
FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended **March 31, 2006**

Certificate Number **14028**

FIRST GUARANTY BANK

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of
incorporation or organization)

72-0201420

(I.R.S. Employer
Identification No.)

**400 East Thomas Street
Hammond, LA**

(Address of principal executive offices)

70401

(Zip Code)

(985) 345-7685

(Telephone number, including area code)

Securities registered pursuant to Section 12(B) of the Act:

None

Securities registered pursuant to Section 12(G) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$5 par value per share	None
Common Stock, \$1 par value per share	None

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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes No

As of March 31, 2006, 483,290 shares of \$5 par value common stock and 5,076,354 shares of \$1 par value common stock were issued and outstanding.

ADDITIONAL INFORMATION

FIRST GUARANTY BANK (the "Bank") is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files periodic reports, proxy statements and other information with the Federal Deposit Insurance Corporation (the "FDIC"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the FDIC at 550 Seventeenth Street, N.W., Washington, DC 20429. Copies of such material can be obtained by mail from the Public Reference Branch of the FDIC at 550 Seventeenth Street, N.W., Washington, DC 20429 at prescribed rates.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

STATEMENTS OF CONDITION

(in thousands, except share data)

	March 31, 2006	December 31, 2005
	(unaudited)	
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$21,229	\$26,557
Interest-bearing demand deposits with banks	169	108
Federal funds sold	983	1,786
Cash and cash equivalents	22,381	28,451
Interest-bearing time deposits with banks	2,188	2,188
Investment securities:		
Available for sale, at fair value	110,644	107,585
Held to maturity, at cost (estimated fair value of \$65,614 and \$66,493, respectively)	67,454	67,615
Investment securities	178,098	175,200
Federal Home Loan Bank stock, at cost	2,208	1,581
Loans held for sale	121	-
Loans, net of unearned income	492,438	491,582
Less: allowance for loan losses	8,360	7,597
Net loans	484,078	483,985
Intangible assets, net	824	981
Premises and equipment, net	11,936	11,950
Other real estate, net	2,130	546
Accrued interest receivable	6,053	5,220
Other assets	4,303	3,442
Total Assets	\$714,320	\$713,544
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	\$135,702	\$129,827
Interest-bearing demand	173,974	161,958
Savings	45,079	42,633
Time	260,030	298,490
Total deposits	614,785	632,908
Short-term borrowings	27,487	8,981
Accrued interest payable	2,529	2,105
Long-term borrowings	12,095	13,151
Other liabilities	2,848	2,476
Total Liabilities	659,744	659,621
Stockholders' Equity		
Common stock:		
\$1 par value - authorized 100,000,000 shares; issued and outstanding 5,076,354 shares	5,076	5,076
\$5 par value - authorized 600,000 shares; issued and outstanding 483,290 shares	2,416	2,416
Surplus	24,527	24,527
Retained earnings	23,998	22,622
Accumulated other comprehensive loss	(1,441)	(718)
Total Stockholders' Equity	54,576	53,923
Total Liabilities and Stockholders' Equity	\$714,320	\$713,544

See Notes to Financial Statements.

STATEMENTS OF INCOME

(unaudited, in thousands, except share and per share data)

	Three Months Ended March 31,	
	2006	2005
Interest Income:		
Loans (including fees)	\$9,370	\$8,300
Deposits with other banks	23	23
Securities (including FHLB stock)	2,373	1,262
Federal funds sold	20	3
Total Interest Income	11,786	9,588
Interest Expense:		
Demand deposits	1,216	432
Savings deposits	35	27
Time deposits	2,593	1,767
Borrowings	332	459
Total Interest Expense	4,176	2,685
Net Interest Income	7,610	6,903
Provision for loan losses	830	369
Net Interest Income after Provision for Loan Losses	6,780	6,534
Noninterest Income:		
Service charges, commissions and fees	822	867
Net gains on sale of securities	-	3
Net gains on sale of loans	20	169
Other	293	740
Total Noninterest Income	1,135	1,779
Noninterest Expense:		
Salaries and employee benefits	1,921	1,794
Occupancy and equipment expense	611	546
Net cost of other real estate & repossessions	60	786
Other	1,963	1,795
Total Noninterest Expense	4,555	4,921
Income Before Income Taxes	3,359	3,392
Provision for income taxes	1,150	1,162
Net Income	\$2,209	\$2,230
Per Common Share:		
Earnings	\$0.40	\$0.40 ⁽¹⁾
Cash dividends paid	\$0.15	\$0.14 ⁽¹⁾
Weighted Average Common Shares Outstanding	5,559,644	5,559,644 ⁽¹⁾

