Earning Assets	2.40%	1,619	60	3.71%	1,412	74	5.23%	1,775	
Total Interest-Earning Assets	5.97%	$747,091	$49,632	6.64%	$659,306	$42,098	6.39%	$596,371	$32,

Interest-Bearing

Liabilities:									
Certificate Accounts	4.75%	$295,424	$14,768	5.00%	$229,120	$10,497	4.58%	$175,703	$ 5,
NOW Accounts	0.73%	61,534	814	1.32%	62,578	811	1.30%	63,000	
Money Market Accounts	2.84%	143,695	5,492	3.82%	146,781	5,798	3.95%	156,508	4,
Savings Accounts	0.97%	16,195	159	0.98%	16,895	166	0.98%	17,969	
Total Interest-Bearing Accounts	3.70%	516,848	21,233	4.11%	455,374	17,272	3.79%	413,180	11,
Other Borrowings	3.62%	10,171	334	3.29%	7,080	318	4.49%	6,201	
Jr. Subordinated Debt	5.69%	5,155	362	7.03%	2,721	192	7.05%	-	
FHLB Advances	4.18%	170,606	7,615	4.46%	145,299	6,151	4.23%	121,526	4,
Total Interest-Bearing Liabilities	3.83%	$702,780	$29,544	4.20%	$610,474	$23,933	3.92%	$540,907	$15,
Net Interest Income			$20,088			$18,165			$16,
Interest Rate Spread	2.14%			2.44%			2.47%		
Net Yield On Earning Assets				2.69%			2.76%		

(1) INTEREST ON NON-ACCRUAL LOANS IS NOT INCLUDED IN INCOME, ALTHOUGH THEIR LOAN BALANCES ARE IN AVERAGE LOANS OUTSTANDING.

(2) SECURITIES AVAILABLE FOR SALE ARE COMPUTED USING THEIR HISTORICAL COST.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Comparison of the Years Ended March 31, 2008 and 2007

General

The Company's earnings were $4.3 million for the year ended March 31, 2008, compared to $4.1 million for the year ended March 31, 2007. The $153,000 or 3.7% increase in earnings was attributable primarily to an increase in net interest income and non-interest income offset partially by an increase in general and administrative expenses.

Net Interest Income

Net interest income increased $1.9 million or 10.6% to $20.1 million in fiscal 2008 from $18.2 million in fiscal 2007. The increase was attributable to an increase of $87.8 million in average interest-earning assets to $747.1 million and an increase in the yield earned on these assets offset by an increase of $92.3 million in average interest-bearing liabilities to $702.8 million and an increase in the average cost of these liabilities during fiscal 2008.

Interest income on loans increased $5.5 million to $36.6 million during the year ended March 31, 2008 from $31.2 million during fiscal 2007. The increase was attributable to an increase in average total loans outstanding of $72.2 million offset by a 1 basis point decrease in the yield earned on the Bank's loans during fiscal 2008. Interest income on investment securities, mortgage-backed securities, and other investments increased $2.1 million as a result of an increase in the aggregate average balance in the overall investment portfolio, including mortgage-backed securities, investments, and other interest-earning assets of $15.6 million and an increase in the yield of 42 basis points.

Interest expense on deposits increased $4.0 million or 22.9% to $21.2 million during the year ended March 31, 2008. Average interest bearing deposits increased $61.5 million while the average cost of those deposits increased 32 basis points during the year. Interest expense on FHLB advances and other borrowings increased $1.5 million or 22.9% to $7.9 million during fiscal 2008. The increase was a result of an increase in average FHLB advances and other borrowings outstanding during the year of $28.4 million while the average costs of those borrowings increased 15 basis points to 4.40% in fiscal 2008 compared to 4.25% in fiscal 2007. Interest expense on junior subordinated debentures was $362,000 for fiscal 2008 compared to $192,000 during fiscal 2007. The average outstanding balance on these debentures increased $2.4 million while the average cost decreased 2 basis points to 7.03% in fiscal 2008 compared to 7.05% in fiscal 2007.

The Bank's interest rate spread decreased three basis points to 2.44% during fiscal 2008. The Federal Reserve's recent interest rate decreases resulted in lower yields on adjustable rate assets while intense competition in the marketplace continued to increase interest rates paid on deposit accounts. In addition, the Bank's liabilities tend to re-price at a more gradual rate than its assets. The Bank anticipates these recent rate reductions will cause asset yields to decline in fiscal 2009 as well.

Provision for Loan Losses

The Company's provision for loan losses increased $295,000 to $895,000 during the year ended March 31, 2008 from $600,000 in fiscal 2007. The increase in the provision for loan losses was the result of $81.9 million in loan growth in conjunction with a general decline in economic conditions and an increase in non-performing assets within the Company's portfolio.

The amount of the provision is determined by management's on-going monthly analysis of the loan portfolio. Management uses multiple methods to measure the estimate of the adequacy of the allowance for loan losses. These methods incorporate percentage of classified loans, five-year averages of historical loan losses in each loan category and current economic trends, and the assignment of percentage targets of reserves in each loan category. The Company considers subjective factors such as changes in local and national economic conditions, industry trends, the composition and volume of the loan portfolio, credit concentrations, lending policies, and the experience and ability of the staff and Board of Directors.

Non-accrual loans, which are loans delinquent 90 days or more, were $6.0 million at March 31, 2008 compared to $1.1 million at March 31, 2007. Despite the increase in non-accrual loans, these loans continue to comprise less than 1% of the Company's total assets at March 31, 2008. Non-performing assets, which include non-accrual loans and repossessed assets, increased to 0.8% of total assets at March 31, 2008 from 0.2% at March 31, 2007. Net charge-offs were $125,000 or 0.02% of gross loans in fiscal 2008 compared to $30,000 or 0.01% of gross loans in fiscal 2007.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Provision for Loan Losses, Continued

The sub prime lending and credit crisis caused national economic conditions to deteriorate in fiscal 2008. As a result, real estate demand, real estate market values and borrower cash flow declined significantly during the year creating industry wide asset quality problems. Although the Company does not have a sub prime lending program, it was indirectly impacted by these events and the general condition of the economy. Non-performing assets within the Company's portfolio increased $5.7 million to $6.8 million at March 31, 2008 from $1.1 million at March 31, 2007 and net charge-offs were $125,000 in fiscal 2008 compared to $30,000 in fiscal 2007. The Company continues to monitor national trends along with trends within its own portfolio in an effort to be better equipped to identify and resolve problem loans in the future.

Management believes the allowance for loan losses is adequate based on its best estimates of the losses inherent in the loan portfolio, although there can be no guarantee as to these estimates. In addition, bank regulatory agencies may require additions to the allowance for loan losses based on their judgments and estimates as part of their examination process. Because the allowance for loan losses is an estimate, there can be no guarantee that actual loan losses would not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required in the future.

Non-Interest Income

Non-interest income increased $629,000 from $3.9 million during fiscal 2007 to $4.5 million during fiscal 2008. Gain on sale of loans increased $152,000 to $613,000 during fiscal 2008 compared to $461,000 during fiscal 2007 as a result of an increase in the origination and sale of fixed rate residential mortgage loans. Service fees on deposit accounts decreased $7,000 or 0.6% to $1.2 million during fiscal 2008 as a result of an increase in the average balance of deposit accounts. Income from insurance agency commissions was $665,000 during fiscal 2008 compared to $650,000 during fiscal 2007. Other agency income from Collier Jennings increased $31,000 to $98,000 during fiscal 2008 from $68,000 during fiscal 2007. Trust income decreased $40,000 or 8.2% to $443,000 during fiscal 2008 as a result of a decrease in the market value of the underlying trust accounts offset slightly by an increase in the number of trust accounts. Income from BOLI increased $85,000 or 34.9% to $327,000 during fiscal year 2008 as a result of an additional purchase of life insurance. Other miscellaneous income including annuity and investment brokerage commissions, Bank credit life insurance on loans, and other miscellaneous income increased $124,000 or 17.2% to $842,000 during fiscal 2008 primarily as a result of an increase in fee income and specifically check card fee income and wire transfer fee income. The Bank's three financial subsidiaries, SFINS, SFINV, and SFT began operating in the third quarter of the fiscal year ended March 31, 2002. SFINS is an insurance agency handling property and casualty insurance and life and health insurance. In 2008 SFINS incurred a $266,000 loss partially as a result of the continued integration of Collier Jennings. In addition, changes in South Carolina insurance laws enacted during fiscal 2008 negatively impacted revenue in conjunction with a decrease in the commissions percentages earned from the insurance companies resulting from current market conditions and increased competition. SFINV markets mutual funds, discount brokerage, and annuities. SFT is a full-service trust company. SFINV and SFT had losses of $18,000 and $77,000, respectively, in fiscal 2008.

General and Administrative Expenses

General and administrative expenses increased $2.2 million or 14.3% to $17.3 million during the year ended March 31, 2008 compared to $15.2 million during the same period one year earlier. The largest increase was compensation and employee benefits which increased $900,000 or 9.6% to $10.3 million as a result of the hiring of additional staff to expand into new market areas in addition to normal annual salary adjustments. Occupancy expense increased $373,000 or 26.4% to $1.8 million as a result of the depreciation of branch renovations and construction and maintaining additional locations. Advertising expense increased $82,000 or 27.7% from $297,000 to $380,000 as a result of advertising consumer loans and certificates of deposit during the year. Depreciation and maintenance of equipment expense increased $42,000 or 3.2% to $1.4 million. FDIC insurance premiums increased $3,000 to $62,000 for fiscal 2008 from $58,000 in fiscal 2007. Other miscellaneous expenses, which encompasses repossessed assets expense, legal, professional, and consulting expenses, stationery and office supplies, and other expenses increased $743,000 or 28.3% during fiscal 2008. This increase is attributable to general growth including maintaining additional employees and locations.

Income Taxes

The provision for income taxes decreased $62,000 or 2.9% to $2.1 million during the year ended March 31, 2008 compared to the year ended March 31, 2007. The effective tax rate was 34.2% for fiscal 2008 and 34.2% for fiscal 2007.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Comparison of the Years Ended March 31, 2007 and 2006

General

The Company's earnings were $4.1 million for the year ended March 31, 2007, compared to $3.8 million for the year ended March 31, 2006. The $314,000 or 8.2% increase in earnings was attributable primarily to an increase in net interest income and non-interest income offset partially by an increase in general and administrative expenses.

Net Interest Income

Net interest income increased $1.5 million or 9.1% to $18.2 million in fiscal

2007 from $16.7 million in fiscal 2006. The increase was attributable to an increase of $62.9 million to $659.3 million in average interest-earning assets during fiscal 2007. The Bank's interest rate spread decreased five basis points to 2.47% during fiscal 2007. The yield of average interest-earning assets increased 92 basis points to 6.39%, while the cost of average interest-bearing liabilities increased 97 basis points to 3.92%. Interest income on loans increased $7.8 million to $31.2 million during the year ended March 31, 2007 from $23.4 million during fiscal 2006. The increase was attributable to an increase in average total loans outstanding of $63.7 million and an 84 basis point increase in the yield earned on the Bank's loans during fiscal 2007. Interest income on investment securities, mortgage-backed securities, and other investments increased $1.7 million as a result of an increase in yield of 70 basis points in the overall investment portfolio. The aggregate average balance in the overall investment portfolio, including mortgage-backed securities, investments, and other interest-earning assets, decreased $767,000 during fiscal 2007 compared to fiscal 2006 to help fund the growth in loans.

Interest expense on deposits increased $5.8 million or 51.0% to $17.3 million during the year ended March 31, 2007. Average interest-bearing deposits increased $42.2 million while the average cost of those deposits increased 102 basis points during the year. Interest expense on FHLB advances and other borrowings increased $1.9 million or 42.9% to $6.5 million during fiscal 2007. The increase was a result of an increase in average FHLB advances and other borrowings outstanding during the year of $24.6 million while the average costs of those borrowings increased 71 basis points to 4.25% in fiscal 2007 compared to 3.54% in fiscal 2006. Interest expense on junior subordinated debentures was $192,000 during fiscal 2007, with a weighted average cost of 7.05%. The Company issued its first junior subordinated debentures in September 2006. Net proceeds of the issuance were $5.0 million.

Provision for Loan Losses

The Company's provision for loan losses decreased $60,000 to $600,000 during the year ended March 31, 2007 from $660,000 in fiscal 2006. The amount of the provision is determined by management's on-going monthly analysis of the loan portfolio. Management uses three methods to measure the estimate of the adequacy of the allowance for loan losses. These methods incorporate percentage of classified loans, five-year averages of historical loan losses in each loan category and current economic trends, and the assignment of percentage targets of reserves in each loan category. Management has used all three methods for the past seven fiscal years.

