



**INDEPENDENCE**  
BANGSHARES, INC.

November 10, 2009

Dear Shareholder:

As we close the third quarter of 2009, we want to keep you abreast of the impact that both the recession and the difficult economic environment are having on Independence Bancshares, Inc.

During 2009, the Board of Directors and management of the Bank decided to adopt measures to promote the long term stability of the Bank. These measures included a restructuring of the balance sheet to focus on credit quality, to better manage our funding sources and to increase liquidity. These measures also included the opening of a new branch in order to grow our retail customer deposit base. Although these measures have negatively impacted our profitability in the short term, we believe these items are essential for long term growth. While not pleased with the operating results for the nine months ended September 30, 2009, we are confident that the measures and disciplines we have implemented will achieve the desired results.

At September 30, 2009, total assets were \$137.7 million, increasing \$0.8 million, or 0.6%, from December 31, 2008, and \$1.3 million, or 0.9%, from September 30, 2008. Total gross loans outstanding were \$107.7 million, decreasing \$15.7 million, or 13%, from December 31, 2008, and \$16.3 million, or 13%, from September 30, 2008. Total deposits as of September 30, 2009 were \$103.9 million, increasing \$5.0 million, or 5%, from December 31, 2008, and \$2.6 million, or 3%, from September 30, 2008. We are pleased to report that growth in retail or customer deposits was \$14.3 million, or 29%, for the nine months ended September 30, 2009. At September 30, 2009, brokered deposits, included in total deposits, were \$40.2 million compared to \$49.5 million at December 31, 2008, decreasing \$9.3 million. This reduction was a result of both decreases in loan balances and customer deposit growth during the first nine months of 2009. As you can see from the above information, we continue to see results from the strategy we implemented in the third quarter of 2008 to reduce our dependency on brokered deposits and increase deposits within our local market. This will continue to be a primary focus for us through the remainder of 2009.

Operations resulted in a net loss of \$374,159 for the quarter ended September 30, 2009 and \$1,404,081 for the nine months ended September 30, 2009. Our net loss can be attributed to three primary factors. First, our provision for loan losses was \$137,000 for the three months ended September 30, 2009 and \$787,000 for the nine months ended September 30, 2009, compared to \$57,000 and \$328,000 for the three and nine months ended September 30, 2008, respectively. This significant increase in provision expense is due to specific reserves related to an increase in impaired loans primarily due to the deterioration of the national and local economy. We continue to focus our



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efforts on aggressively managing credit risk to ensure the quality of the loan portfolio and believe that as the economy improves, the deterioration in these impaired credits will also improve. Secondly, our non-interest expenses increased in the current year due to increased FDIC insurance premium assessments as well as the opening of our third full-service branch on Highway 14 in Simpsonville in February 2009. As mentioned in previous correspondence, though opening and operating a new office negatively impacts earnings initially, we believe branching is an important part of our corporate strategy if we are to better serve our shareholders and customers, and position ourselves to reach new customers in the community. Lastly, our current year results were also impacted by a decrease in net interest margin from 2.69% to 2.24% for the three months ended September 30, 2008 and 2009, respectively, and from 2.81% to 1.94% for the nine months ended September 30, 2008 and 2009, respectively. This decrease is primarily due to a decrease in yield on earning assets as a result of the significant rate decreases initiated by the Federal Reserve Board during 2008. This decrease was slightly offset by a decrease in cost of funds due to the timing of rate adjustments on liabilities. We have seen slow, steady progress in our margin throughout the year. This continues to be a focus point for the Bank as an increase in margin is essential for our return to profitability.