⁽¹⁾ Amounts have been restated to reflect a stock dividend of one-third of a share of \$1 par value common stock with respect to every share of \$1 and \$5 par value common stock outstanding, accounted for as a four-for-three stock split, effective and payable to stockholders of record as of October 20, 2005.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except per share data)

	Common Stock \$1 Par	Common Stock \$5 Par	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance December 31, 2004 ⁽¹⁾	\$5,076	\$2,416	\$24,527	\$19,771	(\$84)	\$51,706
Net income	-	-	-	2,230	-	2,230
Change in unrealized loss on available for sale securities, net of reclassification adjustments and taxes	-	-	-	-	(374)	(374)
Comprehensive income	-	-	-	(751)	-	1,856
Cash dividends on common stock (\$0.14 per share)	-	-	-	-	-	(751)
Balance March 31, 2005 ⁽¹⁾	\$5,076	\$2,416	\$24,527	\$21,250	(\$458)	\$52,811
Balance December 31, 2005	\$5,076	\$2,416	\$24,527	\$22,622	(\$718)	\$53,923
Net income	-	-	-	2,209	-	2,209
Change in unrealized loss on available for sale securities, net of reclassification adjustments and taxes	-	-	-	-	(723)	(723)
Comprehensive income	-	-	-	-	-	1,486
Cash dividends on common stock (\$0.15 per share)	-	-	-	(833)	-	(833)
Balance March 31, 2006 (unaudited)	\$5,076	\$2,416	\$24,527	\$23,998	(\$1,441)	\$54,576

⁽¹⁾ Amounts have been restated to reflect a stock dividend of one-third of a share of \$1 par value common stock with respect to every share of \$1 and \$5 par value common stock outstanding, accounted for as a four-for-three stock split, effective and payable to stockholders of record as of October 20, 2005.

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three Months Ended March 31,	
	2006	2005
Cash Flows From Operating Activities		
Net income	\$ 2,209	\$ 2,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	830	369
Depreciation and amortization	406	344
Gain on sale of securities	-	(3)
Gain on sale of assets	(16)	(163)
ORE writedowns and loss on disposition	19	638
FHLB stock dividends	(20)	(31)
Net (increase) decrease in loans held for sale	(121)	1,384
Change in other assets and liabilities, net	(532)	2,496
Net Cash Provided By Operating Activities	<u>2,775</u>	<u>7,264</u>
Cash Flows From Investing Activities		
Proceeds from maturities, calls and sales of HTM securities	157	477
Proceeds from maturities, calls and sales of AFS securities	80	106,553
Funds invested in AFS securities	(4,250)	(89,124)
Purchases of Federal Home Loan Bank stock	(607)	-
Net increase in loans	(2,911)	(22,651)
Purchase of premises and equipment	(194)	(631)
Proceeds from sales of other real estate owned	386	2,062
Net Cash Used In Investing Activities	<u>(7,339)</u>	<u>(3,314)</u>
Cash Flows From Financing Activities		
Net (decrease) increase in deposits	(18,123)	11,832
Net increase (decrease) in federal funds purchased and short-term borrowings	18,506	(6,644)
Repayment of long-term borrowings	(1,056)	(4,375)
Dividends paid	(833)	(751)
Net Cash (Used In) Provided By Financing Activities	<u>(1,506)</u>	<u>62</u>
Net (Decrease) Increase In Cash and Cash Equivalents	(6,070)	4,012
Cash and Cash Equivalents at the Beginning of the Period	28,451	19,364
Cash and Cash Equivalents at the End of the Period	<u>\$ 22,381</u>	<u>\$ 23,376</u>
Noncash Activities:		
Loans transferred to foreclosed assets	<u>\$ 1,988</u>	<u>\$ 325</u>
Cash Paid During The Period:		
Interest	<u>\$ 3,752</u>	<u>\$ 2,483</u>
Income taxes	<u>\$ 1,800</u>	<u>\$ -</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. These financial statements and the footnotes thereto should be read in conjunction with the annual financial statements for the year ended December 31, 2005.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary for a fair presentation of the financial statements. Those adjustments are of a normal recurring nature. The results of operations for the three-month period ended March 31, 2006 are not necessarily indicative of the results expected for the full year.