Non-accrual loans, which are loans delinquent 90 days or more, were $1.1 million at March 31, 2007 compared to $1.2 million at March 31, 2006. Net charge-offs were $30,000 in fiscal 2007 compared to $239,000 in fiscal 2006. The ratio of the allowance for loan losses to total loans at March 31, 2007 was 1.65% compared to 1.76% at March 31, 2006. Management believes the allowance for loan losses is adequate based on its best estimates of the losses inherent in the loan portfolio, although there can be no guarantee as to these estimates. In addition, bank regulatory agencies may require additions to the allowance for loan losses based on their judgments and estimates as part of their examination process. Because the allowance for loan losses is an estimate, there can be no guarantee that actual loan losses would not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required in the future.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operation

Non-Interest Income

Non-interest income increased $1.2 million from $2.6 million during fiscal 2006 to $3.9 million during fiscal 2007. Gain on sale of loans was $461,000 in fiscal 2007 compared to $467,000 during fiscal 2006. Service fees on deposit accounts increased $107,000 or 9.5% to $1.2 million during fiscal 2007 as a result of an increase in the number of demand accounts. Income from insurance agency commissions increased $608,000 to $650,000 as a result of the acquisition of Collier Jennings at the beginning of the September 2006 quarter. Other agency income from Collier Jennings was $68,000 during fiscal 2007. Trust income increased $119,000 or 32.7% to $482,000 during fiscal 2007 due to an increase in trust account balances. Income from BOLI was $243,000 during fiscal year 2007. The Company did not own any BOLI until March 31, 2006. Other miscellaneous income including annuity and investment brokerage commissions, Bank credit life insurance on loans, and other miscellaneous income increased $142,000 or 24.7% to $718,000 during fiscal 2007 primarily as a result of an increase in the gain on sale of repossessed assets and increased annuity and investment brokerage commissions. The Bank's three financial subsidiaries, SFINS, SFINV, and SFT began operating in the third quarter of the fiscal year ended March 31, 2002. SFINS is an insurance agency handling property and casualty insurance and life and health insurance and became profitable during the fiscal year ended March 31, 2004. In fiscal 2006, SFINS incurred a slight loss as a result of an increase in staff. In fiscal 2007 SFINS incurred an $83,000 loss as a result of infrastructure being put in place for the assimilation of Collier Jennings. SFINV markets mutual funds, discount brokerage, and annuities. SFT is a full-service trust company. SFINV and SFT had losses of $33,000 and $35,000, respectively, in fiscal 2007.

General and Administrative Expenses

General and administrative expenses increased $2.1 million or 16.4% to $15.2 million during the year ended March 31, 2007 compared to the same period one year earlier primarily as a result of the Collier Jennings insurance agency acquisition, which added approximately $1.1 million in general and administrative expenses. Without that acquisition, general and administrative expenses increased $1.0 million or 7.7%. Compensation and employee benefits increased $1.8 million or 23.8% to $9.4 million as a result of the Collier Jennings acquisition, the hiring of additional business development officers and auditing staff, and normal annual salary adjustments. Excluding the acquisition, compensation and employee benefits expense increased $1.2 million or 16.4%. Occupancy expense increased $147,000 or 11.6% to $1.4 million as a result of the depreciation of branch renovations and the leasing of additional office space. Advertising expense increased $125,000 or 72.5% from $172,000 to $297,000 as a result of advertising consumer loans and certificates of deposit during the year. Depreciation and maintenance of equipment expense increased $216,000 or 19.7% to $1.3 million. FDIC insurance premiums were $58,000 in both fiscal 2007 and 2006. Other miscellaneous expenses, which encompasses repossessed assets expense, legal, professional, and consulting expenses, stationery and office supplies, and other expenses decreased $231,000 or 8.1% during fiscal 2007.

Income Taxes

The provision for income taxes increased $364,000 or 20.5% to $2.1 million during the year ended March 31, 2007 as a result of an increase in taxable income compared to $1.8 million during the year ended March 31, 2006. The effective tax rate was 34.2% for fiscal 2007 and 31.8% for fiscal 2006.

Management's Discussion and Analysis of Financial Condition and Results of Operation

Regulatory Capital

The following table reconciles the Bank's shareholders' equity to its various regulatory capital positions:

	March 31, 2008	March 31, 2007
	(In Thousands)	
Bank's Shareholders' Equity (1)	$53,872	$47,318
Reduction For Goodwill And Other Intangibles	1,640	1,730
Tangible Capital	52,232	45,588
Core Capital	52,232	45,588
Supplemental Capital	6,951	6,016
Less Assets Required To Be Deducted	-	22
Total Risk-Based Capital	$59,183	$51,582

(1) FOR FISCAL 2008 AND 2007, EXCLUDES UNREALIZED GAIN (LOSS) OF $1,640 THOUSAND AND ($748) THOUSAND, RESPECTIVELY ON AVAILABLE FOR SALE SECURITIES.

The following table compares the Bank's capital levels relative to regulatory requirements at March 31, 2008:

	Amount Required	Percent Required	Actual Amount	Actual Percent	Excess Amount	Excess Percent
	(Dollars In Thousands)					
Tangible Capital	$16,688	2.0%	$52,232	6.3%	$35,544	4.3%
Tier 1 Leverage (Core) Capital	33,377	4.0%	52,232	6.3%	18,855	2.3%
Tier 1 Risk-Based (Core) Capital	22,250	4.0%	52,232	9.4%	29,982	5.4%
Total Risk-Based Capital	44,485	8.0%	59,183	10.6%	14,698	2.6%

Management's Discussion and Analysis of Financial Condition and Results of Operation

Liquidity and Capital Resources

Liquidity refers to the ability of the Bank to generate sufficient cash flows to fund current loan demand, repay maturing borrowings, fund maturing deposit withdrawals, and meet operating expenses. The Bank's primary sources of funds include loan repayments, loan sales, increased deposits, advances from the FHLB, and cash flow generated from operations. The need for funds varies among periods depending on funding needs as well as the rate of amortization and prepayment on loans. The use of FHLB advances varies depending on loan demand, deposit inflows, and the use of investment leverage strategies to increase net interest income.

The principal use of the Bank's funds is the origination of mortgages and other loans and the purchase of investments and mortgage-backed securities. Loan originations on loans held for investment were $390.9 million in fiscal 2008 compared to $358.9 million in fiscal 2007 and $277.2 million in fiscal 2006. The bulk of the increase in originations in fiscal 2008, 2007, and 2006 was primarily the result of an increase in commercial loan originations, which increased $28.1 million, $85.4 million, and $63.9 million, respectively. Purchases of investments and mortgage-backed securities were $142.8 million in fiscal 2008 compared to $63.4 million in fiscal 2007 and $59.4 million in fiscal 2006. Another use of the Bank's funds is the building and renovation of branch offices. The Bank plans to consider expanding its branch network in Aiken, Richland and Lexington County, South Carolina and metro Augusta, Georgia and surrounding areas during the next few years.

Unused lines of credit on home equity loans, credit cards, and commercial loans amounted to $70.6 million at March 31, 2008. Home equity loans are made on a floating rate basis with final maturities of 10 to 15 years. Credit cards are generally made on a floating rate basis, and are renewed annually or every other year. Management does not anticipate that the percentage of funds drawn on unused lines of credit will increase substantially over amounts currently utilized. In addition to the above commitments, the Bank has undisbursed loans-in-process of $8.1 million at March 31, 2008, which will disburse over an average of 90 days. These commitments to originate loans and future advances of lines of credit are expected to be funded from loan amortizations and prepayments, deposit inflows, maturing investments, and short-term borrowing capacity.

The following table sets forth the length of time until maturity for unused commitments to extend credit and standby letters of credit at March 31, 2008:

(In Thousands)	Within One Month	Greater Than One Through Three Months	After Three Through Twelve Months	Within One Year	One Year Or Greater	Total
Unused Lines Of Credit	$3,406	$4,898	$20,479	$28,783	$41,768	$70,551
Standby Letters Of Credit	51	91	337	479	138	617
Total	$3,457	$4,989	$20,816	$29,262	$41,906	$71,168

Management believes that future liquidity can be met through the Bank's deposit base, which increased $67.1 million during fiscal 2008, and from maturing investments. Also, the Bank has another $60.4 million in unused borrowing capacity at FHLB at March 31, 2008 and $7.0 million borrowing capacity on a line of credit with another institution.

Historically the Bank's cash flow from operating activities has been relatively stable. The cash flows from investing activities varies with the need to invest excess funds or utilize leverage strategies with the purchase of mortgage-backed and investment securities. The cash flows from financing activities vary with the need for FHLB advances. See "Consolidated Statements of Cash Flows" in the Consolidated Financial Statements contained herein.

Contractual Obligations

In the normal course of business, the Company enters into contractual obligations that meet various business needs. These contractual obligations include time deposits to customers, borrowings from the FHLB of Atlanta, other borrowings, junior subordinated debentures, and lease obligations for facilities. See Notes 6, 9, 10, and 11 of the Notes to the Consolidated Financial Statements included herein for additional information. The following table summarizes the Company's long-term contractual obligations at March 31, 2008:

	Less than One Year	One to Three Years	Three to Five Years	Thereafter	Total
	(In Thousands)				
Time deposits	$313,602	$11,122	$ 6,349	$ -	$331,073
FHLB Advances	42,300	25,000	34,700	76,234	178,234
Other Borrowings	12,784	-	-	-	12,784
Jr. Sub. Debentures	-	-	5,155	-	5,155
Operating Lease Obligations	439	861	801	2,700	4,801
Total	$369,125	$36,983	$47,005	$78,934	$532,047

Off-Balance Sheet Arrangements

In the normal course of business, the Company makes off-balance sheet arrangements, including credit commitments to its customers to meet their financial needs. These arrangements involve, to varying degrees, elements of credit and interest rate risk not recognized in the consolidated statement of financial condition. The Bank makes personal, commercial, and real estate lines of credit available to customers and does issue standby letters of credit.

Commitments to extend credit to customers are subject to the Bank's normal credit policies and are essentially the same as those involved in extending loans to customers. See Note 16 of the Notes to the Consolidated Financial Statements included herein for additional information.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements, related notes, and other financial information presented herein have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") that require the measurement of financial position and operating results in terms of historical dollars without considering changes in relative purchasing power over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Security Federal Corporation and Subsidiaries
Aiken, South Carolina

We have audited the accompanying consolidated balance sheets of Security Federal Corporation and Subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for each of the years in the three year period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security Federal Corporation and Subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of Security Federal Corporation and Subsidiaries' internal control over financial reporting as of March 31, 2008 and 2007 included in the accompanying Management's Report on Internal Control over Financial Reporting and, accordingly, we do not express an opinion thereon.

/s/Elliott Davis, LLC

Columbia, South Carolina
June 9, 2008

23

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	March 31, 2008	March 31, 2007
ASSETS:		
Cash And Cash Equivalents	$ 10,539,054	$ 13,438,129
Investment And Mortgage-Backed Securities:		
Available For Sale: (Amortized Cost of $240,295,683 and $186,970,867 at March 31, 2008 and 2007, Respectively)	244,157,872	185,766,296
Held To Maturity: (Fair Value of $20,506,250 and $63,441,641 at March 31, 2008 and 2007, Respectively)	20,154,618	64,138,589
Total Investment And Mortgage-Backed Securities	264,312,490	249,904,885
Loans Receivable, Net:		
Held For Sale	2,295,721	1,529,748
Held For Investment: (Net of Allowance of $8,066,762 and $7,296,791 at March 31, 2008 and 2007, Respectively)	515,635,984	434,508,612
Total Loans Receivable, Net	517,931,705	436,038,360
Accrued Interest Receivable:		
Loans	1,952,866	1,459,193
Mortgage-Backed Securities	822,379	550,682
Investments	764,746	1,181,639
Total Accrued Interest Receivable	3,539,991	3,191,514
Premises And Equipment, Net	21,544,380	15,895,192
Federal Home Loan Bank Stock, At Cost	9,497,100	8,209,200
Repossessed Assets Acquired In Settlement Of Loans	767,096	24,909
Bank Owned Life Insurance	8,310,813	5,783,620
Intangible Assets, Net	442,500	532,500
Goodwill	1,197,954	1,197,954
Other Assets	1,947,403	3,893,928
Total Assets	$840,030,486	$738,110,191

LIABILITIES AND SHAREHOLDERS' EQUITY:

Liabilities:		
Deposit Accounts	$590,850,208	$523,737,592
Advances From Federal Home Loan Bank	178,234,007	153,049,272
Other Borrowings	12,784,094	8,088,194
Junior Subordinated Debentures	5,155,000	5,155,000
Advance Payments By Borrowers For Taxes And Insurance	620,467	486,101
Mandatorily Redeemable Financial Instruments	1,417,312	1,417,312
Other Liabilities	3,472,985	3,483,512
Total Liabilities	792,534,073	695,416,983
Commitments (Notes 6 and 16)		
Shareholders' Equity:		
Serial Preferred Stock, $.01 Par Value; Authorized 200,000 Shares; Issued And Outstanding, None	-	-
Common Stock, $.01 Par Value; Authorized 5,000,000 Shares; Issued And Outstanding Shares, 2,649,027 And 2,532,192, Respectively, at March 31, 2008 And 2,637,942 And 2,609,116, Respectively, at March 31, 2007	25,925	25,814
Additional Paid-In Capital	5,072,086	4,850,029
Treasury Stock (At Cost 116,835 and 28,826 shares at March 31, 2008 and 2007, respectively)	(2,769,446)	(651,220)
Accumulated Other Comprehensive Income (Loss)	2,395,537	(747,316)
Retained Earnings, Substantially Restricted	42,772,311	39,215,901
Total Shareholders' Equity	47,496,413	42,693,208
Total Liabilities And Shareholders' Equity	$840,030,486	$738,110,191

