1ST INDEPENDENCE FINANCIAL GROUP, INC.
Form 10-Q
May 10, 2006

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

FORM 10-Q

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

For the quarterly period ended March 31, 2006
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 0-26570

1ST INDEPENDENCE FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	61-1284899
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
104 South Chiles Street Harrodsburg, Kentucky	40330-1620
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (502)753-0500

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |_| Non-accelerated filer |X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes|_| No |X|

The registrant had 1,965,658 shares of common stock outstanding at April 28, 2006.

1st INDEPENDENCE FINANCIAL GROUP, INC.
FORM 10-Q
For the Quarter Ended March 31, 2006

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Part I - Financial Information

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

1ST INDEPENDENCE FINANCIAL GROUP, INC.
Condensed Consolidated Balance Sheets
(in thousands except share data)

	(Unaudited) March 31, 2006	December 2005
Assets		
Cash and and due from banks	$ 2,857	$ 4,
Interest-bearing demand deposits	6,899	5,
Federal funds sold	5,677	11,
Cash and cash equivalents	15,433	21,
Inerest-bearing deposits	-	

Available-for-sale securities at fair value	15,509	16,
Held-to-maturity securities, fair value of $1,976 and $1,974 at March 31, 2006 and December 31, 2005, respectively	1,967	1,
Loans held for sale	1,041	1,
Loans, net of allowance for loan losses of $2,991 and $2,911 at March 31, 2006 and December 31, 2005, respectively	273,336	266,
Premises and equipment, net	8,324	8,
Federal Home Loan Bank (FHLB) stock	2,242	2,
Bank owned life insurance	3,284	3,
Goodwill	11,142	11,
Interest receivable and other assets	2,882	2,
Total assets	$ 335,160	$ 336,
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	$ 17,603	$ 15,
Savings, NOW and money market	54,806	51,
Time	190,256	197,
Total deposits	262,665	264,
Short-term borrowings	18,996	18,
Long-term debt	13,279	13,
Interest payable and other liabilities	1,423	1,
Total liabilities	296,363	297,
Commitments and contingencies	-	
Stockholders' equity		
Preferred stock, $0.10 par value, 500,000 shares authorized, no shares issued or outstanding	-	
Common stock, $0.10 par value, 5,000,000 shares authorized, 1,965,158 shares and 1,951,408 shares outstanding at March 31, 2006 and December 31, 2005, respectively	293	
Additional paid-in capital	39,414	39,
Retained earnings	14,190	13,
Unearned ESOP compensation	(349)	(
Unearned compensation on restricted stock	-	
Accumulated other comprehensive income (loss)	(176)	(
Treasury stock, at cost, common, 969,835 shares and 969,835 shares at March 31, 2006 and December 31, 2005, respectively	(14,575)	(14,
Total stockholders' equity	38,797	38,
Total liabilities and stockholders' equity	$ 335,160	$ 336,

See notes to condensed consolidated financial statements.

1ST INDEPENDENCE FINANCIAL GROUP, INC.
Condensed Consolidated Statements of Operations
(in thousands except per share data)

	(Unaudited) Three months ended March 31,	
	2006	2005

Interest and dividend income		
Interest and fees on loans	$4,859	$3,753
Interest on securities		
Taxable	154	191
Tax exempt	45	26
Interest on federal funds sold	62	59
Dividends	41	32
Interest on deposits with financial institutions	60	24
Total interest and dividend income	5,221	4,085
Interest expense		
Deposits	2,203	1,410
FHLB advances	234	164
Other	173	146
Total interest expense	2,610	1,720
Net interest income	2,611	2,365
Provision for loan losses	81	202
Net interest income after provision for loan losses	2,530	2,163
Noninterest income		
Service charges	102	61
Gain on loan sales	208	209
Increase in cash surrender value of life insurance	49	46
Net realized gains on sales of available-for-sale securities	-	5,012
Other	81	161
Total noninterest income	440	5,489
Noninterest expense		
Salaries and employee benefits	1,148	1,475
Net occupancy	394	349
Data processing fees	186	133
Professional fees	116	255
Marketing	32	33
Other	379	614
Total noninterest expense	2,255	2,859
Income from continuing operations before income taxes and minority interest	715	4,793
Income tax expense from continuing operations	221	1,686
Income from continuing operations before minority interest and discontinued operations	494	3,107
Income from subsidiary held for disposal	-	6
Income tax expense from subsidiary held for disposal	-	2
Income before minority interest	494	3,111
Minority interest in (income) of consolidated subsidiary and subsidiary held for disposal	-	(2)
Net income	$ 494	$3,109
Income per share from continuing operations		
Basic	$0.26	$1.66