2. Loans and Allowance for Loan Losses

Loans at March 31, 2006 (unaudited) and December 31, 2005 were as follows:

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
	(in thousands)	
Real Estate	394,490	\$405,538
Agricultural	11,747	11,490
Commerical and Industrial	68,002	54,740
Consumer and other	18,537	20,078
Total Loans Before Unearned Income	<u>492,776</u>	<u>491,846</u>
Less: unearned income	(338)	(264)
Total Loans after Unearned Income	<u><u>\$492,438</u></u>	<u><u>\$491,582</u></u>

Changes in the allowance for loan losses for the three months ended March 31, 2006 (unaudited) and the year ended December 31, 2005 are as follows:

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
	(in thousands)	
Balance beginning of period	\$7,597	\$5,910
Provision charged to expense	830	5,621
Loans charged off	(346)	(4,162)
Recoveries	279	228
Allowance for Loan Losses	<u><u>\$8,360</u></u>	<u><u>\$7,597</u></u>

In the first three months of 2006, the Bank added \$830,000 to its allowance for loan losses. The increase in the provision was made primarily for home mortgage loans that appear to involve irregularities. See Note 3 for additional information.

3. Mortgage Loans

In 2005, the Bank discovered mortgage loans and commitments which originated in one branch involved irregularities that suggest that many of these mortgage loans had been made against overvalued collateral on the basis of misleading loan applications. As of December 31, 2005 the aggregate principal balance on these loans was approximately \$24.7 million and unfunded commitments outstanding totaled \$1.8 million. At December 31, 2005, the Bank allocated \$763,000 of the \$7.6 million allowance for loan losses in order to provide for potential losses relating to 156 home mortgage loans and commitments. As of March 31, 2006 the aggregate principal balance on these loans was approximately \$17.7 million and unfunded commitments outstanding totaled \$0.6 million. At March 31, 2006, the Bank allocated \$1.6 million of the \$8.4 million allowance for loan losses in order to provide for potential losses relating to 106 home mortgage loans and commitments.

During 2005, the Bank made demand on six of these loans and foreclosed on the related properties and added \$0.5 million in other real estate owned. As of December 31, 2005, five of the six properties remain in other real estate with a value of \$241,000. The Bank realized a gain of \$7,500 on the sale of one of the properties. As of March 31, 2006, the Bank had 34 properties in other real estate with a value of \$2.0 million.

4. Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of SFAS No. 133 and 140*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interest that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Bank anticipates that the adoption of SFAS No. 155 will not have a material impact on the Bank's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of SFAS No. 140*. SFAS No. 156 requires an entity to recognize a servicing assets or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in selected situations; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits an entity to choose either the amortization or fair value measurement method for each class of separately recognized servicing assets and servicing liabilities; at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of an entity's first year that begins after September 15, 2006. The Bank anticipates that the adoption of SFAS No. 156 will not have a material impact on the Bank's financial position or results of operations.

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

The following management discussion and analysis is intended to highlight the significant factors affecting the Bank's financial condition and results of operations presented in the financial statements included in this Form 10-Q. This discussion is designed to provide readers with a more comprehensive view of the operating results and financial position than would be obtained from reading the financial statements alone. Reference should be made to those statements for an understanding of the following review and analysis. The financial data for the three months ended March 31, 2006 and 2005 have been derived from unaudited financial statements and include, in the opinion of management, all adjustments (consisting of normal recurring accruals and provisions) necessary to present fairly the Bank's financial position and results of operations for such periods.

First Quarter of 2006 Overview

First Guaranty Bank is a commercial bank headquartered in Hammond, Louisiana. We conduct our operations primarily through our main office in Hammond, 16 branch offices located in southeast, southwest and north Louisiana. The Bank offers a range of lending services, including commercial business, real estate and consumer loans to businesses, individuals and other organizations located throughout our markets. We complement our lending operations with an array of retail deposit products and fee-based services to support our clients. While offering our customers the breadth of products typically found at larger institutions, we employ a community banking strategy that emphasizes local decision-making authority and superior customer service. We believe our focus on customer relationships allows us to compete effectively within our markets and provides us a competitive advantage as we expand both within our existing markets and into new markets.

Financial highlights for the first quarter of 2006 are as follows:

