1ST INDEPENDENCE FINANCIAL GROUP, INC.
Form 10-Q
May 08, 2007

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, 2007
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.)
8620 Biggin Hill Lane Louisville, Kentucky	40220-4117
(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 1,993,394 shares of common stock outstanding at April 27, 2007.

1st INDEPENDENCE FINANCIAL GROUP, INC.
FORM 10-Q
For the Quarter Ended March 31, 2007

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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, 2007	December 2006
Assets		
Cash and and due from banks	$ 7,020	$ 16
Interest-bearing demand deposits	5,842	6
Federal funds sold	4,382	
Cash and cash equivalents	17,244	23
Inerest-bearing deposits	100	
Available-for-sale securities at fair value	16,878	16

Held-to-maturity securities, fair value of $1,834 and $1,930 at March 31, 2007 and December 31, 2006, respectively	1,809	1
Loans held for sale	1,150	1
Loans, net of allowance for loan losses of $2,938 and $3,745 at March 31, 2007 and December 31, 2006, respectively	271,551	270
Premises and equipment, net	8,393	8
Federal Home Loan Bank (FHLB) stock	2,313	2
Bank owned life insurance	3,487	3
Goodwill	11,142	11
Interest receivable and other assets	3,786	3
Total assets	$ 337,853	$ 342
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	$ 15,014	$ 18
Savings, NOW and money market	86,036	78
Time	154,113	157
Total depositsotal deposits	255,163	254
Short-term borrowings	20,658	36
Long-term debt	20,279	10
Interest payable and other liabilities	1,422	1
Total liabilities	297,522	302
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, 1,993,394 shares and 1,995,594 shares outstanding at March 31, 2007 and December 31, 2006, respectively	296	
Additional paid-in capital	39,798	39
Retained earnings	15,122	15
Unearned ESOP compensation	(260)	
Accumulated other comprehensive (loss)	(50)	
Treasury stock, at cost, common, 969,835 shares and 969,835 shares at March 31, 2007 and December 31, 2006, respectively	(14,575)	(14
Total stockholders' equity	40,331	40
Total liabilities and stockholders' equity	$ 337,853	$ 342

See notes to condensed consolidated financial statements.

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

	(Unaudited Three months ende
	2007
Interest and dividend income	

Interest and fees on loans	$5,125
Interest on securities	
Taxable	166
Tax exempt	45
Interest on federal funds sold	76
Dividends	43
Interest on deposits with financial institutions	78
Total interest and dividend income	5,533
Interest expense	
Deposits	2,591
FHLB advances	359
Other	177
Total interest expense	3,127
Net interest income	2,406
Provision for loan losses	175
Net interest income after provision for loan losses	2,231
Noninterest income	
Service charges	120
Gain on loan sales	201
Increase in cash value of life insurance	52
Other	79
Total noninterest income	452
Noninterest expense	
Salaries and employee benefits	1,228
Net occupancy	425
Data processing fees	208
Professional fees	170
Marketing	65
Other	460
Total noninterest expense	2,556
Income before income taxes	127
Income tax expense	17
Net income	$ 110
Net income per share	
Basic	$0.06
Diluted	0.06
Weighted average shares outstanding	
Basic	1,967
Diluted	1,978
Cash dividends declared per share	$0.08

See notes to condensed consolidated financial statements.

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

	Three m
	2007
Net income	$
Other comprehensive income, net of tax	
Change in unrealized gains and losses on available-for-sale securities	
Less reclassification adjustment for realized gains (losses) included in net income	
Other comprehensive income (loss)	
Comprehensive income	$

See notes to condensed consolidated financial statements.

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

	(Unaudited) Three months ended M	
	2007	
Cash Flows from Operating Activities:		
Net income	$ 110	$
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	175	
Provision for loan losses	175	
Gain on loan sales	(201)	
Origination of loans held for sale	(11,343)	
Proceeds from loans held for sale	11,622	
Compensation expense on stock options	31	
ESOP compensation	53	
Amortization of unearned compensation on restricted stock	8	
Amortization of premiums and discounts on securities	6	
Deferred income tax expense (benefit)	251	
FHLB stock dividend	-	
Amortization of loan fees	(58)	
Amortization of intangibles, net	65	
Increase in cash value of life insurance	(52)	
Changes in:		
(Increase) in interest receivable and other assets	(158)	
(Decrease) in interest payable and other liabilities	(210)	
Net cash provided by operating activities	474	
Cash Flows from Investing Activities:		
Proceeds from maturities of interest-bearing deposits	-	
Purchases of available-for-sale securities	(1,000)	
Proceeds from maturities of available-for-sale securities	568	
Proceeds from maturities of held-to-maturity securities	90	
Net (increase) in loans	(1,243)	