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

	For the Years Ended March 31,		
	2008	2007	2006
Interest Income:			
Loans	$36,634,595	$31,180,719	$23,410,189
Mortgage-Backed Securities	6,812,983	5,772,667	5,455,369
Investment Securities	6,124,662	5,070,355	3,689,641
Other	60,086	73,873	62,008
Total Interest Income	49,632,326	42,097,614	32,617,207
Interest Expense:			
NOW And Money Market Accounts	6,306,433	6,609,207	5,360,351
Passbook Accounts	158,703	165,664	175,237
Certificate Accounts	14,768,301	10,497,490	5,906,157

FHLB Advances And Other Borrowed Money	7,948,807	6,468,828	4,527,182
Junior Subordinated Debentures	362,281	191,811	-
Total Interest Expense	29,544,525	23,933,000	15,968,927
Net Interest Income	20,087,801	18,164,614	16,648,280
Provision For Loan Losses	895,000	600,000	660,000
Net Interest Income After Provision For Loan Losses	19,192,801	17,564,614	15,988,280
Non-Interest Income:			
Gain On Sale Of Investment Securities	267,981	-	48,962
Gain On Sale Of Loans	613,493	460,750	467,481
Service Fees On Deposit Accounts	1,232,676	1,239,579	1,132,194
Commissions From Insurance Agency	664,844	649,548	41,803
Other Agency Income	98,499	67,613	-
Trust Income	442,625	482,376	363,413
Bank Owned Life Insurance Income	327,193	242,619	-
Other	841,762	718,046	575,715
Total Non-Interest Income	4,489,073	3,860,531	2,629,568
General And Administrative Expenses:			
Compensation And Employee Benefits	10,284,937	9,384,640	7,579,695
Occupancy	1,783,729	1,411,006	1,263,839
Advertising	379,819	297,330	172,409
Depreciation And Maintenance Of Equipment	1,351,289	1,309,696	1,094,149
FDIC Insurance Premiums	61,508	58,325	57,702
Amortization Of Intangibles	90,000	67,500	-
Other	3,371,248	2,628,612	2,859,587
Total General And Administrative Expenses	17,322,530	15,157,109	13,027,381
Income Before Income Taxes	6,359,344	6,268,036	5,590,467
Provision For Income Taxes	2,079,745	2,141,483	1,777,616
Net Income	$ 4,279,599	$ 4,126,553	$ 3,812,851
Net Income Per Common Share (Basic)	$ 1.66	$ 1.59	$ 1.51
Net Income Per Common Share (Diluted)	$ 1.65	$ 1.58	$ 1.48
Cash Dividend Per Share On Common Stock	$ 0.28	$ 0.24	$ 0.16
Weighted Average Shares Outstanding (Basic)	2,583,568	2,594,525	2,532,999
Weighted Average Shares Outstanding (Diluted)	2,586,703	2,608,552	2,575,061

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SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income
For the Years Ended March 31, 2008, 2007 and 2006

	Common Stock	Additional Paid - In Capital	Treasury Stock	Indirect Guarantee Of ESOP Debt	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	
Balance At March 31, 2005	$25,438	$4,181,804	$(165,089)	$(276,217)	$ (961,504)	$32,306,633	$
Net Income	-	-	-	-	-	3,812,851	
Other Comprehensive Income, Net Of Tax:							
Unrealized Holding Losses On Securities Available For Sale, Net Of Taxes	-	-	-	-	(1,094,649)	-	
Reclassification Adjustment For Gains Included In Net Income, Net of Taxes					(30,356)		-
Comprehensive Income	-	-	-	-	-	-	
Purchase Of Treasury Stock At Cost, 3,235 Shares	-	-	(73,567)	-	-	-	
Exercise Of Stock Options	144	222,306	-	-	-	-	
Decrease in Indirect Guarantee Of ESOP Debt	-	-	-	60,714	-	-	
Cash Dividends	-	-	-	-	-	(406,749)	
Balance At March 31, 2006	$25,582	$4,404,110	$(238,656)	$(215,503)	$(2,086,509)	$35,712,735	$

	Common Stock	Additional Paid - In Capital	Treasury Stock	Indirect Guarantee Of ESOP Debt	Accumulated Other Comprehensive Income (Loss)	Retained Earnings

Balance At March 31, 2006	$25,582	$4,404,110	$(238,656)	$(215,503)	$(2,086,509)	$35,712,735	$
Net Income	-	-	-	-	-	4,126,553	
Other Comprehensive Income, Net Of Tax:							
Unrealized Holding Gains On Securities Available For Sale, Net Of Taxes	-	-	-	-	1,339,193	-	-
Comprehensive Income	-	-	-	-	-	-	
Purchase Of Treasury Stock At Cost, 17,514 Shares			(412,564)	-	-	-	
Exercise Of Stock Options	232	438,233	-	-	-	-	
Decrease In Indirect Guarantee Of ESOP Debt	-	-	-	215,503	-	-	
Stock Compensation Expense		7,686					
Cash Dividends	-	-	-	-	-	(623,387)	
Balance At March 31, 2007	$25,814	$4,850,029	$(651,220)	$ -	$ (747,316)	$39,215,901	$

	Common Stock	Additional Paid - In Capital	Treasury Stock	Indirect Guarantee Of ESOP Debt	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	
Balance At March 31, 2007	$25,814	$4,850,029	$ (651,220)	$	$ (747,316)	$39,215,901	$
Net Income	-	-	-	-	-	4,279,599	
Other Comprehensive Income, Net Of Tax:							
Unrealized Holding Gains On Securities Available For Sale, Net Of Taxes	-	-	-	-	3,309,388	-	
Reclassification Adjustment For Gains Included In Net Income, Net Of Taxes	-	-	-	-	(166,535)	-	-
Comprehensive Income	-	-	-	-	-	-	
Purchase Of Treasury Stock At Cost, 88,009 Shares	-	-	(2,118,226)	-	-	-	
Exercise Of Stock Options	63	104,958	-	-	-	-	
Employee Stock							

Purchase Plan Purchases	48	96,581	-	-	-	-	
Stock Compensation Expense	-	20,518	-	-	-	-	
Cash Dividends	-	-	-	-	-	(723,189)	
Balance At March 31, 2008	$25,925	$5,072,086	$(2,769,446)	$ -	$2,395,537	$42,772,311	$

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the Years Ended March 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 4,279,599	$ 4,126,553	$ 3,812,851
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:			
Depreciation Expense	1,098,711	1,011,963	965,226
Amortization Of Intangible Assets	90,000	67,500	-
Stock Option Compensation Expense	20,518	7,686	-
Discount Accretion And Premium Amortization	236,743	405,777	927,981
Provisions For Losses On Loans	895,000	600,000	660,000
Gain On Sales Of Loans	(613,493)	(460,750)	(467,481)
Gain On Sales Of Investment Securities	(267,981)	-	(48,962)
(Gain) Loss On Sale Of Real Estate	(14,685)	(48,678)	21,416
Amortization Of Deferred Fees On Loans	(109,539)	(283,252)	(170,009)
Loss On Disposition Of Premises And Equipment	10,906	165	32,344
Proceeds From Sale Of Loans Held For Sale	39,115,662	30,793,793	30,370,085
Origination Of Loans Held For Sale	(39,268,142)	(30,542,147)	(28,945,486)
(Increase) Decrease In Accrued Interest Receivable:			
Loans	(493,673)	(363,179)	(194,142)
Mortgage-Backed Securities	(271,697)	(42,250)	47,501
Investments	416,893	(236,019)	(223,876)
(Decrease) Increase In Advance Payments By Borrowers	134,366	(15,897)	84,588
Other, Net	10,762	88,888	295,799
Net Cash Provided By Operating			

Activities	5,269,950	5,110,153	7,167,835
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase Of Mortgage-Backed Securities Available For Sale	(93,232,730)	(30,261,270)	(31,386,556)
Principal Repayments On Mortgage-Backed Securities Available For Sale	39,514,170	34,829,410	49,386,450
Principal Repayments On Mortgage-Backed Securities Held To Maturity	-	-	10,407
Purchase Of Investment Securities Available For Sale	(49,522,853)	(33,152,147)	(28,031,364)
Maturities Of Investment Securities Available For Sale	41,664,531	8,019,815	4,924,531
Maturities Of Investment Securities Held To Maturity	44,000,000	11,000,000	1,000,000
Proceeds From Sale of Investment Securities Available For Sale	8,268,604	-	-
Proceeds From Sale of Mortgage-Backed Securities Available For Sale	-	-	3,797,360
Proceeds From Sale of Mortgage-Backed Securities Held To Maturity	-	-	249,650
Purchase Of FHLB Stock	(10,486,300)	(7,232,000)	(6,897,300)
Redemption Of FHLB Stock	9,198,400	6,172,600	5,982,000
Increase In Loans Receivable	(83,076,705)	(61,061,837)	(59,900,035)
Proceeds From Sale Of Repossessed Assets	436,370	139,700	173,547
Purchase And Improvement Of Premises And Equipment	(6,759,305)	(5,244,344)	(4,746,502)
Proceeds From Sale of Premises and Equipment	500	-	-
Increase In Bank Owned Life Insurance	(2,527,193)	(783,619)	(5,000,001)
Net Cash Used By Investing Activities	(102,522,511)	(77,573,692)	(70,437,813)

(Continued)

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

	For the Years Ended March 31,		
	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase In Deposit Accounts	67,112,616	44,508,253	48,941,948
Proceeds From FHLB Advances	352,450,000	279,973,450	262,655,000
Repayment Of FHLB Advances	(327,265,265)	(258,287,178)	(243,330,000)

Proceeds Of Other Borrowings, Net	4,695,900	798,421	1,695,616
Proceeds From Junior Subordinated Debentures	-	5,155,000	-
Proceeds From Employee Stock Purchase Plan Purchases	96,629	-	-
Proceeds From Exercise Of Stock Options	105,021	438,465	222,450
Purchase Of Treasury Stock	(2,118,226)	(412,564)	(73,567)
Dividends To Shareholders	(723,189)	(623,387)	(406,749)
Net Cash Provided By Financing Activities	94,353,486	71,550,460	69,704,698
Net Increase (Decrease) In Cash And Cash Equivalents	(2,899,075)	(913,079)	6,434,720
Cash And Cash Equivalents At Beginning Of Year	13,438,129	14,351,208	7,916,488
Cash And Cash Equivalents At End Of Year	$ 10,539,054	$ 13,438,129	$ 14,351,208
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid During The Period For:			
Interest	$ 29,481,506	$ 23,339,597	$ 15,679,123
Income Taxes	$ 2,403,290	$ 1,869,292	$ 2,276,825
Supplemental Schedule Of Non Cash Transactions:			
Additions To Repossessed Assets	$ 1,163,872	$ 24,909	$ 232,985
Decrease (Increase) In Unrealized Net Loss On Securities Available For Sale, Net Of Taxes	$ 3,142,853	$ 1,339,193	$ (1,125,005)
Issuance Of A Mandatorily Redeemable Financial Instrument Through The Issuance Of Common Stock	$ -	$ 1,417,312	$ -

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

28

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(1) Significant Accounting Policies

The following is a description of the more significant accounting and reporting policies used in the preparation and presentation of the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

(a) Basis of Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of Security Federal Corporation (the "Company") and its wholly owned subsidiary, Security Federal Bank (the "Bank") and the Bank's wholly owned subsidiaries, Security Federal Insurance, Inc. ("SFINS"), Security Federal Investments, Inc. ("SFINV"), Security Federal Trust Inc. ("SFT"), and Security Financial Services Corporation ("SFSC"). Security Federal Corporation has a wholly owned subsidiary, Security Federal Statutory Trust (the "Trust"), which issued and sold fixed and floating rate capital securities of the Trust. However, under current accounting guidance, the Trust is not consolidated in the financial statements. The Bank is primarily engaged in the business of accepting savings and demand deposits and originating mortgage loans and other loans to individuals and small businesses for various personal and commercial purposes. SFINS, SFINV, and SFT were formed during fiscal 2002 and began operating during the December 2001 quarter. SFINS is an insurance agency offering auto, business, health, home and life insurance. SFINS has a wholly owned subsidiary, Collier Jennings Financial Corporation which has as subsidiaries Collier Jennings Inc., The Auto Insurance Store Inc., and Security Federal Premium Pay Plans Inc. SFINV engages primarily in investment brokerage services. SFT offers trust, financial planning and financial management services.

(b) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing balances in other banks, and federal funds sold. Cash equivalents have original maturities of three months or less.

(c) Investment and Mortgage-Backed Securities

Investment securities, including mortgage-backed securities, are classified in one of three categories: held to maturity, available for sale, or trading. Management determines the appropriate classification of debt securities at the time of purchase.

Investment securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. These securities are recorded at cost and adjusted for amortization of premiums and accretion of discounts over the estimated life of the security using a method that approximates a level yield. Prepayment assumptions on mortgage-backed securities are anticipated.