- Net income for the first quarter of 2006 and 2005 was unchanged at \$2.2 million. Earnings per common share for the first quarter of 2006 and 2005 was \$0.40.
- Net interest income for the first quarter of 2006 and 2005 was \$6.8 million and \$6.5 million, respectively. Although the net yield on interest-earning assets declined to 4.6% for the three month period ended March 31, 2006 compared to 4.9% for the same period ended March 31, 2005, the lower yield was offset by faster growth in the volume of interest-earning assets as compared to the growth in the volume of interest-bearing liabilities.
- The provision for loan losses for the first quarter of 2006 was \$830,000 compared to \$369,000 for the first quarter of 2005. The increase in the provision is primarily attributable to additional reserves for home mortgage loans that appear to involve some irregularities. See Footnote 3 for additional information.
- Noninterest income for the first quarter of 2006 was \$1.1 million, down \$644,000, from \$1.8 million in the first quarter of 2005.
- For the first three months of 2006, noninterest expense totaled \$4.6 million, down \$0.4 million from the same three month period ended in 2005. Included is a decrease of \$727,000 in the net cost of other real estate and repossessions. Increases in salaries and benefits totaling \$127,000, increases in occupancy and equipment expense totaling \$65,000, and increases in other noninterest expenses totaling \$169,000 partially offset the large decrease in the net cost of other real estate and repossessions.
- Total assets at March 31, 2006 were \$714.3 million, up \$776,000 from \$713.5 million at December 31, 2005.
- Loans, net of unearned income at March 31, 2006 were \$492.4 million, up 0.2% or \$0.9 million from \$491.6 million at December 31, 2005.
- Other real estate increased to \$2.1 million at March 31, 2006, up \$1.6 million from December 31, 2005.
- Total deposits were \$614.8 million at March 31, 2006, down 2.9% or \$18.1 million from December 31, 2005.
- Return on average assets for the three month periods ended March 31, 2006 and 2005 were 1.25% and 1.49%, respectively and return on average equity for the same periods were 16.26% and 17.03%.
- The Bank is still considered “well capitalized” with a leverage ratio of 7.71% at March 31, 2006 compared to 7.67% at December 31, 2005.

Material Changes in Financial Condition

Securities

The securities portfolio totaled \$178.1 million at March 31, 2006 and consisted principally of U.S. Government Agencies, mortgage-backed obligations, collateralized mortgage obligations, corporate debt securities, mutual funds or other equity securities and other debt securities. The portfolio provides the Bank with a relatively stable source of income and provides a balance to interest rate and credit risks as compared to other categories of the balance sheet.

At March 31, 2006 only 11.7% of the Bank’s securities (excluding FHLB stock) mature in less than one year, securities with maturity dates over 15 years totaled 5.1% of the portfolio and the average maturity of the securities portfolio was 7.7 years.

As of March 31, 2006, securities totaling \$110.6 million were classified as available for sale and \$67.5 million were classified as held to maturity. Management periodically assesses the quality of the Bank’s investment holdings using procedures similar to those used in assessing the credit risks inherent in the loan portfolio. At March 31, 2006, it is management’s opinion that the Bank held no investment securities which bear greater than the normal amount of credit risk as compared to similar investments and that no securities were recorded at greater than their recoverable value.

Average securities as a percentage of average interest-earning assets were 26.2% as of March 31, 2006 and 17.5% for the same period of 2005. All securities held by the Bank at March 31, 2006 qualified as pledgeable securities, except \$8.0 million of debt securities and \$1.4 million of equity securities. Securities pledged at March 31, 2006 totaled \$139.0 million.

Loans

Loans are the Bank’s primary use of the Bank’s financial resources and represent the largest component of earning assets. The net increase in loan volume was attributable to loan demand in the Tangipahoa and Vermillion parishes partially offset by a decline in Livingston parish. There are no significant concentrations of credit to any borrower or industry. A significant portion of the portfolio is secured primarily or secondarily by real estate and the portfolio remains highly diversified.

The Bank’s net loan portfolio at March 31, 2006 totaled \$484.1 million, an increase of approximately \$0.1 million from the December 31, 2005 level of \$484.0 million. Net loans represented 78.7% of deposits at March 31, 2006

compared to 76.5% of deposits at December 31, 2005. Loan charge-offs totaling \$346,000 were taken during the first three months of 2006 compared to \$672,000 during the same period of 2005. The Bank had recoveries of \$279,000 and \$47,000 during the first three month period of 2006 and 2005, respectively on these loans charged off in the current and previous quarters.

Deposits

Managing the mix and repricing the maturities of deposit liabilities is an important factor affecting the Bank's ability to maximize its net interest margin. The strategies used to manage interest-bearing deposit liabilities are designed to adjust as the interest rate environment changes. In this regard, management of the Bank regularly assesses its funding needs, deposit pricing and interest rate outlooks. In recent years, management's strategy has been to obtain public funds while also closely focusing on increasing core depositors.

From December 31, 2005 to March 31, 2006, the Bank's interest-bearing deposits decreased by \$24.0 million and noninterest-bearing deposits increased \$5.9 million. Time deposits decreased \$38.5 million from December 31, 2005 to March 31, 2006 as a result of a decrease in public fund deposits. This decrease occurred as public funds certificates of deposits matured and other funding sources became available for a lower cost.