Purchases of premises and equipment	(246)	
Proceeds from sale of FHLB stock	-	
Net cash (used in) investing activities	(1,831)	
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	1,084	
Net (decrease) increase in short-term borrowings	(15,868)	
Proceeds from issuance of long-term debt	10,000	
Repurchase and retirement of common stock	(37)	
Proceeds from exercise of stock options	-	
Cash dividends paid	(157)	
Net cash (used in) financing activities	(4,978)	
Net (decrease) in cash and cash equivalents	(6,335)	
Cash and cash equivalents at beginning of period	23,579	
Cash and cash equivalents at end of period	$ 17,244	$
Supplemental Cash Flow Information:		
Interest paid	$ 3,153	$
Income taxes paid	25	

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-K annual report for the year ended December 31, 2006 filed with the United States Securities and Exchange Commission ("SEC'). 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, 2006 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") and 1st Independence Mortgage, a division of the Bank.

2. Stock-Based Compensation
For the three months ended March 31, 2007 and March 31, 2006, the Company recorded $31,000 and $18,000, respectively, in employee stock-based compensation expense, which is included in salaries and employee benefits. As of March 31, 2007 and March 31, 2006, there was $60,000 and $45,000, respectively, of unrecognized stock-compensation expense for previously granted unvested options that will be recognized over a weighted-average period of 1.7 and 1.8 years,

respectively.

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):

	2007	2006
Beginning balance	$3,745	$2,911
Provision for loan losses	175	81
Loans charged off	(983)	(1)
Recoveries	1	-
Ending balance	$2,938	$2,991

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 M 2007
Income (numerator) amounts used for basic and diluted per share computations:	
Net income	$110
Shares (denominator) used for basic per share computations:	
Weighted average shares of common stock outstanding	1,967
Shares (denominator) used for diluted per share computations:	
Weighted average shares of common stock outstanding	1,967
Plus: dilutive effect of stock options	11
Adjusted weighted average shares	1,978
Net income per share data:	
Basic	$0.06
Diluted	$0.06

Options to purchase 17,000 and 7,500 common shares for the three months ended March 31, 2007 and March 31, 2006, 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 currently 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. This matter is currently scheduled for trial in July 2007. 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 July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the cumulative effect of applying the provisions of this Interpretation are recognized as an adjustment to the beginning balance of retained earnings. The Company adopted the Interpretation on January 1, 2007 as required. The Company and its subsidiaries file a consolidated U.S. Corporation income tax return, a combined unitary return in the state of Indiana and a corporate income tax return in the state of Kentucky. The only periods subject to examination for the Company's federal return are the 2003, 2005 and 2006 tax years. A federal examination audit of the tax year 2004 was completed in 2006 with no material adjustments. The periods subject to examination for the Company's state returns in Kentucky and Indiana are all years after 2002. The Company has no unrecognized tax benefits and does not anticipate any increase in unrecognized benefits during 2007 relative to any tax positions taken prior to January 1, 2007. The Company believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

The Company chose to continue its policy for recording interest related to unrecognized tax benefits in other interest expense and penalties in other noninterest expense. No penalties or interest were recorded during the first quarter 2007 and no such accruals existed as of January 1, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This Statement also will require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by the Company beginning in the first quarter of 2008. The Company is currently evaluating the potential impact this Statement may have on the Company's financial position and results of operations, but does not believe the impact of the adoption will be material.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities using different measurement techniques. SFAS 159 requires additional disclosures related to the fair value measurements included in the entity's financial statements. This Statement is effective for financial statements issued for fiscal years beginning after Nov. 15, 2007. Accordingly, the Company will adopt SFAS 159 in the first quarter of 2008. The Company is currently evaluating the potential impact this Statement may have on the Company's financial position and results of operations, but does not believe the impact of the adoption will be material.

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-K for the year ended December 31, 2006, 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, 2007, the Company had total assets, deposits and stockholders' equity of $337.9 million, $255.2 million, and $40.3 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 currently 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. This matter is currently scheduled for trial in July 2007. 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.