Management classifies investment securities that are not considered to be held to maturity as available for sale. These type of investments are stated at fair value with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity ("accumulated other comprehensive income (loss)"). Gains and losses from sales of investment and mortgage-backed securities available for sale are determined using the specific identification method. The Company has no trading securities.

(d) Loans Receivable Held for Investment

Loans are stated at their unpaid principal balance. Interest income is computed using the simple interest method and is recorded in the period earned.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(1) Significant Accounting Policies, Continued

(e) Allowance for Loan Losses

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

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

(f) Loans Receivable Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations.

(g) Repossessed Assets Acquired in Settlement of Loans

Repossessed assets represent real estate and other assets acquired through foreclosure or repossession and are initially recorded at the lower of cost (principal balance of the former mortgage loan less any specific valuation allowances) or estimated fair value less costs to sell. Subsequent improvements are capitalized. Costs of holding real estate, such as property taxes, insurance, general maintenance and interest expense, are expensed as a period cost. Fair values are reviewed regularly and allowances for possible losses are established when the carrying value of the asset owned exceeds the fair value less estimated costs to sell. Fair values are generally determined by reference to an outside appraisal.

(h) Premises and Equipment

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation of premises and equipment is amortized on a straight-line method over the estimated useful life of the related asset. Estimated lives are seven to 40 years for buildings and improvements and generally three to 10 years for furniture, fixtures and equipment. Maintenance and repairs are charged to current expense. The cost of major renewals and improvements are capitalized.

(i) Intangible Assets and Goodwill

Intangible Assets consist of the customer list and employment contracts resulting from the Company's acquisition of Collier Jennings Financial Corporation in July 2006. The goodwill also is a result of the excess of the cost over the fair value of net assets resulting from the Collier Jennings acquisition.

Intangible assets are amortized over their estimated economic lives using methods that reflect the pattern in which the economic benefits are utilized. Goodwill is reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

(1) Significant Accounting Policies, Continued

(j) Income Taxes

Deferred tax expense or benefit is recognized for the net change during the year in the deferred tax liability or asset. That amount together with income taxes currently payable is the total amount of income tax expense or benefit for the year. Deferred taxes are provided for in differences in financial reporting bases for assets and liabilities compared with their tax bases. Generally, a current tax liability or asset is established for taxes presently payable or refundable and a deferred tax liability or asset is established for future tax items. A valuation allowance, if applicable, is established for deferred tax assets that may not be realized. Tax bad debt reserves in excess of the base year amount (established as taxable years ending March 31, 1988 or later) would create a deferred tax liability. Deferred income taxes are provided for in differences between the provision for loan losses for financial statement purposes and those allowed for income tax purposes.

(k) Loan Fees and Costs Associated with Originating Loans

Loan fees received, net of direct incremental costs of originating loans, are deferred and amortized over the contractual life of the related loan. The net fees are recognized as yield adjustments by applying the interest method. Prepayments are not anticipated.

(l) Interest Income

Interest on loans is accrued and credited to income monthly based on the principal balance outstanding and the contractual rate on the loan. The Company places loans on non-accrual status when they become greater than 90 days delinquent or when, in the opinion of management, full collection of principal or interest is unlikely. The Company provides an allowance for uncollectible accrued interest on loans that are contractually 90 days delinquent for all interest accrued prior to the loan being placed on non-accrual status. The loans are returned to an accrual status when full collection of principal and interest appears likely.

(m) Advertising Expense

Advertising and public relations costs are generally expensed as incurred. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $379,819, $297,330, and $172,409 were included in the Company's results of operations for 2008, 2007, and 2006, respectively.

(n) Fair Value of Financial Instruments

The Company discloses the fair value of on- and off-balance sheet financial instruments when it is practicable to do so. Fair values are based on quoted market prices, where available, on estimates of present value, or on other valuation techniques. These estimates are made at a specific time, are subjective in nature, and involve uncertainties and significant judgment. In addition, the Company does not disclose the fair value of non-financial instruments. Accordingly, the aggregate fair values presented do not represent the underlying fair value of the Company.

Fair value approximates carrying value for the following financial instruments as a result of the short-term nature of the instrument: cash and cash equivalents.

Securities are valued using quoted fair market prices.

Fair value for the Company's off-balance sheet financial instruments is based on the discounted present value of the estimated future cash flows.

Fair value for variable rate loans that reprice frequently, loans held for sale, and loans that mature in less than three months is based on the carrying value. Fair value for fixed rate mortgage loans, personal loans, and other loans (primarily commercial) maturing after three months is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(1) Significant Accounting Policies, Continued

(n) Fair Value of Financial Instruments, Continued

Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. Certificates of deposit accounts and securities sold under repurchase agreements maturing within one year are valued at their carrying value. The fair value of certificates of deposit accounts and securities sold under repurchase agreements after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments. Fair value for long-term FHLB advances is based on discounted cash flows using the Company's current incremental borrowing rate. Discount rates used in these computations approximate rates currently offered for similar borrowings of comparable terms and credit quality. Junior subordinated debentures are estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

(o) Stock-Based Compensation

On April 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement on Financial Accounting Standards ("SFAS") No. 123 (R), Shared-Based Payment ("SFAS 123R"), to account for compensation costs under its stock option plans. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) ("APB 25"). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for the Company's stock options because the option exercise price in its plans equals the market price on the date of grant. Prior to April 1, 2006, the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123 (R) have been utilized.

In adopting SFAS 123 (R), Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant.

On March 30, 2006, the Board of Directors approved accelerating the vesting of 98,800 unvested stock options. The accelerated vesting was effective as of March 30, 2006. All of the other terms and conditions applicable to the outstanding stock options remained unchanged.

The decision to accelerate vesting of these options will avoid recognition of pre-tax compensation expense by the Company upon the adoption of SFAS 123(R). In the Company's view, the future compensation expense could outweigh the incentive and retention value associated with the stock options. The future compensation expense, net of income taxes, that was avoided, based upon the effective date of April 1, 2006, was approximately $275,000. The Company believes that the acceleration of vesting stock options meets the criteria for variable accounting under FASB Interpretation No. 44. Based upon past experience, the Company believes the grantees of these stock options will remain as directors or employees of the Company.

(1) Significant Accounting Policies, Continued

(p) Earnings Per Share

Net income per share is computed by dividing consolidated net income by the weighted average number of common shares outstanding during the period. The treasury stock method is used to compute the dilutive effect of stock options in the diluted weighted average number of common shares.

	For the Year Ended					
	March 31, 2008			March 31, 2007		
	Income	Shares	Per Share Amounts	Income	Shares	Per Share Amounts
Basic EPS	$4,279,599	2,583,568	$ 1.66	$4,126,553	2,594,525	1.59
Dilutive effect of:						
Stock Options	-	3,135	(0.01)	-	14,027	(0.01)
ESOP	-	-	-	-	-	-
Diluted EPS	$4,279,599	2,586,703	$ 1.65	$4,126,553	2,608,552	$ 1.58

	For the Year Ended March 31, 2006		
	Income	Shares	Per share Amounts
Basic EPS	$3,812,851	2,532,999	$ 1.51
Dilutive effect of:			
Stock Options	-	32,666	(0.02)
ESOP	-	10,396	(0.01)
Diluted EPS	$3,812,851	2,576,061	$ 1.48

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(q) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates.

(r) Recently Issued Accounting Standards

The following is a summary of recent authoritative pronouncements that could affect accounting, reporting, and disclosure of financial information by the Company:

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

(1) Significant Accounting Policies, Continued

(r) Recently Issued Accounting Standards

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

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

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improving the transparency of financial reporting. It is intended to enhance the current disclosure framework in SFAS 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. SFAS 161 is effective for the Company on April 1, 2009. This pronouncement does not impact accounting measurements but will result in additional disclosures if the Company is involved in material derivative and hedging activities at that time.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" ("FSP 140-3"). This FSP provides guidance on accounting for a transfer of a financial asset and the transferor's repurchase financing of the asset. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140. However, if certain criteria are met, the initial transfer and repurchase financing are not evaluated as a linked transaction and are evaluated separately under Statement 140. FSP 140-3 will be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years and earlier application is not permitted. Accordingly, this FSP is effective for the Company on April 1, 2009. The Company is currently evaluating the impact, if any, the adoption of FSP 140-3 will have on its financial position, results of operations and cash flows.

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets".

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(1) Significant Accounting Policies, Continued

(r) Recently Issued Accounting Standards, Continued

The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), "Business Combinations," and other U.S. generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and early adoption is prohibited. Accordingly, this FSP is effective for the Company on April 1, 2009. The Company does not believe the adoption of FSP 142-3 will have a material impact on its financial position, results of operations or cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

(s) Risks and Uncertainties

In the normal course of its business, the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate held by the Company, and the valuation of loans held for sale and mortgage-backed securities available for sale. The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions, resulting form the regulators' judgments based on information available to them at the time of their examination.

(t) Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current year classifications.

(2) Acquisition

On June 30, 2006, the Company completed the acquisition of the insurance and premium finance businesses of Collier-Jennings Financial Corporation and it subsidiaries Collier-Jennings, Inc., The Auto Insurance Store, Inc., and Collier-Jennings Premium Pay Plans, Inc (the "Collier-Jennings Companies"). The purpose of the acquisition was to expand the Company's insurance services and increase non-interest income. The shareholder of the Collier-Jennings Companies received $180,000 in cash and 54,512 shares of the Company's common stock valued at $26 per share for an approximate purchase price of $1,597,312. The Company will release the shares to the former shareholder of the Collier-Jennings Companies over a three-year period. The stock is mandatorily redeemable by the shareholder of Collier-Jennings Companies at his option in cumulative increments of 20% per year for a five-year period at the greater of $26 per share or one and one-half times the book value of the Company's stock. At March 31, 2008, the shareholder had not elected to redeem any of the shares.

(2) Acquisition, Continued

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

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

(3) Investment and Mortgage-Backed Securities, Available for Sale

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

March 31, 2008

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
FHLB Securities	$ 31,891,456	$ 625,583	$ -	$32,517,039
Federal Farm Credit Securities	14,849,646	323,594	-	15,173,240
FNMA Bonds	2,997,470	7,840	-	3,005,310
Mortgage-Backed Securities	190,454,173	3,023,143	104,283	193,373,033
Equity Securities	102,938	-	13,688	89,250
	$240,295,683	$3,980,160	$117,971	$244,157,872

March 31, 2007

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
FHLB Securities	$ 38,487,381	$ 17,627	$ 131,886	$ 38,373,122
Federal Farm Credit Securities	9,217,205	8,580	11,504	9,214,281
FNMA Bonds	2,942,530	-	12,141	2,930,389
FHLMC Bonds	64,071	-	94	63,977
Mortgage-Backed Securities	136,156,742	276,292	1,352,007	135,081,027
Equity Securities	102,938	562	-	103,500
	$186,970,867	$303,061	$1,507,632	$185,766,296

36

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(3) Investment and Mortgage-Backed Securities, Available for Sale, Continued

FHLB securities, Federal Farm Credit securities, FNMA bonds, FHLMC bonds, and FNMA and FHLMC mortgage-backed securities are issued by government-sponsored enterprises ("GSE's"). GSE's are not backed by the full faith and credit of the United States government. Included in the tables above and below in mortgage-backed securities are GNMA mortgage-backed securities, which are backed by the full faith and credit of the United States government. At March 31, 2008, the Bank held an amortized cost and fair value of $72.8 million and $74.2 million respectively in GNMA mortgage-backed securities included in mortgage-backed securities listed above.

The amortized cost and fair value of investment and mortgage-backed securities available for sale at March 31, 2008 are shown below by contractual maturity. Expected maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Less Than One Year	$ 1,000,000	$ 1,002,810
One - Five Years	10,327,525	10,489,287
Five - Ten Years	21,810,096	22,299,902
After Ten Years	16,703,889	16,992,840
Mortgage-Backed Securities	190,454,173	193,373,033
	$240,295,683	$244,157,872

At March 31, 2008 and 2007, the amortized cost and fair value of investment and mortgage-backed securities available for sale pledged as collateral for certain deposit accounts, FHLB advances and other borrowings were $137.7 million and $140.1 million and $80.5 million and $79.5 million, respectively.

The Bank received approximately $8.2 million and $3.8 million, respectively in proceeds from sales of available for sale securities during the years ended March 31, 2008 and 2006 and recognized approximately $269,000 in gross gains and $1,000 in gross losses for the year ended March 31, 2008 and $42,000 in gross gains and $3,500 in gross losses for the year ended March 31, 2006. There were no sales of available for sale securities in the year ended March 31, 2007.

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual available for sale securities have been in a continuous unrealized loss position, at March 31, 2008.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealize Losses
Mortgage-Backed Securities	$22,564,320	$82,522	$3,144,500	$21,761	$25,708,820	$104,28

Securities classified as available-for-sale are recorded at fair market value. Approximately 20.9% of the unrealized losses, or four individual securities, consisted of securities in a continuous loss position for 12 months or more. The Company has the ability and intent to hold these securities until such time as the value recovers or the securities mature. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(4) Investment and Mortgage-Backed Securities, Held to Maturity

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

	March 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FHLB Securities	$17,999,618	$320,072	$ -	$18,319,690
Federal Farm Credit Securities	2,000,000	31,560	-	2,031,560
Equity Securities	155,000	-	-	155,000
	$20,154,618	$351,632	$ -	$20,506,250

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

FHLB securities and Federal Farm Credit securities are issued by GSE's. GSE's are not backed by the full faith and credit of the United States government.