Diluted	0.25	1.62
Income per share from subsidiary held for disposal		
Basic	$0.00	$0.00
Diluted	0.00	0.00
Net income per share		
Basic	$0.26	$1.66
Diluted	0.25	1.62
Weighted average shares outstanding		
Basic	1,921	1,869
Diluted	1,945	1,920
Cash dividends declared per share	$0.08	$0.16

See notes to condensed consolidated financial statements.

1ST INDEPENDENCE FINANCIAL GROUP, INC.
Condensed Consolidated Statement of Comprehensive Income (Loss)
(in thousands)

	(Unaudited) Three months ended March 31,	
	2006	2005
Net income	$494	$3,109
Other comprehensive income, net of tax		
Change in unrealized gains and losses on available-for-sale securities	(39)	(588)
Less reclassification adjustment for realized gains included in net income	-	3,308
Other comprehensive (loss)	(39)	(3,896)
Comprehensive income (loss)	$455	$ (787)

See notes to condensed consolidated financial statements.

1ST INDEPENDENCE FINANCIAL GROUP, INC.
Condensed Consolidated Statement of Cash Flows
(in thousands)

	(Unaudited) Three months ended Ma	
	2006	2
Cash Flows from Operating Activities:		
Net income	$ 494	
Adjustments to reconcile net income to net cash (used in) provided by operations:		
Depreciation	184	
Provision for loan losses	81	
Gain on loan sales	(208)	
Origination of loans held for sale	(10,622)	

Proceeds from loans held for sale	11,067
Compensation expense on stock options	18
ESOP compensation	45
Amortization of unearned compensation on restricted stock	2
Amortization of premiums and discounts on securities	11
Deferred income taxes	-
FHLB stock dividend	(29)
Increase in equity investment of subsidiary	-
Amortization of loan fees	(87)
Amortization of intangibles, net	65
Net realized (gains) on available-for-sale securities	-
Minority interest in income from subsidiary held for disposal	-
Increase in cash value of life insurance	(49)
(Income) from subsidiary held for disposal	-
Changes in:	
(Increase) in interest receivable and other assets	(132)
(Decrease) increase in interest payable and other liabilities	(24)
Net cash provided by (used in) operating activities	816
Cash Flows from Investing Activities:	
Proceeds from maturities of interest-bearing deposits	100
Proceeds from maturities of available-for-sale securities	560
Proceeds from the sales of available-for-sale securities	-
Proceeds from maturities of held-to-maturity securities	5
Net (increase) in loans	(6,402)
Purchases of premises and equipment	(293)
Proceeds from sale of FHLB stock	476
Proceeds from sale of subsidiary	-
Net cash (used in) investing activities	(5,554)
Cash Flows from Financing Activities:	
Net (decrease) increase in deposits	(1,657)
Net increase (decrease) in short-term borrowings	249
Proceeds from exercise of stock options	169
Cash dividends paid	(153)
Net cash (used in) provided by financing activities	(1,392)
Net (decrease) in cash and cash equivalents	(6,130)
Cash and cash equivalents at beginning of period	21,563
Cash and cash equivalents at end of period	$15,433
Supplemental Cash Flow Information:	
Interest paid	$ 2,544
Income taxes paid (refunds)	175
Net increase in cash and cash equivalents of discontinued operations (revised - see note 8)	
Net cash (used in) operating activities	-
Net cash provided by investing ativities	-
Net cash (used in) financing activities	-
Net increase in cash and cash equivalents of discontinued operations	-
Real estate acquired in settlement of loans	-

See notes to condensed consolidated financial statements.