We are pleased to report that the capital levels of the Bank remain strong, with total capital as a percentage of risk weighted assets of 12.62%, well above the FDIC's well capitalized requirement of 10%. We believe our liquidity sources are adequate to meet our operating needs. Our liquidity ratio, measured as cash, cash equivalents, and investment securities available for sale to total assets, was at 16.29% as of September 30, 2009, an increase from 6.28% as of December 31, 2008. This increase is a result of net loan payoffs and an increase in retail deposits during the first nine months of the year, offset by a decrease in brokered time deposits and FHLB advances. We will continue to reduce brokered time deposits as cash balances, retail deposit growth and operating needs allow.

In closing, we want you to know how grateful we are for your support as we aggressively attack the key areas that have impacted our Bank. We are committed to you, the shareholder, to stay focused on returning to profitability, strict management of our assets, preservation of capital, liquidity improvement, and continued growth in our customer deposit base.

Best Regards,

Lawrence R. Miller  
President & CEO

Charles D. Walters  
Chairman of the Board



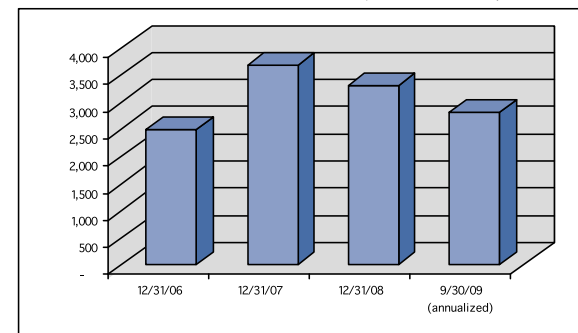
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## Financial Highlights (unaudited)

Balance Sheet Data	As of		
	09/30/2009	12/31/2008	09/30/2008
Total assets	\$137,701,573	\$136,889,971	\$136,429,492
Loans, gross	107,699,023	123,447,754	124,024,027
Allowance for loan losses	2,146,535	1,611,977	1,611,491
Deposits	103,886,193	98,857,718	101,335,079
Shareholders' equity	17,433,231	18,708,732	18,816,685

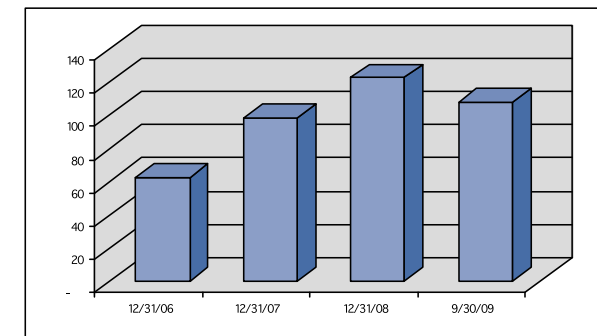
Income Statement Data	For the Nine Months Ended	For the Quarter Ended	For the Quarter Ended
	09/30/2009	9/30/2009	6/30/2009
Net interest income	\$1,838,932	\$703,868	\$580,643
Provision for loan losses	787,000	137,000	560,000
Non-interest income	176,730	68,155	99,851
Non-interest expenses	3,125,293	1,009,182	1,122,471
Net loss, net of tax	(1,404,081)	(374,159)	(661,277)
Net loss, per diluted share	(0.67)	(0.18)	(0.32)

Annual Net Interest Income (\$ in thousands)

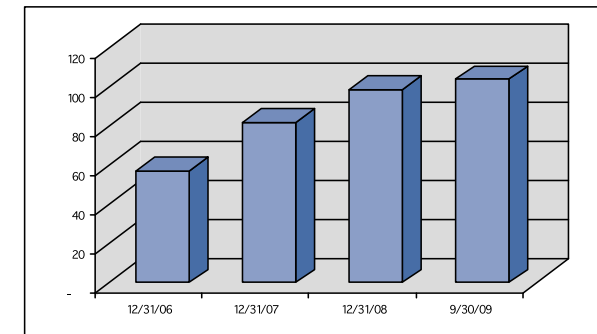


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Gross Loans Outstanding (\$ in millions)



Deposits Outstanding (\$ in millions)



Total Assets (\$ in millions)