The amortized cost and fair value of investment and mortgage-backed securities held to maturity at March 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities due to call features on certain investments.

	Amortized Cost	Fair Value
Less Than One Year	$ 5,000,000	$ 5,037,510
One - Five Years	4,000,000	4,116,240
Over Five - Ten Years	8,000,000	8,191,250
More Than Ten Years	3,154,618	3,161,250
	$20,154,618	$20,506,250

At March 31, 2008 and 2007, the amortized cost and fair value of investment and mortgage-backed securities held to maturity pledged as collateral for certain deposit accounts, FHLB advances and other borrowings were $20.2

million and $20.5 million and $51.0 million and $50.4 million, respectively.

The Bank received approximately $250,000 in proceeds from the sale of three held to maturity securities with approximately $10,324 recorded in gross gains and no gross losses during the year ended March 31, 2006. All three securities had paid down at least ninety percent therefore meeting the intent of SFAS No. 115, "Accounting for Certain Investment in Debt and Equity Securities". There were no sales of held to maturity securities during the years ended March 31, 2007 and 2008.

The Company did not have any held to maturity securities in a loss position at March 31, 2008. The Company's held-to-maturity portfolio is recorded at amortized cost. The Company has the ability and intends to hold these securities to maturity.

38

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(5) Loans Receivable, Net

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

	2008	2007
Residential Real Estate Loans	$131,863,466	$125,512,411
Consumer Loans	66,832,377	63,809,478
Commercial Business And Real Estate Loans	333,386,661	259,207,877
Loans Held For Sale	2,295,721	1,529,748
	534,378,225	450,059,514
Less:		
Allowance For Loan Losses	8,066,762	7,296,791
Loans In Process	8,064,728	6,443,372
Deferred Loan Fees	315,030	280,991
	16,446,520	14,021,154
Total Loans Receivable, Net	$517,931,705	$436,038,360

Changes in the allowance for loan losses for the years ended March 31 are summarized as follows:

	2008	2007	2006
Balance At Beginning Of Year	$7,296,791	$6,704,734	$6,284,055
Allowance Acquired in Acquisition	-	21,697	-
Provision For Loan Losses	895,000	600,000	660,000
Charge Offs	(249,673)	(132,712)	(301,650)
Recoveries	124,644	103,072	62,329
Total Allowance For Loan Losses	$8,066,762	$7,296,791	$6,704,734

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The following table sets forth the amount of the Company's non-accrual loans and the status of the related interest income at March 31.

	2008	2007
Non-Accrual Loans	$6,019,000	$1,055,000
Interest Income That Would Have Been Recognized Under Original Terms	$ 238,000	$ 107,000

At March 31, 2008 and 2007, impaired loans amounted to $4.5 million and $1.5 million, respectively. Losses on impaired loans are accounted for in the allowance for loan loss. Valuation allowances for impaired loans totaled $588,000 and $320,000 for March 31, 2008 and 2007, respectively. The average recorded investment in impaired loans was $1.9 million and $1.6 million for the years ended March 31, 2008 and 2007, respectively.

The Bank blanket pledges its portfolio of single-family mortgage loans to secure FHLB advances.

39

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(6) Premises and Equipment, Net

Premises and equipment, net, at March 31 are summarized as follows:

	2008	2007
Land	$ 5,471,503	$ 5,141,399
Buildings And Improvements	16,597,627	10,790,875
Furniture And Equipment	8,924,922	7,337,134
Construction In Progress	153,505	1,816,230
	31,147,557	25,085,638
Less Accumulated Depreciation	(9,603,177)	(9,190,446)
Total Premises And Equipment, Net	$21,544,380	$15,895,192

Depreciation expense for the years ended March 31, 2008, 2007, and 2006 was approximately $1,099,000, $1,012,000, and $965,000, respectively.

The Bank has entered into non-cancelable operating leases related to buildings and land. At March 31, 2008, future minimum payments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows (by fiscal year):

2009	$ 438,714
2010	430,750
2011	430,099
2012	400,699

2013	400,937
Thereafter	2,699,862
	$4,801,061

Total rental expense amounted to $435,000, $343,000, and $295,000 for the years ended March 31, 2008, 2007 and 2006, respectively. Four lease agreements with monthly expenses of $8,250, $7,792, $5,886, and $800 have multiple renewal options totaling 20, 45, 30, and 10 years, respectively.

(7) Intangible Assets and Goodwill

Intangible assets and goodwill are the result of the Collier Jennings acquisition in July 2006. Changes in intangible assets and goodwill for the years ended March 31 consisted of the following:

	2008	2007
Customer List		
Balance At Beginning Of Year	$ 341,250	$ -
Acquired	-	375,000
Amortization	(50,004)	(33,750)
Balance At End Of Year	291,246	341,250
Employment Contracts		
Balance At Beginning Of Year	191,250	-
Acquired	-	225,000
Amortization	39,996	33,750
Balance At End Of Year	151,254	191,250
Total Intangibles	442,500	532,500
Goodwill	1,197,954	1,197,954
Total	$1,640,454	$1,730,454

(8) FHLB Stock

Every federally insured savings institution is required to invest in FHLB stock. No ready market exists for this stock and it has no quoted fair value. However, because redemption of this stock has historically been at par, it is carried at cost.

The Bank, as a member of the FHLB of Atlanta, is required to acquire and hold shares of capital stock in the FHLB of Atlanta in an amount equal to a membership component, which is 0.20% of total assets at December 31, 2007 and 2006 plus a transaction component which equals 4.5% of outstanding advances (borrowings) from the FHLB of Atlanta. The Bank is in compliance with this requirement with an investment in FHLB of Atlanta stock of $9.5 million and $8.2 million as of March 31, 2008 and 2007, respectively.

(9) Deposits

Deposits outstanding by type of account are summarized as follows:

	At March 31, 2008			At March 31, 2007		
		Weighted Rate	Interest Rate Range	Amount	Weighted Rate	Interest Rate Range
Checking Accounts	$100,585,610	0.47%	0.00-1.98%	$105,515,095	0.63%	0.00-2.96%
Money Market Accts.	143,225,218	2.84%	1.09-3.01%	145,491,774	4.14%	1.09-4.41%
Passbook Accounts	15,966,557	0.97%	0.00-1.00%	17,458,680	0.98%	0.00-1.51%
Total	259,777,385	1.87%	0.00-3.01%	268,465,549	2.55%	0.00-4.41%
Certificate Accounts:						
0.00-1.99%	-			-		
2.00-2.99%	14,047,109			2,971,616		
3.00-3.99%	59,526,823			36,044,826		
4.00-4.99%	68,149,323			35,617,605		
5.00-5.99%	189,349,568			180,637,996		
Total	331,072,823	4.75%	2.03-5.84%	255,272,043	4.99%	2.83-5.85%
Total Deposits	$590,850,208	3.46%	0.00-5.84%	$523,737,592	3.74%	0.00-5.85%

The aggregate amount of short-term certificates of deposit with a minimum denomination of $100,000 was $149.5 million and $110.6 million at March 31, 2008 and 2007, respectively. The amounts and scheduled maturities of all certificates of deposit at March 31 are as follows:

	March 31,	
	2008	2007
Within 1 Year	$313,602,472	$235,951,662
After 1 Year, Within 2	8,065,206	10,891,655
After 2 Years, Within 3	3,056,613	2,498,279
After 3 Years, Within 4	2,973,423	2,781,426
After 4 Years, Within 5	3,375,109	3,149,021
Thereafter	-	-
	$331,072,823	$255,272,043

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(10) Advances From Federal Home Loan Bank (FHLB) And Other Borrowings

Advances from the FHLB at March 31 are summarized by year of maturity and weighted average interest rate below:

	2008		2007	
Year Ending March 31	Amount	Weighted Rate	Amount	Weighted Rate
2008	$ -	-	$ 10,000,000	4.25%
2009	42,300,000	3.28%	25,000,000	4.75%
2010	10,000,000	4.88%	5,000,000	3.09%
2011	15,000,000	4.87%	10,000,000	4.76%
2012	24,700,000	4.56%	19,700,000	4.77%
2013	10,000,000	4.76%	10,000,000	3.97%
Thereafter	76,234,007	4.25%	73,349,272	4.23%
	$178,234,007	4.18%	$153,049,272	4.36%

These advances are secured by a blanket collateral agreement with the FHLB by pledging the Bank's portfolio of residential first mortgage loans and investment securities with an amortized cost and fair value of $97.1 million and $98.9 million at March 31, 2008 and $85.3 million and $84.8 million at March 31, 2007, respectively. Advances are subject to prepayment penalties.

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

As of March 31, 2008

Borrow Date	Maturity Date	Amount	Int. Rate	Type	Call Dates
02/20/04	02/20/14	$5,000,000	3.225%	1 Time Call	02/20/09
04/16/04	04/16/14	3,000,000	3.330%	1 Time Call	04/16/08
06/24/05	06/24/15	5,000,000	3.710%	1 Time Call	06/24/10
07/22/05	07/22/15	5,000,000	3.790%	1 Time Call	07/22/08
11/10/05	11/10/15	5,000,000	4.400%	1 Time Call	11/10/09
11/23/05	11/23/15	5,000,000	3.933%	Multi-Call	05/25/08 and quarterly thereafter
11/29/05	11/29/13	5,000,000	4.320%	1 Time Call	05/29/09
12/14/05	12/14/11	5,000,000	4.640%	1 Time Call	09/14/09
01/12/06	01/12/16	5,000,000	4.450%	1 Time Call	01/12/11
03/01/06	03/03/14	5,000,000	4.720%	1 Time Call	03/03/10
06/02/06	06/02/16	5,000,000	5.160%	1 Time Call	06/02/11
07/11/06	07/11/16	5,000,000	4.800%	Multi-Call	07/11/08 and quarterly thereafter

10/25/06	10/25/11	5,000,000	4.830%	1 Time Call	10/27/08
11/29/06	11/29/16	5,000,000	4.025%	Multi-Call	05/29/08 and quarterly thereafter
01/19/07	07/21/14	5,000,000	4.885%	1 Time Call	07/21/11
03/09/07	03/09/12	4,700,000	4.286%	Multi-Call	06/09/08 and quarterly thereafter
05/24/07	05/24/17	7,900,000	4.375%	Multi-Call	05/27/08 and quarterly thereafter
06/29/07	06/29/12	5,000,000	4.945%	1 Time Call	06/29/09
07/25/07	07/25/17	5,000,000	4.396%	Multi-Call	07/25/08 and quarterly thereafter
11/16/07	11/16/11	5,000,000	3.745%	Multi-Call	11/17/08 and quarterly thereafter

42

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(10) Advances From Federal Home Loan Bank (FHLB) And Other Borrowings, Continued

As of March 31, 2007

Borrow Date	Maturity Date	Amount	Int. Rate	Type	Call Dates
11/07/02	11/07/12	$5,000,000	3.354%	1 Time Call	11/07/07
02/20/04	02/20/14	5,000,000	3.225%	1 Time Call	02/20/09
04/16/04	04/16/14	3,000,000	3.330%	1 Time Call	04/16/08
09/16/04	09/16/09	5,000,000	3.090%	1 Time Call	09/17/07
06/24/05	06/24/15	5,000,000	3.710%	1 Time Call	06/24/10
07/22/05	07/22/15	5,000,000	3.790%	1 Time Call	07/22/08
11/10/05	11/10/15	5,000,000	4.400%	1 Time Call	11/10/09
11/23/05	11/23/15	5,000,000	3.933%	Multi-Call	11/23/07 and quarterly thereafter
11/29/05	11/29/13	5,000,000	4.320%	1 Time Call	05/29/09
12/14/05	12/14/11	5,000,000	4.640%	1 Time Call	09/14/09
01/12/06	01/12/16	5,000,000	4.450%	1 Time Call	01/12/11
03/01/06	03/03/14	5,000,000	4.720%	1 Time Call	03/03/10
03/24/06	03/24/16	5,000,000	4.120%	Multi-Call	06/26/07 and quarterly thereafter
03/24/06	03/25/13	5,000,000	4.580%	1 Time Call	03/25/08
04/21/06	04/22/13	5,000,000	4.53%	Multi-Call	06/26/07 and quarterly thereafter
06/02/06	06/02/16	5,000,000	5.16%	1 Time Call	06/02/11
07/11/06	07/11/16	5,000,000	4.80%	Multi-Call	07/11/08 and quarterly

					thereafter
10/25/06	10/25/11	5,000,000	4.83%	1 Time Call	10/27/08
11/29/06	11/29/16	5,000,000	4.025%	Multi-Call	11/29/07 and quarterly thereafter
01/19/07	07/21/14	5,000,000	4.885%	1 Time Call	07/21/11
03/09/07	03/09/12	4,700,000	4.286%	Multi-Call	06/11/07 and quarterly thereafter

At March 31, 2008 and 2007, the Bank had $60.4 million and $68.2 million in additional borrowing capacity, respectively at the FHLB.