1st INDEPENDENCE FINANCIAL GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of 1st Independence Financial Group, Inc. (the "Company") are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements and notes thereto included in this report should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-KSB annual report for the year ended December 31, 2005 filed with the United States Securities and Exchange Commission. In the opinion of management, all adjustments necessary to make the financial statements not misleading and to fairly present the financial position, results of operations and cash flows for the reporting interim periods have been made and were of a normal recurring nature. The results of operations for the period are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2005 has been derived from the audited consolidated balance sheet of the Company as of that date.

The unaudited condensed financial statements include the accounts of the Company and its wholly-owned subsidiary, 1st Independence Bank, Inc. (the "Bank"), 1st Independence Mortgage, a division of the Bank and for periods prior to its sale on January 28, 2005, the Company's majority-owned subsidiary Citizens Financial Bank, Inc. ("Citizens"). As a result of the Company's sale of Citizens, the assets, liabilities, results of operations and cash flows of Citizens have been reported separately as discontinued operations in the Company's condensed consolidated financial statements and previously reported amounts have been reclassified to consistently present the discontinued operations.

2. Stock-Based Compensation

At March 31, 2006, the Company had two stock-based compensation plans. Prior to the first quarter of 2006, as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company followed the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its stock option plans under the intrinsic value based method. Accordingly, no stock-based compensation expense was recognized for the three months ended March 31, 2005 for stock options issued under the plans as all stock options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and basic and diluted net income per share had compensation expense been determined based on the fair value of the stock options at the grant date consistent with the provisions of SFAS No. 123 (in thousands except per share data):

	Three months ended March 31, 2005
Net income as reported	$3,109
Less total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	2
Pro forma net income	$3,107
Basic net income per share	
As reported	$1.66
Pro forma	1.66

Diluted net income per share	
As reported	$1.62
Pro forma	1.62

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No.123R, "Share-Based Payment" ("SFAS 123R"). This Statement requires expensing of stock options and other share-based payments over the related vesting period and supersedes FASB's earlier rule (the original SFAS 123) that had allowed companies to choose between expensing stock options and showing pro forma disclosure only. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method but this method also permits entities to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123. Beginning in January 2006, the Company adopted the Statement as required and elected the "modified prospective" method and thus has not restated prior financial statements. For the three months ended March 31, 2006, the Company recorded $18,000 in employee stock-based compensation expense, which is included in salaries and employee benefits. As of March 31, 2006, there was $47,000 of unrecognized stock-compensation expense for previously granted unvested options that will be recognized over a weighted-average period of 1.8 years.

3. Allowance for Loan Losses
An analysis of the changes in the allowance for loan losses for the three months ended March 31 follows (in thousands):

	2006	2005
Beginning balance	$2,911	$2,549
Provision for loan losses	81	202
Loans charged off	(1)	(6)
Recoveries	-	2
Ending balance	$2,991	$2,747

4. Net Income Per Share Computations
The following is a reconciliation of the numerator and denominator of the basic and diluted per share computations (in thousands except per share data):

	Three mo Mar 2006
Income (numerator) amounts used for basic and diluted per share computations:	
Income from continuing operations	$494
Income from discontinued operations	$ -
Net income	$494
Shares (denominator) used for basic per share computations:	

Weighted average shares of common stock outstanding	1,921
Shares (denominator) used for diluted per share computations:	
Weighted average shares of common stock outstanding	1,921
Plus: dilutive effect of stock options	24
Adjusted weighted average shares	1,945
Basic net income per share data:	
Income from continuing operations	$0.26
Income from discontinued operations	$ -
Net income	$0.26
Diluted net income per share data:	
Income from continuing operations	$0.25
Income from discontinued operations	$ -
Net income	$0.25

Options to purchase 7,500 and 10,000 common shares for the three months ended March 31, 2006 and March 31, 2005, respectively, were excluded from the diluted calculations above because the exercise prices on the options were greater than the average market price for the period.