Average noninterest-bearing deposits increased to \$128.2 million as of March 31, 2006 from \$88.3 million as of March 31, 2005. Average noninterest-bearing deposits represented 20.6% and 18.1% of average total deposits as of March 31, 2006 and 2005, respectively.

As the Bank endeavors to maintain a strong net interest margin and improve earnings, attracting core noninterest-bearing deposits will remain a primary emphasis. Management will continue to evaluate and update the Bank's product mix in its efforts to attract additional core customers. The Bank currently offers a number of noninterest-bearing deposit products that are competitively priced and designed to attract and retain customers with primary emphasis on core deposits.

Borrowings

The Bank maintains borrowing relationships with other financial institutions as well as the Federal Home Loan Bank ("FHLB") on a short- and long-term basis to meet its liquidity needs. The average amount of borrowings as of March 31, 2006 was \$31.7 million compared to \$63.6 million as of March 31, 2005. The Bank also had \$60.0 million in FHLB letters of credit outstanding obtained solely for collateralizing public deposits.

Credit Risk Management

Credit risk is inherent in each financial institution's loan and investment portfolio. In an effort to minimize credit risk, the Bank utilizes an extensive credit administration network, including specific lending authorities for each loan officer, a system of loan committees to review and approve loans, and an internal loan review and credit quality rating system. This network assists in the evaluation of the quality of new loans and in the early identification of problem or potential problem credits and provides information to aid management in determining the adequacy of the allowance for loan losses.

Provision and Allowance for Loan Losses

The Bank maintains its allowance for loan losses at a level that is considered sufficient to absorb potential losses in the loan portfolio. The allowance increases by the provision for loan losses as well as recoveries of previously charged-off loans and decreases by loan charge-offs. The provision is the necessary charge to expense to provide for current loan losses and to maintain the allowance at an adequate level commensurate with management's evaluation of the risks inherent in the loan portfolio. Various factors are taken into consideration when the Bank determines the amount of the provision and the adequacy of the allowance. Some of these factors include:

- Past due and nonperforming assets;
- Specific internal analysis of loans requiring special attention;
- The current level of regulatory classified and criticized assets and the associated risk factors with each;

- Examinations and review by the Bank's independent accountants and third-party independent loan review personnel; and
- Examinations of the loan portfolio by federal and state regulatory agencies.

The data collected from all sources in determining the adequacy of the allowance is evaluated with regard to current national and local economic trends, prior loss history, underlying collateral values, credit concentrations and industry risks. An estimate of potential loss on specific loans is developed in conjunction with an overall risk evaluation of the total loan portfolio.

Provision made pursuant to these processes totaled \$830,000 as of March 31, 2006 as compared to \$369,000 through March 31, 2005. Provisions are necessary to maintain the allowance at an adequate level based on loan risk factors and the levels of net loan charge-offs. The provisions made in the first quarter of 2006 were taken to cover storm-related credits, mortgage loan irregularities and to strengthen the loan loss reserve. Net charge-offs were \$67,000 for first three months of 2006 as compared to net charge-offs of \$625,000 for the same period 2005. In the first quarter of 2006, the Bank charged off \$167,000 of prior year interest on loans in a nonaccrual status and received an insurance check for \$208,000 associated with one storm-related credit which was previously charged off in 2005. In the first quarter of 2005, the Bank charged off \$484,000 on two commercial loan credits.

The allowance at March 31, 2006 was \$8.4 million or 1.70% of total loans. Management believes that the current level of the allowance is adequate to cover losses in the loan portfolio given the current economic conditions, expected net charge-offs and nonperforming asset levels.

Other information relating to loans, the allowance for loan losses and other pertinent statistics is included on Table 1, which follows.

TABLE 1 – SUMMARY OF LOAN LOSS EXPERIENCE

(unaudited, in thousands)

	March 31,	
	2006	2005
Loans:		
Average outstanding balance	\$494,831	\$469,607
Balance at end of period	<u>\$492,438</u>	<u>\$477,805</u>
Allowance for Loan Losses:		
Balance at beginning of year	\$7,597	\$5,910
Provision charged to expense	830	369
Loans charged off	(346)	(672)
Recoveries	<u>279</u>	<u>47</u>
Balance at end of period	<u>\$8,360</u>	<u>\$5,654</u>

Nonperforming Assets

Nonperforming assets consist of loans on which interest is no longer accrued, certain restructured loans where the interest rate or other terms have been renegotiated and real estate acquired through foreclosure (Other Real Estate).