The Bank had $12.8 million and $8.1 million in other borrowings (non-FHLB advances) at March 31, 2008 and 2007, respectively. These borrowings consist of short-term repurchase agreements with certain commercial demand deposit customers for sweep accounts and the current balance on a revolving line of credit with another financial institution. At March 31, 2008 and 2007, short-term repurchase agreements were $9.8 million and $8.1 million, respectively. The repurchase agreements typically mature within one to three days and the interest rate paid on these borrowings floats monthly with money market type rates. At March 31, 2008 and 2007 the interest rate paid on the repurchase agreements was 3.01% and 4.41%, respectively. The Bank had pledged as collateral for these repurchase agreements investment securities with amortized costs and fair values of $27.8 million and $28.2 million at March 31, 2008 and $23.4 million and $23.4 million at March 31, 2007, respectively.

In December 2007, the Company entered into a line of credit in the amount of $10 million with another financial institution. At March 31, 2008, the balance on the line of credit was $3.0 million. The unsecured line of credit has an interest rate equal to one month LIBOR plus 2.5% and matures on December 1, 2008.

(11) Junior Subordinated Debentures

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

The Capital Securities accrue and pay distributions annually at a rate per annum equal to a blended rate of 5.69% at March 31, 2008. One-half of the Capital Securities issued in the transaction has a fixed rate of 6.88% and the remaining half has a floating rate of three-month LIBOR plus 170 basis points, which was 4.50% at March 31, 2008. The distribution rate payable on the Capital Securities is cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest on the Capital Securities for a period not to exceed 20 consecutive quarterly periods, provided that no extension period may extend beyond the maturity date of December 15, 2036. The Company has no current intention to exercise its right to defer payments of interest on the Capital Securities.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(11) Junior Subordinated Debentures, Continued

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

(12) Income Taxes

Income tax expense is comprised of the following:

	For the Years Ended March 31,		
	2008	2007	2006
Current:			
Federal	$2,293,975	$1,995,334	$1,534,117
State	143,413	136,437	155,772
Total Current Tax Expense	2,437,388	2,131,771	1,689,889
Deferred:			
Federal	(320,901)	7,241	77,600
State	(36,742)	2,471	10,127
Total Deferred Tax Expense	(357,643)	9,712	87,727
Total Income Tax Expense	$2,079,745	$2,141,483	$1,777,616

The Company's income taxes differ from those computed at the statutory federal income tax rate, as follows:

	For the Years Ended March 31,		
	2008	2007	2006
Tax At Statutory Income Tax Rate	$2,162,177	$2,131,132	$1,900,759
State Tax And Other	(82,432)	10,351	(123,143)
Total Income Tax Expense	$2,079,745	$2,141,483	$1,777,616

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below.

	At March 31,	
	2008	2007
Deferred Tax Assets:		
Provision For Loan Losses	$3,053,907	$2,769,862
Goodwill Tax Basis Over Financial Statement Basis	56,339	152,917
Net Fees Deferred For Financial Reporting	165,544	164,914

Unrealized Loss on Securities Available for Sale	-	457,470
Other	389,225	177,591
Total Gross Deferred Tax Assets	3,665,015	3,722,754
Deferred Tax Liabilities:		
FHLB Stock Basis Over Tax Basis	126,565	126,565
Depreciation	234,990	182,310
Other	78,378	55,400
Intangibles	165,052	198,622
Unrealized Gain on Securities Available for Sale	1,471,283	-
Total Gross Deferred Tax Liability	2,076,268	562,897
Net Deferred Tax Asset	$1,588,747	$3,159,857

No valuation allowance for deferred tax assets was required at March 31, 2008 and 2007. The realization of net deferred tax assets may be based on utilization of carrybacks to prior taxable periods, anticipation of future taxable income in certain periods, and the utilization of tax planning strategies. Management has determined that the net deferred tax asset can be supported based upon these criteria.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(13) Regulatory Matters

The Bank is subject to various regulatory capital requirements that are administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that could have a material adverse effect on the Company. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators with regard to components, risk weightings, and other factors.

As of March 31, 2008 and 2007, the Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank had to maintain total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage ratios at 10%, 6%, and 5%, respectively. There are no conditions or events that management believes have changed the Bank's classification.

The Bank's regulatory capital amounts and ratios are as follows as of the dates indicated:

To Be Well
Capitalized
Under Prompt

	Actual		For Capital Adequacy		Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
March 31, 2008						
Tier 1 Risk-Based Core Capital (To Risk Weighted Assets)	$52,232	9.4%	$22,250	4.0%	$33,375	6.0%
Total Risk-Based Capital (To Risk Weighted Assets)	59,183	10.6%	44,485	8.0%	55,065	10.0%
Tier 1 Leverage (Core) Capital (To Adjusted Tangible Assets)	52,232	6.3%	33,377	4.0%	41,722	5.0%
Tangible Capital (To Tangible Assets)	52,232	6.3%	16,688	2.0%	41,719	5.0%
March 31, 2007						
Tier 1 Risk-Based Core Capital (To Risk Weighted Assets)	$45,588	9.5%	$19,251	4.0%	$28,877	6.0%
Total Risk-Based Capital (To Risk Weighted Assets)	51,582	10.7%	38,503	8.0%	48,128	10.0%
Tier 1 Leverage (Core) Capital (To Adjusted Tangible Assets)	45,588	6.2%	29,474	4.0%	36,843	5.0%
Tangible Capital (To Tangible Assets)	45,588	6.2%	14,737	2.0%	36,843	5.0%

The payment of dividends by the Company depends primarily on the ability of the Bank to pay dividends to the Company. The payment of dividends by the Bank to the Company is subject to substantial restrictions and would require prior notice to the Office of Thrift Supervision ("OTS").

(14) Employee Benefit Plans

The Company is participating in a multiple employer defined contribution employee benefit plan covering substantially all employees with six months or more of service. The Company matches a portion of the employees' contributions and the plan has a discretionary profit sharing provision. The total employer contributions were $191,000, $349,000, and $113,000 for the years ended March 31, 2008, 2007, and 2006, respectively.

Notes To Consolidated Financial Statements

(14) Employee Benefit Plans, Continued

The Company had an Employee Stock Ownership Plan ("ESOP") for the exclusive benefit of employee participants. The discretionary contributions for the year ended March 31, 2006 was $231,000. There were no contributions for the years ended March 31, 2008 and 2007. The ESOP from time to time borrowed funds from financial institutions to purchase the Company's stock. The entire balance of the loan was paid off in June 2006. The Company carried the debt as a liability and a reduction in equity, although the Company neither endorsed nor guaranteed the loan. The loan was repaid by Company contributions to the trustee, who in turn made the loan payments to the financial institution. Because of the high cost of maintaining the ESOP, including legal, accounting, and audit fees, and the fact the ESOP had no more stock to allocate, the Company terminated the plan effective December 31, 2007.

The Company has an Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees of the Company to purchase stock quarterly at a 15% discount through payroll deduction. The ESPP, which was approved by stockholders in July 2005, became effective in January 2007. Participation is voluntary. Employees are limited to investing $25,000 or 5% of their annual salary, whichever is lower, during the year. At March 31, 2008, there were 30 employees participating.

Certain officers of the Company participate in a supplemental retirement plan. These benefits are not qualified under the Internal Revenue Code and they are not funded. During the years ended March 31, 2008 and 2007, the Company incurred expenses of $224,000 and $167,000, respectively, for this plan.

Certain officers and directors of the Company participate in an incentive and non-qualified stock option plan. Options are granted at exercise prices not less than the fair value of the Company's common stock on the date of the grant. The following is a summary of the activity under the Company's incentive and non-qualified stock option plan for the years ended March 31, 2008, 2007, and 2006.

	2008		2007		2006	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Balance, Beginning of Year	99,600	$20.55	118,046	$19.50	135,292	$19.09
Options granted	23,000	23.68	14,000	23.03	6,500	23.91
Options exercised	6,300	16.67	25,196	17.40	14,396	15.45
Options forfeited	5,200	17.40	7,250	19.27	9,350	19.52
Balance, March 31	111,100	$21.55	99,600	$20.55	118,046	$19.50
Options Exercisable	74,100	$20.60	85,600	$20.14	118,046	$19.50
Options Available For Grant	127,267		59,000		13,750	

Stock options outstanding as of March 31, 2008 are as follows:

Range of Exercise Prices Low/High	Number of Option Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$16.67 / $21.00	40,600	4.18	$18.63
$21.01 / $24.61	70,500	7.76	23.23
	111,100	6.45	$20.60

The aggregate intrinsic value of the stock options outstanding and exercisable at March 31, 2008 and 2007 amounted to $198,000 and $485,000, respectively. Total compensation expense related to stock options was $20,500 and $7,700 for the period ended March 31, 2008 and 2007, respectively. As of March 31, 2008, there was $258,000 of total unrecognized compensation cost related to non-vested stock options. The cost is expected to be recognized over a weighted average period of seven years.

(14) Employee Benefit Plans, Continued

At March 31, 2008, the Company had the following options outstanding:

Grant Date	Outstanding Options	Option Price	Expiration Date
10/19/99	20,100	$16.67	9/30/05 to 9/30/09
9/1/03	3,000	$24.00	8/31/13
12/1/03	3,000	$23.65	11/30/13
1/01/04	6,500	$24.22	12/31/13
3/8/04	13,000	$21.43	3/8/14
6/7/04	2,000	$24.00	6/7/14
1/1/05	20,500	$20.55	12/31/14
1/1/06	6,000	$23.91	1/1/16
8/24/06	14,000	$23.03	08/24/16
5/24/07	2,000	$24.34	5/24/17
7/9/07	1,000	$24.61	7/9/17

10/1/07	2,000	$24.28	10/1/17
1/1/08	18,000	$23.49	1/1/18

All options issued prior to January 16, 2003 must be exercised within one year of the original vesting schedule, except those granted during the year ended March 31, 2004 through March 31, 2006, which may be exercised anytime before the end of the tenth year after the grant date. All options granted prior to March 31, 2006 are 100% vested. Options granted after March 31, 2006 vest 20% per year every year after the end of five years after the date of the grant. Those options granted after March 31, 2006 may be exercised as they vest in years six through ten, or until the end of year ten after the grant date.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants: Dividend yield of $0.28, $0.24, and $0.16 per share for options granted during the years ended March 31, 2008, 2007, and 2006, respectively; expected weighted average volatility of 20.4% for options granted in 2008, 30.2% for options granted in 2007, and 39.8% for options granted in 2006; risk-free interest rate of 3.95% for options granted in 2008, 4.36% for options granted in 2007, and 4.42% for options granted in 2006, and expected lives of 8.5 to 9.0 years.

(15) Bank Owned Life Insurance

On May 31, 2007, March 31, 2006 and July 1, 2006, the Company purchased bank owned life insurance. The cash value of the life insurance policies are recorded as a separate line item in the accompanying balance sheets at $8.3 million, $5.8 million and $5.0 million at March 31, 2008, 2007 and 2006, respectively. The insurance provides key person life insurance on certain officers of the Company. The earnings-portion of the insurance policies grows tax deferred and helps offset the cost of the Company's benefits programs. The Company recorded earnings of $327,000 and $243,000 for the growth in the cash value of life insurance during the years ended March 31, 2008 and 2007, respectively.

(16) Commitments and Contingencies

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Company is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition of the Company.

In conjunction with its lending activities, the Bank enters into various commitments to extend credit and issue letters of credit. Loan commitments (unfunded loans and unused lines of credit) and letters of credit are issued to accommodate the financing needs of the Bank's customers. Loan commitments are agreements by the Bank to lend at a future date, so long as there are no violations of any conditions established in the agreement. Letters of credit commit the Bank to make payments on behalf of customers when certain specified events occur.

Financial instruments where the contract amount represents the Bank's credit risk include commitments under pre-approved but unused lines of credit of $66.9 million and $83.5 million, undisbursed loans in process totaled $8.1 million and $6.4 million, and letters of credit of $617,000 and $1.0 million at March 31, 2008 and 2007, respectively. At March 31, 2008 and 2007, the fair value of standby letters of credit was immaterial.

These loan and letter of credit commitments are subject to the same credit policies and reviews as loans on the balance sheet. Collateral, both the amount and nature, is obtained based upon management's assessment of the credit risk. Since many of the extensions of credit are expected to expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements. In addition to these loan commitments noted above, the Bank had unused credit card loan commitments of $3.7 million and $3.6 million at March 31, 2008 and 2007, respectively. Outstanding commitments on mortgage loans not yet closed amounted to $585,000 and $0 at March 31, 2008 and 2007, respectively. These commitments, which are funded subject to certain limitations, extend over varying periods of time with the majority being funded within 45 days. At March 31, 2008 and 2007, the Bank had outstanding commitments to sell approximately $2.3 and $1.5 million of loans, respectively, which encompassed the Bank's held for sale loans. The Bank also has commitments to sell mortgage loans not yet closed, on a best efforts basis. Best efforts means the Bank suffers no penalty if they are unable to deliver the loans to the potential buyers. The fair value of the Bank's commitment to originate mortgage loans at committed interest rates and to sell such loans to permanent investors is insignificant.