5. Contingencies

The Company is a defendant in a lawsuit that asserts that the Company made certain material misrepresentations in connection with certain statements made in connection with its offer to purchase up to 300,000 shares of stock in a tender offer in May 2003. The plaintiffs are seeking to recover damages in connection with the shares they sold in the tender offer and attorneys fees. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss for litigation, if any. Management has not recorded a loss provision for this litigation as, after discussion with legal counsel, management believes the ultimate results of this litigation will not have a material adverse effect on the Company's financial position, results of operations or cash flows. Events could occur that could cause the estimate of ultimate loss to differ materially in the near term. Reference is made to Part II, Item 1 of this report on Form 10-Q for additional information.

6. Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No.123R, "Share-Based Payment" ("SFAS 123R"). This Statement required expensing of stock options and other share-based payments over the related vesting period beginning in 2005, and superseded FASB's earlier rule (the original SFAS 123) that had allowed companies to choose between expensing stock options and showing pro forma disclosure only. The Statement required that public entities apply SFAS 123R as of the first interim or annual reporting period that began after June 15, 2005. However, in April 2005 the Untied States Securities and Exchange Commission issued a rule that revised the required date of adoption under SFAS 123R. The new rule allowed for public entities to adopt the provisions of SFAS 123R at the beginning of the first fiscal year beginning after June 15, 2005. The Company adopted the Statement in the first quarter of 2006 as required and the effects of initial adoption were immaterial. See note 2, "Stock-Based Compensation" to this report for additional information.

7. Completion of Subsidiary Disposal

On January 28, 2005 the Company completed the sale of its entire interest in its majority owned subsidiary, Citizens Financial Bank, Inc., to Porter Bancorp, Inc. for $2.3 million, pursuant to a Stock Purchase Agreement, dated as of October 22, 2004, between Porter Bancorp, Inc. and the Company. In a related transaction, on January 28, 2005, the Company's subsidiary bank, 1st Independence Bank, Inc., purchased a commercial building located in Louisville, Kentucky, for $2.3 million from Ascencia Bank, Inc., an affiliate of Porter Bancorp, Inc. See note 4, "Completion of Subsidiary Disposal" to the consolidated financial statements included in the Company's Form 10-KSB for the year ended December 31, 2005 for additional information.

8. Revised Cash Flows of Discontinued Operations

In 2005 the Company has separately disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of Part I of this report in addition to the consolidated financial statements of the Company and the notes thereto included in the Company's Form 10-KSB for the year ended December 31, 2005, including note 1 which describes the Company's significant accounting policies including its use of estimates. See the caption entitled "Application of Critical Accounting Policies" in this section for further information.

Forward-Looking Statements

The following discussion contains statements which are forward-looking rather than historical fact. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and involve known and unknown risks, uncertainties and other factors, which may cause the Company's actual results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements are subject to certain risks and uncertainties including among other things, changes in economic conditions in the market areas the Company conducts business, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the market areas the Company conducts business, competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected and other risks as detailed in the Company's various filings with the United States Securities and Exchange Commission. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

General

The Company provides commercial and retail banking services, including commercial real estate loans, one-to-four family residential mortgage loans via 1st Independence Mortgage, home equity loans and lines of credit and consumer loans as well as certificates of deposit, checking accounts, money-market accounts and savings accounts within its market area. At March 31, 2006, the Company had total assets, deposits and stockholders' equity of $335.2 million, $262.7 million, and $38.8 million, respectively. The Company's business is conducted principally through the Bank. Unless otherwise indicated, all references to the Company refer collectively to the Company and the Bank.

The Company is a defendant in a lawsuit that asserts that the Company made certain material misrepresentations in connection with its offer to purchase up to 300,000 shares of stock in a tender offer in May 2003. The plaintiffs are seeking to recover damages in connection with the shares they sold in the tender offer and attorneys fees. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss for litigation, if any. Management has not recorded a loss provision for this litigation as, after discussion with legal counsel, management believes the ultimate result of this litigation will not have a material adverse effect on the Company's financial position, results of operations or cash flows. Events could occur that could cause the estimate of ultimate loss to differ materially in the near term.