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-K for the year ended December 31, 2006 for additional information.

Overview

Net income for the quarter ended March 31, 2007 was $110,000 or $0.06 per diluted share compared to $494,000 or $0.25 per diluted share for the comparable period in 2006. The decrease in net income and net income per diluted share for the three-month period was primarily due to a decrease in net interest income after taxes of $135,000, an increase in noninterest expenses after taxes of $199,000 and an increase of $62,000 after taxes in the provision for loan losses in the first three months of 2007 compared to the first three months of 2006.

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 $2.4 million for the three months ended March 31, 2007 a decrease of $0.2 million or 8% from $2.6 million for the comparable period of 2006. On an annualized basis, the net interest spread and net interest margin were 2.75% and 3.19% for the current quarter, compared to 3.07% and 3.45% for the same period of 2006. The decrease in the net interest margin was primarily due to a faster increase in interest rates on interest-bearing liabilities, including the effect of the increasing rate on the $4.1 million of variable rate subordinated debentures, compared to the rates on interest-earning assets. Contributing to these factors were decreases in the volume of net earning assets. Changes in volume resulted in a decrease in net interest income of $36,000 for the first quarter of 2007 compared to the same period in 2006, and changes in interest rates and the mix resulted in a decrease in net interest income of $169,000 for the first quarter of 2007 versus the comparable period in 2006.

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, 2007, if interest rates increased 200 basis points and decreased 200 points, respectively, the Bank's net interest income would increase by 2.8% and decrease by 5.5%, respectively.

Provision for Loan Losses

The provision for loan losses was $175,000 for the three months ended March 31, 2007, compared to $81,000 for the same period in 2006. Nonperforming loans were $3.4 million at March 31, 2007 and $3.7 million at December 31, 2006, or 1.24% and 1.36%, respectively, of total loans. The allowance for loan losses was $2.9 million and $3.7 million at March 31, 2007 and December 31, 2006, or 1.07% and 1.37%, respectively, of total loans. Net charge-offs were $982,000 in the first quarter of 2007 compared to $1,000 in the same period in 2006. The increase in net charge-offs in 2007 was primarily due to three large borrowers in the residential construction and commercial and industrial portfolios. These charge-offs had been adequately reserved for in previous periods.

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 $452,000 for the three months ended March 31, 2007, compared to $440,000 for the same period in 2006. The gain on loan sales was down slightly for the first quarter of 2007 versus the first quarter of 2006 due to a softened housing market leading to a slow down in secondary market mortgage activity and lower margins in 2007. The gain on loan sales was $201,000 for the three months ended March 31, 2007, compared to $208,000 for the comparable period in 2006. Service charge income was $120,000 for the three months ended March 31, 2007, compared to $102,000 for the comparable period in 2006. The Company continues to evaluate its deposit product offerings with the intention of continuing to expand its offerings to the consumer and business depositor.

Noninterest Expense

Noninterest expense was $2.6 million for the quarter ended March 31, 2007 compared to $2.3 million for the same period in 2006. Contributing to the increase was an increase in salaries and employee benefits due to merit and promotional salary increases and management additions, increased health care costs, increased stock option expense and increased restricted stock expense.

Partially offsetting these increases in salaries and employee benefits was a reduction in the commissions related to reduced activity in mortgage loan sales and a reduction in the amount of expense necessary to cover the Company's 401(k) match as the match is now covered by released ESOP shares. Other factors contributing to the increase in noninterest expenses was an increase in professional fees due to an increased amount of services required including preparation work for compliance with certain of the upcoming requirements of the Sarbanes-Oxley Act of 2002 and an increase in net occupancy expenses relating to the Bank's branch expansion plans and certain equipment upgrades. Additional factors contributing to the overall increase in noninterest expenses were an increase in data processing expenses which was primarily due to the growth of the Bank's services and its commitment to upgrade systems productivity, an increase in marketing expense and various increases in other noninterest expenses including an increase in expenses relating to other real estate owned due to the higher levels of other real estate owned.

Income Tax Expense (Benefit)

The effective income tax rate on income before income taxes was 13.3% for the three months ended March 31, 2007 compared to 30.9% for the same period in 2006. The decrease in the effective tax rate for the quarter is primarily due to an increase in the percentage of tax exempt interest income compared to income before income taxes.