(17) Related Party Transactions

Certain directors, executive officers and companies with which they are affiliated are customers of and have banking transactions with the Bank in the ordinary course of business. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms-length transactions.

A summary of loan transactions with directors, including their affiliates, and executive officers follows:

	For the years ended March 31,		
	2008	2007	2006
Balance, beginning of year	$ 652,101	$420,239	$550,010
New loans	1,059,347	274,797	255,278

Less loan payments	539,347	42,935	385,049
Balance, end of year	$1,172,101	$652,101	$420,239

Loans to all employees, officers, and directors of the Company, in the aggregate constituted approximately 11.3% and 8.52% of the Company's total shareholders' equity at March 31, 2008 and 2007, respectively. At March 31, 2008 and 2007, deposits from executive officers and directors of the Bank and Company and their related interests in the aggregate approximated $4.6 million and $4.7 million, respectively.

The Company rents office space from a company in which a director and an officer of the Company and the Bank have an ownership interest. The Company incurred expenses of $70,000, $65,000, and $51,000 for rent for the years ended March 31, 2008, 2007, and 2006, respectively. The Company increased the amount of office space covered by that lease during fiscal 2007. On July 1, 2006, the Company began renting office space from another officer. On that lease, the Company incurred rent expense of $41,400 and $31,000 during the year ended March 31, 2008 and 2007, respectively. Management is of the opinion that the transactions with respect to office rent are made on terms that are comparable to those which would be made with unaffiliated persons.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(18) Security Federal Corporation Condensed Financial Statements (Parent Company Only)

The following is condensed financial information of Security Federal Corporation (Parent Company only). The primary asset is its investment in the Bank subsidiary and the principal source of income for the Company is equity in undistributed earnings from the Bank.

Condensed Balance Sheet Data

	At March 31, 2008	At March 31, 2007
Assets:		
Cash	$ 509,783	$ 2,377,723
Investment Securities, Available For Sale	89,250	103,286
Investment in Security Federal Statutory Trust	155,000	155,000
Investment In Security Federal Bank	56,276,147	46,569,777
Accounts Receivable And Other Assets	85,426	81,695
Total Assets	$57,115,606	$49,287,481
Liability And Shareholders' Equity:		
Accounts Payable And Other Liabilities	$ 46,881	$ 21,961
Other Borrowings	3,000,000	-
Junior Subordinated Debentures	5,155,000	5,155,000

Mandatorily Redeemable Financial Instrument	1,417,312	1,417,312
Shareholders' Equity	47,496,413	42,693,208
Total Liabilities And Shareholders' Equity	$57,115,606	$49,287,481

Condensed Statements of Income Data

	For the Years Ended March 31,		
	2008	2007	2006
Income:			
Equity In Earnings Of Security Federal Bank	$4,554,124	$4,246,503	$3,821,229
Interest Income	10,897	5,767	-
Miscellaneous Income	175	7,887	-
Total Income	4,565,196	4,260,157	3,821,229
Expenses:			
Interest Expense	431,839	191,811	-
Other Expenses	22,013	15,310	13,762
Total Expenses	453,852	207,121	13,762
Income Before Income Taxes	4,111,344	4,053,036	3,807,467
Income Tax Benefit	(168,255)	(73,517)	(5,384)
Net Income	$4,279,599	$4,126,553	$3,812,851

50

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(18) Security Federal Corporation Condensed Financial Statements (Parent Company Only), Continued

Condensed Statements of Cash Flow Data

	For the Years Ended March 31,		
	2008	2007	2006
Operating Activities:			
Net Income	$ 4,279,599	$ 4,126,553	$ 3,812,851
Adjustments To Reconcile Net Income To Net Cash Used In Operating Activities:			
Equity In Earnings Of Security Federal Bank	(4,554,124)	(4,246,503)	(3,821,229)
Stock Compensation Expense	20,518	7,686	-
Increase (Decrease) In Accounts Receivable And Other Assets	918	(40,363)	(5,384)

Increase In Accounts Payable	24,914	12,859	-
Net Cash Used In Operating Activities	(228,175)	(139,768)	(13,762)
Investing Activities:			
Purchase Of Investment Securities	-	-	(102,938)
Investment in Security Federal Statutory Trust	-	(155,000)	-
Additional Investment in Security Federal Bank	(2,000,000)	(4,597,319)	-
Dividend Received From Security Federal Bank	-	1,000,000	-
Net Cash Used In Investing Activities	(2,000,000)	(3,752,319)	(102,938)
Financing Activities:			
Exercise Of Stock Options	105,021	438,465	222,450
Employee Stock Purchase Plan Purchases	96,629		
Purchase Of Treasury Stock, At Cost	(2,118,226)	(412,564)	(73,567)
Proceeds From Junior Subordinated Debenture	-	5,155,000	-
Proceeds From Mandatorily Redeemable Financial Instrument	-	1,417,312	-
Proceeds From Line of Credit	3,000,000	-	-
Dividends Paid	(723,189)	(623,387)	(406,749)
Net Cash Provided By (Used) In Financing Activities	360,235	5,974,826	(257,866)
Net Increase (Decrease) In Cash	(1,867,940)	2,082,739	(374,566)
Cash At Beginning Of Year	2,377,723	294,984	669,550
Cash At End Of Year	$ 509,783	$ 2,377,723	$ 294,984

(19) Carrying Amounts and Fair Value of Financial Instruments

The carrying amounts and fair value of financial instruments are summarized below:

	At March 31,			
	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial Assets:				
Cash And Cash Equivalents	$ 10,539	10,539	$ 13,438	13,438
Investment And Mortgage-Back Securities	$264,312	264,664	$249,750	249,053
Loans Receivable, Net	$517,932	525,384	$436,038	439,785
FHLB Stock	$ 9,497	9,497	$ 8,209	8,209
Financial Liabilities:				
Deposits:				
Checking, Savings, And Money Market Accounts	$259,777	259,777	$268,466	268,466
Certificate Accounts	$331,073	336,352	$255,272	255,068

Advances From FHLB	$178,234	185,693	$153,049	152,595
Other Borrowed Money	$ 12,784	12,784	$ 8,088	8,088
Junior Subordinated Debentures	$ 5,155	5,155	$ 5,155	5,155
Mandatorily Redeemable Financial Instrument	$ 1,417	1,417	$ 1,417	1,403

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(19) Carrying Amounts and Fair Value of Financial Instruments, Continued

At March 31, 2008, the Bank had $79.3 million of off-balance sheet financial commitments. These commitments are to originate loans and unused consumer lines of credit and credit card lines. Because these obligations are based on current market rates, if funded, the original principal is considered to be a reasonable estimate of fair value.

Fair value estimates are made at a specific point in time, based on relevant market data and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the Bank's entire holdings of a particular financial instrument. Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, current interest rates and prepayment trends, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in any of these assumptions used in calculating fair value would also significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Bank has significant assets and liabilities that are not considered financial assets or liabilities including deposit franchise values, loan servicing portfolios, deferred tax liabilities, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates. The values used are provided from the OTS interest rate risk model.

The Company has used management's best estimate of fair value on the above assumptions. Thus, the fair values presented may not be the amounts, which could be realized, in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses that would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements

(20) Quarterly Financial Data (Unaudited)

Unaudited condensed financial data by quarter for fiscal year 2008 and 2007 is as follows (amounts, except per share data, in thousands):

2007-2008	Quarter ended June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Mar. 31, 2008
Interest Income	$ 11,906	$ 12,647	$ 12,737	$ 12,342
Interest Expense	6,929	7,487	7,758	7,370
Net Interest Income	4,977	5,160	4,979	4,972
Provision For Loan Losses	150	150	150	445
Net Interest Income After Provision For Loan Losses	4,827	5,010	4,829	4,527
Non-interest Income	1,061	1,049	1,028	1,351
Non-interest Expense	4,251	4,381	4,328	4,362
Income Before Income Tax	1,637	1,678	1,529	1,516
Provision For Income taxes	541	550	488	501
Net Income	$ 1,096	$ 1,128	$ 1,041	$ 1,015
Basic Net Income Per Common Share	$ 0.42	$ 0.43	$ 0.40	$ 0.40
Diluted Net Income Per Common Share	$ 0.42	$ 0.43	$ 0.40	$ 0.40
Basic Weighted Average Shares Outstanding	2,609,409	2,602,072	2,585,234	2,535,859
Diluted Weighted Average Shares Outstanding	2,618,889	2,610,567	2,588,318	2,535,859

2006-2007	Quarter ended June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Mar. 31, 2007
Interest Income	$ 9,625	$ 10,283	$ 10,814	$ 11,376
Interest Expense	5,214	5,744	6,380	6,595
Net Interest Income	4,411	4,539	4,434	4,781
Provision For Loan Losses	150	150	150	150
Net Interest Income After Provision For Loan Losses	4,261	4,389	4,284	4,631

Non-interest Income	752	913	988	1,208
Non-interest Expense	3,444	3,729	3,817	4,168
Income Before Income Tax	1,569	1,573	1,455	1,671
Provision For Income taxes	547	546	478	571
Net Income	$ 1,023	$ 1,027	$ 977	$ 1,100
Basic Net Income Per Common Share	$ 0.40	$ 0.39	$ 0.37	$ 0.42
Diluted Net Income Per Common Share	$ 0.40	$ 0.39	$ 0.37	$ 0.42
Basic Weighted Average Shares Outstanding	2,538,951	2,610,605	2,617,037	2,611,507
Diluted Weighted Average Shares Outstanding	2,564,893	2,622,996	2,625,945	2,620,375

SHAREHOLDERS INFORMATION

ANNUAL MEETING
The annual meeting of shareholders will be held at 2:00 p.m., Thursday, July 17, 2008 at the City of Aiken Municipal Conference Center, 215 The Alley, Aiken, South Carolina.

STOCK LISTING
The Company's stock is traded on the Over-The-Counter-Bulletin Board under the symbol "SFDL.OB." The stock began trading on the Bulletin Board in October 2003.

PRICE RANGE OF COMMON STOCK
The table below shows the range of high and low bid prices. These prices represent actual transactions and do not include retail markups, markdowns or commissions. Market makers include Sterne, Agee, and Leach, Inc., Morgan Keegan and Company, Inc., A.G. Edwards and Sons, Inc., Hill, Thompson, and Magid, and Monroe Securities, Inc.

Quarter Ending	High	Low
06-30-05	$21.75	$21.75
09-30-05	$29.00	$29.00
12-31-05	$23.50	$23.50
03-31-06	$24.25	$24.25
06-30-06	$25.50	$22.70
09-30-06	$23.50	$22.10
12-31-06	$24.00	$23.00
03-31-07	$25.00	$23.30
06-30-07	$24.75	$24.00
09-30-07	$24.85	$24.10
12-31-07	$24.15	$22.75
03-31-08	$23.00	$23.00

As of March 31, 2008, the Company had approximately 304 shareholders and 2,532,192 outstanding shares of common stock.

DIVIDENDS

The first quarterly dividend on the stock was paid to shareholders on March 15, 1991. Dividends will be paid upon the determination of the Board of Directors that such payment is consistent with the long-term interest of the Company. The factors affecting this determination include the Company's current and projected earnings, operating results, financial condition, regulatory restrictions, future growth plans, and other relevant factors. The Company paid $0.02 per share cash dividends for each of the quarters during fiscal 2003 and 2004 and the first quarter for each of fiscal 2004 and 2005. The Company paid $0.03 per share cash dividend in each of the last three quarters of 2004 and 2005. The Company paid $0.04 per share cash dividends for each of the quarters during fiscal 2005 and 2006, $0.06 per share cash dividends for each of the quarters during fiscal 2006 and 2007, and $0.07 per share cash dividends for each of the quarters during fiscal 2007 and 2008.

The ability of the Company to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company. The Bank may not declare or pay a cash dividend on its stock or repurchase shares of its stock if the offset thereof would be to cause its regulatory capital to be reduced below the amount required for the liquidation account or to meet applicable regulatory capital requirements. Pursuant to the OTS regulations, Tier 1 associations (associations that before and after the proposed distribution meet or exceed their fully phased-in capital requirements) may make capital distributions during any calendar year equal to 100% of net income for the year-to-date plus 50% of the amount by which the association's total capital exceeds its fully phased-in capital requirement as measured at the beginning of the capital year. However, a Tier 1 association deemed to be in need of more than normal supervision by the OTS may be downgraded to a Tier 2 or Tier 3 association as a result of such a determination. The Bank is also required to give the OTS 30 days notice prior to the declaration of a dividend. Unlike the Bank, there is no regulatory restriction on the payment of dividends by the Company; however, it is subject to the requirements of South Carolina. South Carolina generally prohibits the Company from paying dividends if, after giving effect to a proposed dividend: (1) the Company would be unable to pay its debts as they become due in the normal course of business, or (2) the Company's total assets would be less than its total liabilities plus the sum that would be needed to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend.