In January 2005, the Company sold its 55.8% interest in Citizens Financial Bank, Inc., Glasgow, Kentucky ("Citizens") to Porter Bancorp, Inc., Shepherdsville, Kentucky ("Porter Bancorp") for $2.3 million. The sale of Citizens reflected the Company's revised strategic plan to exit the south central Kentucky market and to focus on the growing markets of southern Indiana, central Kentucky, and greater Louisville, Kentucky.

Application of Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operation is based upon the Company's unaudited condensed consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's most critical accounting policies require the use of estimates relating to other than temporary impairment of securities, the allowance for loan losses and the valuation of goodwill. See the caption entitled "Critical Accounting Policies" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's Form 10-KSB for the year ended December 31, 2005 for additional information.

Overview

Net income for the quarter ended March 31, 2006 was $494,000 or $0.25 per diluted share compared to $3,109,000 or $1.62 per diluted share for the comparable period in 2005. The decrease in net income and net income per diluted share for the three-month period were primarily due to after tax securities gains of $3,308,000 taken in the first quarter of 2005. Partially offsetting this factor was an after tax charge of $235,000 recorded in the first quarter 2005 for severance expenses related to the retirement of the Company's former Chairman and Chief Executive Officer and the decrease of $80,000 after taxes in the provision for loan losses in the first quarter of 2006 compared to the first quarter of 2005. Other factors were decreased professional fees and other noninterest expense items.

Results of Operations

Net Interest Income

Net interest income is the most significant component of the Company's revenues. Net interest income is the difference between interest income on interest-earning assets (primarily loans and investment securities) and interest expense on interest-bearing liabilities (deposits and borrowed funds). Net interest income depends on the volume and rate earned on interest-earning assets and the volume and rate paid on interest-bearing liabilities.

Net interest income was $2.6 million for the three months ended March 31, 2006, an increase of $0.2 million or 10% from $2.4 million for the comparable period in 2005. On an annualized basis, the net interest spread and net interest margin were 3.07% and 3.45% for the current quarter, compared to 3.35% and 3.51% for the same period of 2005. The decrease in the net interest margin was primarily due a rising interest rate environment with the effects on the Company of the rates on interest-bearing liabilities rising at a faster pace than the rates on interest-earning assets. Changes in volume resulted in an increase in net interest income of $0.4 million for the first quarter of 2006 compared to the same period in 2005, and changes in interest rates and the mix resulted in a decrease in net interest income of $0.2 million for the three months ended March 31, 2006 versus the comparable period in 2005.

The Bank, like many other financial institutions, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. Historically, the lending activities of commercial banks emphasized the origination of short to intermediate term variable rate loans that are more closely matched with the deposit maturities and repricing of interest-bearing liabilities which occur closer to the same general time period. While having interest-bearing liabilities that reprice more frequently than interest-earning assets is generally beneficial to net interest income during periods of declining interest rates, it is generally detrimental during periods of rising interest rates.

To reduce the effect of interest rate changes on net interest income, the Bank has adopted various strategies to improve matching interest-earning asset maturities to interest-bearing liability maturities. The principal elements of these strategies include; originating variable rate commercial loans that include interest rate floors; originating one-to-four family residential mortgage loans with adjustable rate features, or fixed rate loans with short maturities; maintaining interest-bearing demand deposits, federal funds sold, and U.S. government securities with short to intermediate term maturities; maintaining an investment portfolio that provides stable cash flows, thereby providing investable funds in varying interest rate cycles; lengthening the maturities of our time deposits and borrowings when it would be cost effective; and attracting low cost checking and transaction accounts, which tend to be less interest rate sensitive when interest rates increase.

The Bank measures its exposure to changes in interest rates using an overnight upward and downward shift (shock) in the Treasury yield curve. As of March 31, 2006, if interest rates increased 200 basis points and decreased 200 points, respectively, the Bank's net interest income would increase by 3.9% and decrease by 2.8%, respectively.