The accrual of interest is discontinued on loans when management believes there is reasonable uncertainty about the full collection of principal and interest or when the loan is contractually past due ninety days or more and not fully secured. If the principal amount of the loan is adequately secured, then interest income on such loans is subsequently recognized only in periods in which actual payments are received.

Nonperforming assets totaled \$24.4 million or 3.4% of total assets at March 31, 2006, compared to \$21.8 million or 3.0% of total assets at December 31, 2005. Nonperforming loans increased primarily due to the discovery of irregular activity in connection with 106 home mortgage loans, of which \$18.1 million of the principal amount has been placed in nonaccrual status as of March 31, 2006. The Bank monitors the level of nonperforming assets and assesses exposures on a continuing basis.

Table 2 below summarizes the level of nonperforming assets for the first three months of 2006 (unaudited) and the year ended December 31, 2005.

TABLE 2 – NONPERFORMING ASSETS

(in thousands)

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Nonaccrual loans	\$22,310	\$21,090
Restructured loans	-	121
Other real estate	2,130	546
Total nonperforming assets	<u>\$24,440</u>	<u>\$21,757</u>

Material Changes in Results of Operations**Net interest income**

Net interest income is the largest component of the Bank's earnings. It is calculated by subtracting the cost of interest-bearing liabilities from the income earned on interest-earning assets and represents the earnings from the Bank's primary business of gathering deposits and making loans and investments. The Bank's long-term objective is to manage this income to provide the largest possible amount of income while balancing interest rate, credit and liquidity risks.

A financial institution's asset and liability structure is substantially different from that of an industrial company, in that virtually all assets and liabilities are monetary in nature. Accordingly, changes in interest rates, which are generally impacted by inflation rates, may have a significant impact on a financial institution's performance. The impact of interest rate changes depends on the sensitivity to change of the Bank's interest-earning assets and interest-bearing liabilities. The effects of the changing interest rate environment in recent years and the Bank's interest sensitivity position are discussed below.

Net interest income for the first quarter of 2006 totaled \$7.6 million compared to the same quarter ended 2005 of \$6.9 million, reflecting an increase of \$0.7 million.

The net interest income yield shown in Table 3 is calculated by dividing net interest income by the Bank's average interest-earning assets and is a measure of the efficiency of the earnings from balance sheet activities. It is affected by changes in the difference between interest on interest-earning assets and interest-bearing liabilities and the percentage of interest-earning assets funded by interest-bearing liabilities (leverage). The leverage for the period ending March 31, 2006 was 78% compared to 81% for the same period in 2005.

Table 3 shows the average balance sheet, interest earned and paid, the yield/rate on interest-earning assets and interest-bearing liabilities and the net yield on interest-earning assets for the three months ended March 31, 2006 and 2005, respectively.

TABLE 3 – COMPARATIVE AVERAGE BALANCES – YIELDS AND RATES

(unaudited, in thousands, except yields/rates)

	Three Months Ended March 31,					
	2006			2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 2,323	\$ 23	4.0%	\$ 2,428	\$ 23	3.8%
Securities	177,479	2,372	5.4%	100,335	1,262	5.1%
Federal funds sold	1,873	20	4.2%	493	3	2.5%
Loans, net of unearned income	494,831	9,370	7.7%	469,607	8,300	7.2%
Total interest-earning assets	<u>676,506</u>	<u>11,785</u>	<u>7.1%</u>	<u>572,863</u>	<u>9,588</u>	<u>6.8%</u>
Noninterest-earning assets:						
Cash and due from banks	23,337			18,582		
Premises and equipment, net	12,107			10,514		
Other assets	2,175			4,879		
Total	<u>\$714,125</u>			<u>\$606,838</u>		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Demand deposits	\$176,645	1,216	2.8%	\$ 117,824	432	1.5%
Savings deposits	43,645	35	0.3%	33,603	27	0.3%
Time deposits	274,175	2,593	3.8%	247,528	1,767	2.9%
Borrowings	31,722	332	4.2%	63,593	459	2.9%
Total interest-bearing liabilities	<u>526,187</u>	<u>4,176</u>	<u>3.2%</u>	<u>462,548</u>	<u>2,685</u>	<u>2.4%</u>
Noninterest-bearing liabilities:						
Demand deposits	128,244			88,349		
Other	4,598			2,835		
Total liabilities	<u>659,029</u>			<u>553,732</u>		
Stockholders' equity	<u>55,096</u>			<u>53,106</u>		
Total	<u>\$714,125</u>			<u>\$606,838</u>		
Net interest income		<u>\$ 7,609</u>			<u>\$ 6,903</u>	
Net yield on interest-earning assets			<u>4.6%</u>			<u>4.9%</u>

Noninterest Income

Noninterest income is another major component of the Bank's total income. The Bank continues to develop and enhance existing products and to create new products in order to augment fee income as trends in the financial services industry and the economic environment continue to put pressure on the Bank's ability to increase its net interest income. Noninterest income includes deposit service charges, return check charges, bankcard fees and other commissions and fees, securities and sales of loans gains and losses and various other types of income.