A Familiar Face

We are pleased to announce that Richard Harmon has joined Security Federal as Senior Vice President of Mortgage Lending. He is responsible for leading and managing construction lending for the markets covering Aiken County in South Carolina and Richmond/Columbia Counties in Georgia. He is also responsible for mortgage lending bank-wide. Richard has over 22 years of banking experience and is a board member for Habitat for Humanity. He serves as a Deacon and chairman of the finance committee at First Baptist Church of Montmorenci and is a resident of Aiken, SC.

We are fortunate to have such an experienced and dedicated member on the Security Federal Bank team.

Shareholders Information

Annual and Other Reports

The Company is required to file an annual report on Form 10-K for its fiscal year ended March 31, 2008 with the Securities and Exchange Commission. Copies of Form 10-K, Security Federal Corporation's annual report, and the Company's quarterly reports may be obtained from and inquiries may be addressed to Ms. Beverly Bradham of Security Federal Corporation.

GENERAL INQUIRIES	TRANSFER AGENT	SPECIAL COUNSEL
Ms. Beverly Bradham Security Federal Corp. 238 Richland Ave., NW P.O. Box 810 Aiken, SC 29802-0810 Phone: 803-641-3000 Toll free: 866-851-3000	Security Federal Corporation 238 Richland Ave., NW P.O. Box 810 Aiken, SC 29802-0810	Breyer & Associates, PC Suite 785 8180 Greensboro Drive McLean, VA 22102

INDEPENDENT AUDITORS
Elliott Davis, LLC
1901 Main Street
Suite 1650
P.O. Box 2227
Columbia, SC 29202-2227

www.securityfederalbank.com

BOARD OF DIRECTORS

T. Clifton Weeks Chairman Security Federal Corp. Aiken, SC	Timothy W. Simmons President/CEO Security Federal Corp. Aiken, SC	J. Chris Verenes President Security Federal Bank Aiken, SC
Dr. Robert E. Alexander Chancellor Emeritus Univ. of SC at Aiken Aiken, SC	G. L. Toole, III Attorney-At-Law Aiken, SC	Roy G. Lindburg Executive Vice President/ CFO Security Federal Corp. Aiken, SC
Hon. William Clyburn Member of the South Carolina House of Representatives Aiken, SC	Thomas L. Moore Executive Vice President Community Financial Services Association of America Alexandria, VA	Francis M. Thomas Executive Vice President Security Federal Bank Aiken, SC

Directors Emeritus:	In Appreciation
Walter E. Brooker, Sr. President, Brooker's Inc. Denmark, SC	Harry O. Weeks, Jr. Business Dev. Executive Hutson-Etherredge Co. Aiken, SC

Harry O. Weeks, Jr. Business Dev. Executive Hutson-Etherredge Co Aiken, SC	Harry O. (Spooky) Weeks, Jr. retired from our Board of Directors on April 1, 2008 after thirty years of dedicated service. His contributions to our Board's efforts through his service on the Audit Committe and as Chairman of the Trust Review Committee were significant. His guidance and advice from over forty-three years experience in the insurance industry were invaluable, as the Bank, not only accessed coverage for its own operations, but expanded its lines of services to include insurance products. We are very grateful for Spooky's many years of dedicated service and look forward to his continued council as Director Emeritus.

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-56

BANK ADVISORY BOARDS

NORTH AUGUSTA

P. Richard Borden Owner Borden Pest Control North Augusta, SC	Rev. G.L. Brightharp Owner G.L. Brightharp & Sons Mortuary North Augusta, SC	Helen H. Butler Retired Banker North Augusta, SC
William M. Hixon Owner Hixon Realty North Augusta, SC	Thomas L. Moore Executive Vice President Community Financial Services Association of America Alexandria, VA	John P. Potter Director of Finance City of North Augusta North Augusta, SC

WAGENER

M. Judson Busbee Owner Busbee Hardware Wagener, SC	Chad G. Ingram President Garvin Oil Company Wagener, SC	Mary T. Lybrand Retired Banker Wagener, SC
Dr. Michael L. Miller Anesthesiologist Palmetto Health Richland Memorial Hosp. Columbia, SC	Richard H. Sumpter Retired Educator Wagener, SC	

MIDLAND VALLEY

Charles A. Hilton General Manager Breezy Hill Water & Sewer Graniteville, SC	Rev. Nathaniel Irvin, Sr. Pastor Old Storm Branch Baptist Church Clearwater, SC	Rev. Stephen Phillips Pastor Christian Heritage Church Graniteville, SC

Thomas L. Moore Executive Vice President Community Financial Services Association of America Alexandria, VA	Glenda K. Napier Co-Owner Napier Funeral Home Graniteville, SC	Carlton B. Shealy Owner C. Shealy Realty Builders & Developers North Augusta, SC

WEST COLUMBIA - LEXINGTON---

Eleanor Powell Clark Owner/Operator B & E Enterprises Inc. dba McDonald's Columbia, SC	L. Todd Sease Partner Jumper, Carter, Sease Architects, PA West Columbia, SC	Sen. Nikki G. Setzler Sr. Partner Setzler & Scott, PA Law Firm West Columbia, SC
Jan Hook-Stamps Owner Elante Day Spa West Columbia, SC		
Sandra Dooley Parker Attorney Dooley, Dooley, Spence, Parker & Hipp, PA Lexington, SC	G. Scott Middleton CEO/Owner Agape Assisted Living/ Nursing & Related Com. West Columbia, SC	Dianne Light Owner Dianne's on Devine & DiPrato's Deli Columbia, SC
Donald T. Martin Controller, CPA Nexsen, Pruet, LLC Columbia, SC		

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MANAGEMENT TEAM & BRANCH LOCATIONS

MANAGEMENT TEAM

T. Clifton Weeks - Chairman of Security Federal Corporation
Timothy W. Simmons - Chairman and Chief Executive Officer, Security Federal Bank
G.L. Toole, III - Vice President
Robert E. Alexander - Corporate Secretary
J. Chris Verenes - President, Security Federal Bank
Roy G. Lindburg - Executive Vice President and Chief Financial Officer
Margaret A. Hurt - Controller
Jessica C. Thompson - Treasurer
Francis M. Thomas - Executive Vice President
Marian A. Shapiro - Executive Vice President - SC Midlands Area Executive
Lynn B. Shepard - Senior Vice President - Senior Operations Officer
Sandra M. Bartlett - Senior Vice President - Human Resources
Carol P. McCleskey - Senior Vice President - Branch Administration
William O. Boyte, III - Senior Vice President - Construction Lending - SC Midlands Area
Richard T. Harmon - Senior Vice President - Mortgage Lending
Paul T. Rideout - Vice President - Business Development/Commercial Loans

Audrey T. Varn – President – Security Federal Trust and Investments
Thomas R. Crawford, Jr. – Senior Vice President – Georgia Market Area Executive
Dorothy E. Brandon – Vice President – Construction Lending Georgia Market Area
Gerald D. Jennings – President – Security Federal Insurance
G. David Jennings – Vice President – Premium Financing
Terry L. Gilman – Vice President – Insurance Operations
Martha A. Crumpton – Vice President, Accounting – Security Federal Insurance
Duane T. Carpen – Vice President – Preferred Market – Security Federal Insurance
Monica M. Marzullo – Vice President, Retail Operations – Security Federal Insurance
Gabriele C. Dukes – Vice President – Financial Counseling
Janice S. Hauerwas – Vice President – Mortgage Loan Originator
Gregory D. Warfield – Vice President – Mortgage Loan Originator
Stanley D. Carter – Vice President – Mortgage Loan Originator
Josephine J. Quiller – Vice President – Mortgage Lending
James E. Bristow – Vice President – Business Development/Commercial Loans
Michael C. Strange – Vice President – Business Development/Commercial Loans
Elsie K. Dicks – Vice President – Credit Administration
Patricia B. Moseley – Vice President – Loan Servicing
Ronald R. Davis – Vice President – Senior Auditor
Laura B. Conway – Vice President – Operations Auditor
Thomas H. Wessell – Vice President – Information Technology
Donald J. Krafnick – Vice President – Human Resources

BRANCH LOCATIONS

Whiskey Road, Aiken, SC
1705 Whiskey Road, Aiken SC
Dana S. Hall – Assistant Vice President/Manager

North Augusta, SC
315 E. Martintown Road, N. Augusta, SC
Kathy S. Williamson – Assistant Vice President/Manager

Laurens Street, Aiken, SC
100 Laurens Street, Aiken SC
Vicky W. Moseley – Assistant Vice President/Manager

Richland Avenue, Aiken, SC
1665 Richland Ave, Aiken SC
Melanie Mackay – Assistant Vice President/Manager

South Side, Aiken, SC
2587 Whiskey Road, Aiken SC
Joshua J. Booth – Assistant Vice President/Manager

Graniteville, SC
50 Canal Street, Graniteville, SC
Tonya L. Key – Assistant Vice President/Manager

Langley, SC
2812 Augusta Street, Langley, SC
Pat W. Guglieri – Assistant Vice President/Manager

Clearwater, SC
4568 Jefferson Davis Highway, Clearwater, SC
Gail W. Dotson – Assistant Vice President/Manager

Wagener, SC

118 Main Street, Wagener, SC
D. Scott Tindal - Assistant Vice President/Manager

West Columbia, SC
1185 Sunset Boulevard, W. Columbia, SC
Mary B. Clark, Assistant Vice President/Manager

Lexington, SC
5446 Sunset Boulevard, Lexington SC
Marianne M. Pappacoda - Assistant Vice President/Manager

Assembly Street, Columbia, SC
1900 Assembly Street, Columbia, SC
Lynn P. Derrick - Assistant Vice President/Manager

Evans, GA
7004 Evans Town Center Boulevard, Evans, GA
Connie A. Redmond - Assistant Vice President/Manager

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SECURITY FEDERAL INSURANCE

Security Federal is committed to the personal lines property and casualty insurance marketplace, and represents a number of well-known, established insurance companies providing personal insurance products and services.

Three non-bank retail locations from our recent acquisition of the Collier-Jennings Companies service over $4,000,000 of personal lines insurance for consumers in the Aiken-Augusta Metro Area under the direction of Monica Marzullo, VP for Retail Operations.

Duane Carpen, VP for Preferred Markets, heads up a special program integrating The Travelers insurance products into Security Federal Bank's branch network of financial centers located in the Aiken-Augusta and Columbia SC Metro Areas. This strategic alliance offers our bank customers the continued security and trust they've come to appreciate when making important choices regarding their financial affairs.

Insurers Represented

Affirmative Insurance Company
Assurance America Group
American Modern Home Ins Co.
Bristol West Ins. Group
Dairyland/Patriot General Ins. Co.
Everest Insurance Company
Foremost Insurance Group
Gainsco Insurance Company
GMAC Insurance Group
Hartford Group
Infinity Insurance Group
Lincoln General Ins. Co.
Mendota Insurance Company

Omni Insurance Company
Orion Auto/Viking Insurance Company
Permanent General Insurance Company
Progressive Insurance Group
Safeco Insurance Companies
Southern General Insurance Company
Southern United Insurance Group
Travelers Insurance Group
Victoria Insurance Company

Security Federal Premium Finance

The Collier-Jennings Companies acquisition in June 2006 brought to Security Federal Bank the local operations of a licensed premium finance company. Security Federal Premium Finance is now expanding its operations throughout the state of South Carolina. The premium finance operations are managed by David Jennings, a Vice President of the company, who has over ten years experience with this specialized lending unit of the company.

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-59

Exhibit 21

Subsidiaries of the Registrant

Parent	Subsidiary	State of Incorporation	Percentage of Ownership
Security Federal Corporation	Security Federal Bank	United States	100%
	Federal Trust	South Carolina	100%
Security Federal Bank	Security Federal Insurance, Inc.	South Carolina	100%
	Security Federal Investments, Inc.	South Carolina	100%
	Security Federal Trust, Inc.	South Carolina	100%
	Security Financial Services Corporation	South Carolina	100%

Exhibit 23

Consent of Elliott Davis, LLC

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Security Federal Corporation

We consent to incorporation by reference in the Registration Statement No. 333-31500, 333-102337 and 333-136813 on Form S-8 of our report dated June 9, 2008, relating to the consolidated balance sheet of Security Federal Corporation and subsidiaries as of March 31, 2008 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, which report appears in the March 31, 2008 Annual Report on Form 10-K.

/s/ Elliott Davis, LLC

Columbia South Carolina
June 27, 2008

Exhibit 31.1

Certification Required
by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934

I, Timothy W. Simmons, certify that:

1. I have reviewed this annual report on Form 10-K of Security Federal Corporation;

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

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

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

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

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

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

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

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

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

Date: June 27, 2008

/s/Timothy W. Simmons

Timothy W. Simmons
President and Chief Executive Officer

Exhibit 31.2

Certification Required
by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934

I, Roy G. Lindburg, certify that:

1. I have reviewed this annual report on Form 10-K of Security Federal Corporation;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material

respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

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

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

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

Date: June 27, 2008

/s/Roy G. Lindburg

Roy G. Lindburg
Chief Financial Officer

Exhibit 32

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

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Annual Report on Form 10-K, that:

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

2. the information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

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

Dated: June 27, 2008