Provision for Loan Losses

The provision for loan losses was $81,000 for the three months ended March 31, 2006, compared to $202,000 for the same period in 2005. Nonperforming loans were $1.2 million at March 31, 2006 and $1.3 million at December 31, 2005, or 0.45% and 0.47%, respectively, of total loans. The allowance for loan losses was $3.0 million and $2.9 million at March 31, 2006 and December 31, 2005, or 1.08% and 1.08%, respectively, of total loans.

The Company maintains the allowance for loan losses at a level that it considers to be adequate to provide for credit losses inherent in its loan portfolio. Management determines the level of the allowance by performing a quarterly analysis that considers concentrations of credit, past loss experience, current economic conditions, the amount and composition of the loan portfolio (including nonperforming and potential problem loans), estimated fair value of underlying collateral, loan commitments outstanding, and other information relevant to assessing the risk of loss inherent in the loan portfolio. As a result of management's analysis, a range of the potential amount of the allowance for loan losses is determined.

The Company will continue to monitor the adequacy of the allowance for loan losses and make additions to the allowance in accordance with the analysis referred to above. Because of uncertainties inherent in estimating the appropriate level of the allowance for loan losses, actual results may differ from management's estimate of credit losses and the related allowance.

Noninterest Income

Noninterest income was $0.4 million for the three months ended March 31, 2006 compared to $5.5 million for the same period in 2005. The significant decrease in noninterest income for the three-month period in 2006 compared to the same period in 2005 resulted primarily from a $5.0 million gain on sale of Federal Home Loan Mortgage Corporation ("FHLMC") preferred stock recorded in the first quarter of 2005. The gain on loan sales was basically flat from quarter to quarter, while service charge income was $102,000 for the three months ended March 31, 2006, compared to $61,000 for the comparable period in 2005. The Company continues to evaluate its deposit product offerings with the intention of expanding its offerings to the consumer and business depositor. During March 2005, the Bank began offering products which include overdraft privileges on certain individual deposit products and cash management services for business depositors. Both of these products are fee-based and should result in further increases in service charge income. The Bank also introduced a new deposit product known as "ATM Advantage" during September 2005. This new product offers unlimited use of competitor's ATM networks with reimbursement of all foreign and surcharge fees. The product does not pay interest but requires a minimum balance to avoid a monthly service charge. This product could reduce service charge income but the effect would be offset by more noninterest bearing deposits which should contribute to additional net interest income. Factors contributing to the decrease in other noninterest income was the Company's decision to exit the title insurance business at the end of November 2005 and a one time gain of $32,000 on long-term portfolio loans sold in the first quarter of 2005. The Company's title insurance company had approximately $50,000 of title insurance revenue for the three months ended March 31, 2005.

Noninterest Expense

Noninterest expense was $2.3 million for the quarter ended March 31, 2006 compared to $2.9 million in the same period in 2005. Contributing to the decrease was a decrease in salaries and employee benefits due to the $356,000 which the Company accrued during the first quarter of 2005 for the severance expense relating to the retirement of the Company's former Chairman and Chief Executive Officer and a reduction in professional fees in the first quarter of 2006 due to a reduced amount of services required. Other factors included a higher level of other noninterest expenses in the first quarter of 2005 primarily related to integration items associated with the merger with Independence Bancorp and the Citizens disposal in January 2005 which was previously mentioned. Partially offsetting those factors was an increase in net occupancy expenses due to the Bank's purchase of a building, located in Louisville, Kentucky to accommodate expansion. In April 2005, the Bank moved its finance and accounting, loan and deposit operations, and mortgage banking operations into the building and in November 2005 established a full service branch at this location. An additional factor offsetting the overall decrease in noninterest expenses was an increase in data processing expenses which was primarily due to the growth of the Bank's services and it's commitment to upgrade systems productivity and the effects of a refund received in the first quarter of 2005 from a previous third party data processing company of the Bank.