Financial Condition

The Company's total assets were $337.9 million at March 31, 2007 compared to $342.8 million at December 31, 2006, a decrease of 4.9 million or 1.4%. Net loans increased $1.1 million, investments increased $0.4 million, while cash and cash equivalents decreased $6.3 million and loans held for sale went down $0.1 million.

Net loans were $271.6 million at March 31, 2007, compared to $270.5 million at December 31, 2006, an increase of $1.1 million or 0.4%. The increases in loans were in the real estate construction and real estate commercial loan portfolios, which increased $1.5 million or 2.4% and $1.5 million or 3.1%, respectively. The increases were primarily a result of lending activity in the Kentucky markets. All loan categories increased or remained the same as a percentage of total loans, except residential real estate loans, which decreased from approximately 45% to 43% 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 increased $1.1 million or 0.4% to $255.2 million at March 31, 2007 compared to $254.1 million at December 31, 2006. This increase was attributable to an increase in savings, NOW and money market deposits of $8.0 million which more than offset decreases in demand deposits of $3.3 million and in time deposits of $3.6 million. The increase in savings, NOW and money market deposits resulted primarily from the effects of a general marketing campaign promoting a more competitively priced NOW account product in an effort to reduce the Company's dependency on higher costing time deposits.

Short-term borrowings decreased $15.9 million or 43.4% to $20.7 million at March 31, 2007, compared to $36.5 million at December 31, 2006 while long-term debt increased $10.0 million to $20.3 million at March 31, 2007, compared to $10.3 million at December 31, 2006. The increase in long-term debt was due to the Company deciding to utilize a long-term FHLB fixed rate advance and thus reducing the level of short-term FHLB advances. 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, 2007, unused loan commitments and performance letters of credit were $43,811,000 and $2,519,000, 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, 2007 and December 31, 2006, brokered deposits were $19.4 million and $23.7 million, respectively. The weighted average cost and maturity of brokered deposits were 4.98% and six months at March 31, 2007 compared to 4.86% and six months at December 31, 2006. 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 March 31, 2007 and December 31, 2006, the Bank had total FHLB advances outstanding of $31.0 million and $36.0 million, respectively, with $11.0 million and $1.0 million, respectively, 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 $50.0 million of unused commitments under its line of credit with the FHLB and sufficient collateral to borrow an additional $52.6 million.

The Company's liquidity depends primarily on dividends paid to it as sole shareholder of the Bank. At March 31, 2007, the Bank may pay up to $8.2 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, 2007 the rate on the variable rate obligations was 8.50% compared to 8.11% at March 31, 2006. 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 was basically flat at $40.3 million at March 31, 2007 and December 31, 2006. The individual items within stockholders' equity that changed were net income of $110,000, cash dividends declared of $157,000 ($0.08 per share) and an increase of $75,000 relating to stock option, ESOP plan transactions and other miscellaneous equity 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, 2007 and December 31, 2006 for the Consolidated Company and the Bank along with the regulator's minimum ratio to be considered well capitalized.

	March 31, 2007	December 31, 2006
Total risk-based capital to risk-weighted assets		
Consolidated company	15.8%	15.9%
Bank	14.8	14.7
Tier 1 capital to risk-weighted assets		
Consolidated company	14.6	14.6
Bank	13.6	13.5
Tier 1 capital to average assets		
Consolidated company	11.7	11.6
Bank	10.9	10.7

Regulatory Matters

On July 20, 2006, the Bank received its most recent Community Reinvestment Act ("CRA") Performance Evaluation prepared as of May 15, 2006. The Bank was assigned a "Needs to Improve" rating due in part to the Bank's low level of residential lending to low and moderate income borrowers within the Louisville, Kentucky Metropolitan Statistical Area. Management has taken appropriate steps to improve the residential lending issues cited by the Federal Deposit Insurance Corporation ("FDIC") during the CRA Performance Evaluation. By statute, a bank with a "less than satisfactory" CRA rating has limitations on certain future business activities until the CRA rating improves. Management does not believe these limitations will have any material affect on the Bank's current business plan.

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, 2007. 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, 2007 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, 2007.

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. 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. Subsequent to the partial summary judgment, the plaintiffs amended their complaint to allege certain additional material misrepresentations had been made by the Company. This matter is currently scheduled for trial in July 2007. 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.

Date: May 7, 2007

By: /s/ R. Michael Wilbourn

R. Michael Wilbourn
Executive Vice President
and Chief Financial Officer

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").