Noninterest income for the first three months of 2006 and 2005 totaled \$1.1 million and \$1.8 million, respectively. Service charges, commissions and fees decreased by \$45,000. Net gains on sales of loans decreased to \$20,000 for the three month period ended 2006 from \$169,000 for the same period 2005. Other noninterest income decreased \$447,000 to \$293,000 primarily from the sale of Pulse stock (ATM software vendor) in 2005 resulting from the merger with Discover.

Noninterest Expense

Noninterest expense totaled \$4.6 million for the first three month period 2006 compared to \$4.9 million for the same three month period ended 2005, a decrease of \$366,000.

Salaries and benefits increased \$127,000 and occupancy and equipment expense increased \$65,000, both primarily the results of the opening of a new full service banking center located in Ponchatoula, Louisiana and an increase in support staff. Net costs of other real estate and repossessions decreased \$726,000 when comparing the three month periods ending 2006 and 2005. Other noninterest expense reflects an increase of \$168,000 when comparing the three month periods ending 2006 and 2005.

At March 31, 2006, 211 employees represented full time equivalents of 192 staff members, compared to the full-time equivalents of 180 staff members during the same period of 2005.

Income Taxes

In both three month periods ended 2006 and 2005, the income tax provision approximated the normal statutory rate and the effective rates were 34.2% and 34.3%, respectively.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk Management

The interest spread and liability funding previously discussed are directly related to changes in asset and liability mixes, volumes, maturities and repricing opportunities for interest-earning assets and interest-bearing liabilities. Interest sensitive assets and liabilities are those which are subject to being repriced in the near term, including both floating or adjustable rate instruments and instruments approaching maturity. The interest sensitivity gap is the difference between total interest-sensitive assets and total interest-sensitive liabilities. Interest rates on the Bank's various asset and liability categories do not respond uniformly to changing market conditions. Interest rate risk is the degree to which interest rate fluctuations in the marketplace can affect net interest income.

To maximize its margin, the Bank attempts to be somewhat more asset sensitive during periods of rising rates and more liability sensitive during periods of falling rates. The need for interest sensitivity gap management is most critical in times of rapid changes in overall interest rates. The Bank generally seeks to limit its exposure to interest rate fluctuations by maintaining a relatively balanced mix of rate sensitive assets and liabilities on a one-year time horizon. The mix is relatively difficult to manage. Because of the significant impact on net interest margin from mismatches in repricing opportunities, the asset-liability mix is monitored periodically depending upon management's assessment of current business conditions and the interest rate outlook. Exposure to interest rate fluctuations is maintained within prudent levels by the use of varying investment strategies.

One tool that is used to monitor interest rate risk is the interest sensitivity analysis as shown in Table 4. This analysis, which is prepared monthly, reflects the maturity and repricing characteristics of assets and liabilities over various time periods. The gap indicates whether more assets or liabilities are subject to repricing over a given time period. The Bank's interest sensitivity analysis at March 31, 2006 reflects an asset-sensitive position with a positive cumulative gap on a one-year basis.

TABLE 4 – INTEREST SENSITIVITY AT MARCH 31, 2006

(unaudited, in thousands, except for percentages)

	Interest Sensitivity Within				
	3 Months Or Less	Over 3 Months thru 12 Months	Total One Year	Over One Year	Total
Earning Assets:					
Loans (including loans held for sale)	\$244,443	\$60,938	\$305,381	\$178,819	\$484,200
Securities (including FHLB stock)	2,738	20,269	23,007	157,299	180,306
Federal Funds Sold	983	-	983	-	983
Other earning assets	169	-	169	2,188	2,357
Total Earning Assets	248,333	81,207	329,540	338,306	\$667,846
Source of Funds:					
Interest Bearing Accounts:					
Demand deposits	118,619	-	118,619	55,355	173,974
Savings	11,270	-	11,270	33,809	45,079
Time deposits	82,087	76,005	158,092	101,938	260,030
Short-term borrowings	27,487	-	27,487	-	27,487
Long-term borrowings	10,000	1,764	11,764	331	12,095
Noninterest-bearing, net	-	-	-	149,181	149,181
Total Source of Funds	249,463	77,769	327,232	340,614	\$667,846
Period Gap	(1,130)	3,438	2,308	(2,308)	
Cumulative Gap	(\$1,130)	\$2,308	\$ 2,308	-	
Cumulative Gap as a Percent of Earning Assets	-0.17%	0.35%	0.35%		

Item 4. Controls and Procedures

The Bank maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports it files under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Such controls include those designed to ensure the material information is communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure.