Income Tax Expense (Benefit)

The effective income tax rate on income from continuing operations was 30.9% for the three months ended March 31, 2006 compared to 35.2% for the same period in 2005. The decrease in the effective tax rate is primarily due to an increase in the percentage of tax exempt interest income.

Financial Condition

The Company's total assets were $335.2 million at March 31, 2006 compared to $336.2 million at December 31, 2005, a decrease $1.0 million or 0.3%. Net loans increased $6.3 million while cash and cash equivalents decreased $6.1 million, available-for-sale securities decreased $0.6 million and Federal Home Loan Bank ("FHLB") stock went down $0.5 million.

Net loans were $273.3 million at March 31, 2006, compared to $267.0 million at December 31, 2005, an increase of $6.3 million or 2.4%. The increases in loans were in the real estate construction and real estate commercial loan portfolios, which increased $7.7 million or 15% and $5.8 million or 12%, respectively. The increases were primarily a result of lending activity in the Louisville, Kentucky metro market. All loan categories increased or remained the same as a percentage of total loans, except residential real estate loans, which decreased from approximately 48% to 45% of total loans and commercial loans which decreased from 9% to 7% of total loans. The decrease in residential real estate loans as a percentage of total loans is primarily due to those loans now being sold in the secondary market through 1st Independence Mortgage, a division of the Bank, rather than being retained for the Company's loan portfolio. The Company continues to identify opportunities to cross sell its other products, including home equity and consumer loans for its loan portfolio resulting from customer relationships established through the origination of loans by 1st Independence Mortgage.

Deposits decreased $1.6 million or 0.6% to $262.7 million at March 31, 2006 compared to December 31, 2005. This decrease was largely attributable to a $7.3 million decrease in time deposits which more than offset increases in savings, NOW and money market deposits of $3.7 million and demand deposits of $2.0 million. The increase in savings, NOW and money market deposits resulted primarily from the effects of a general marketing campaign during the first nine months of 2005 focusing on existing products and print advertisements only. As previously mentioned, during September 2005 the Company introduced a new deposit product known as "ATM Advantage" as part of its efforts to continue to grow core deposits. This new product offers unlimited use of competitor's ATM networks with reimbursement of all foreign and surcharge fees. The product does not pay interest but requires a minimum balance to avoid a monthly service charge.

Short-term borrowings increased $0.3 million or 1.3% to $19.0 million at March 31, 2006, compared to $18.7 million at December 31, 2005. The Company uses short-term borrowings, primarily short-term FHLB advances, to fund short-term liquidity needs and manage net interest margin.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in financial transactions that contain credit, interest rate, and liquidity risk that are not recorded in the financial statements such as loan commitments and performance letters of credit. As of March 31, 2006, unused loan commitments and performance letters of credit were $55,883,000 and $2,444,000, respectively.

Since many of the unused loan commitments are expected to expire or be only partially used, the total amount of commitments does not necessarily represent future cash requirements.

Liquidity and Capital Resources

Liquidity to meet borrowers' credit and depositors' withdrawal demands is provided by maturing assets, short-term liquid assets that can be converted to cash and the ability to attract funds from depositors. Additional sources of liquidity include brokered deposits, advances from the FHLB and other short-term borrowings, such as federal funds purchased and securities sold under repurchase agreements.

At March 31, 2006 and December 31, 2005, brokered deposits were $47.4 million and $59.6 million, respectively. The weighted average cost and maturity of brokered deposits were 4.20% and five months at March 31, 2006 compared to 3.90% and nine months at December 31, 2005. The Company plans to continue using brokered deposits for the foreseeable future to support loan demand when pricing for brokered deposits is more favorable than short-term borrowings.

At both March 31, 2006 and December 31, 2005, the Bank had total FHLB advances outstanding of $22.0 million with $4.0 million included in long-term debt in the accompanying condensed consolidated balance sheet and the remaining amount included in short-term borrowings. Additionally, the Bank had $22.0 million of unused commitments under its line of credit with the FHLB and sufficient collateral to borrow an additional $60.5 million.

The Company's liquidity depends primarily on dividends paid to it as sole shareholder of the Bank. At March 31, 2006, the Bank may pay up to $5.9 million in dividends to the Company without regulatory approval, subject to the ongoing capital requirements of the Bank.

The Company has $9.3 million of subordinated debentures outstanding, which are included in long-term debt in the accompanying condensed consolidated balance sheet with $4.1 million of the debentures being variable rate obligations with interest rates that reprice quarterly, and are tied to the three-month London Interbank Offering Rate ("LIBOR") plus 3.15%. At March 31, 2006 the rate on the variable rate obligations was 8.11%. The remaining $5.2 million of debentures carry a fixed interest rate of 6.4% until March 26, 2008 when the debentures become variable rate obligations that reprice quarterly at the three-month LIBOR rate plus 3.15%.

Stockholders' equity increased $0.5 million from $38.3 million at December 31, 2005 to $38.8 million at March 31, 2006. The significant drivers of the change were net income of $0.5 million, cash dividends declared of $0.2 million ($0.08 per share) and an increase of $0.2 million relating to stock option and ESOP plan transactions.

Bank holding companies and their subsidiary banks are required by regulators to meet risk based capital standards. These standards, or ratios, measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The following table presents these ratios as of March 31, 2006 and December 31, 2005 for the Consolidated Company and the Bank along with the regulator's minimum ratio to be considered well capitalized.

	March 31, 2006	December 31, 2005
Total risk-based capital to risk-weighted assets		
Consolidated company	15.4%	15.1%
Bank	14.0	13.6
Tier 1 capital to risk-weighted assets		
Consolidated company	14.3	13.1
Bank	12.8	12.5
Tier 1 capital to average assets		

Consolidated company	11.4	10.2
Bank	10.3	9.7

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's management carried out an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the quarter ended March 31, 2006. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the United States Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

The Company, from time to time, is a party to ordinary routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans, and other issues incident to its business. Except as discussed below, there were no potentially material lawsuits or other legal proceedings pending or known to be contemplated against the Company at March 31, 2006.

On or about May 28, 2004, a complaint was filed in the Circuit Court of Anderson County in the Commonwealth of Kentucky by Larry Sutherland, Judy Sutherland, John Henry Disponett, Brenda Disponett, Todd Hyatt, Lois Ann Disponett, Sue Saufley, and Hugh Coomer. Soon thereafter, an amended complaint was filed which added Lois Hawkins and Norma K. Barnett as plaintiffs. The lawsuit arises from offers to purchase securities made by the Company in connection with an offer to purchase up to 300,000 shares of its stock in a tender offer on or about May 28, 2003. The Plaintiffs allege that the Company made certain material misrepresentations in connection with certain statements made in the tender offer. The Plaintiffs are seeking to recover compensatory and punitive damages in connection with the shares it sold in the tender offer and their attorneys' fees. Discovery in the matter is currently underway and a trial date has not been set. On April 14, 2006 a partial summary judgment was entered against the plaintiffs. In the partial summary judgment, the Circuit Court held that the only remedy available to the plaintiffs is the return of the stock upon the tender of the consideration received by the plaintiffs in exchange for the stock. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss for litigation, if any. Management, after discussion with legal counsel, believes the ultimate result of this litigation will not have a material adverse effect on the Company's financial position, results of operations or cash flows. However, events could occur that could cause any estimate of ultimate loss to differ materially in the near term.

Item 6. Exhibits

(a) Exhibits

31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer ("Section 302 Certifications").
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer ("Section 302 Certifications").
32.1	Section 1350 Certifications ("Section 906 Certifications").

SIGNATURES

Pursuant to the requirements 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.

1st INDEPENDENCE FINANCIAL GROUP, INC.

By: /s/ N. William White

N. William White
President and Chief Executive Officer

Date: May 9, 2006

Exhibit Index

Exhibit Number	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer ("Section 302 Certifications").
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer ("Section 302 Certifications").
32.1	Section 1350 Certifications ("Section 906 Certifications").