The Bank's management, with the participation of the CEO and CFO, have evaluated the effectiveness of the Bank's disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, the CEO and CFO have concluded that the disclosure controls and procedures as of the end of the period covered by this quarterly report are effective. There were no changes in the Bank's internal control over financial reporting during the last fiscal quarter in the period covered by this quarterly report that have materially affected, or are reasonably like to materially affect, the Bank's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Bank is subject to various other legal proceedings in the normal course of business and otherwise. It is management's belief that the ultimate resolution of such other claims will not have a material adverse effect on the Bank's financial position or results of operations.

Item 2. Changes in Securities and Use of Proceeds

Item 2 is nonapplicable and is therefore not included.

Item 3. Defaults Upon Senior Securities

Item 3 is nonapplicable and is therefore not included.

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

Item 4 is non-applicable and is therefore not included.

Item 5. Other Information

Item 5 is non-applicable and is therefore not included.

Item 6. Exhibits and Reports on Form 8-K

(a) 1. Financial Statements

The information required by this item is included as Part I herein.

2. Financial Statement Schedules

The information required by this item is not applicable and therefore is not included.

3. Exhibits

**Exhibit
Number**

Exhibit

11	Statement regarding computation of earnings per common share <i>The information required by this item is incorporated by reference to the Bank's Form 10-K for the period ended December 31, 2005.</i>
12	Statement regarding computation of ratios <i>The information required by this item is incorporated by reference to the Bank's Form 10-K for the period ended December 31, 2005.</i>
A.	Certification Pursuant To 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002
B.	Certifications In Support of Principal Executive Officers/CFO Certification

(b) No Form 8-K was filed during the three-month period covered by this report.

(c) See (a) (3) above for all exhibits filed herewith or incorporated by reference.

(d) There are no other financial statements and financial statement schedules, which were excluded from Part I which are required to be included herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Bank has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST GUARANTY BANK

Date: May 12, 2006

By: /s/ Michael R. Sharp
Michael R. Sharp
President and
Chief Executive Officer

Date: May 12, 2006

By: /s/ Michele E. LoBianco
Michele E. LoBianco
Senior Vice President and
Chief Financial Officer

EXHIBIT A

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Guaranty Bank (the "Bank") on Form 10-Q as of and for the three months ended March 31, 2006 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Michael R. Sharp, President and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

/s/ Michael R. Sharp
Michael R. Sharp
President and Chief Executive Officer
May 12, 2006

EXHIBIT A

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Guaranty Bank (the "Bank") on Form 10-Q as of and for the three months ended March 31, 2006 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Michele E. LoBianco, Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. SS 1350, as adopted pursuant to SS 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

/s/ Michele E. LoBianco
Michele E. LoBianco
Senior Vice President and
Chief Financial Officer
May 12, 2006

EXHIBIT B

**CERTIFICATION OF DISCLOSURE
FOR THE CHIEF EXECUTIVE OFFICER**

I, Michael R. Sharp, President and Chief Executive Officer of First Guaranty Bank hereby certify that:

1. I have reviewed this quarterly report being filed on Form 10-Q of First Guaranty Bank;
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 the report;
3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Bank as of, and for, the periods presented in the report;
4. The Bank'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 Bank 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 Bank, 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 Bank'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 Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The Bank's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank'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 Bank's internal control over financial reporting.

/s/ Michael R. Sharp
Michael R. Sharp
President and Chief Executive Officer
May 12, 2006

EXHIBIT B

**CERTIFICATION OF DISCLOSURE
FOR THE CHIEF FINANCIAL OFFICER**

I, Michele E. LoBianco, Senior Vice President and Chief Financial Officer of First Guaranty Bank hereby certify that:

1. I have reviewed this quarterly report being filed on Form 10-Q of First Guaranty Bank;
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 the report;
3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Bank as of, and for, the periods presented in the report;
4. The Bank'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 Bank 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 Bank, 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 Bank'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 Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The Bank's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank'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 Bank's internal control over financial reporting.

/s/ Michele E. LoBianco
Michele E. LoBianco
Senior Vice President and
Chief Financial Officer
May 12, 2006