



INDEPENDENCE
BANGSHARES, INC.

August 9, 2011

Dear Shareholder:

The following is a summary of our results of operations as of and for the three and six months ended June 30, 2011.

Operations resulted in net income of \$32,692 for the three months ended June 30, 2011 compared to a net loss of \$1,248,751 for the three months ended June 30, 2010. Combined with our first quarter results, we have recognized a net loss of \$1,448,610 for the six months ended June 30, 2011, compared to a net loss of \$1,878,492 for the six months ended June 30, 2010. Our year to date loss in 2011 can be attributed primarily to two factors. First, non-performing loan levels have remained elevated, resulting in the need for continued high levels of provision for loan losses. Second, we continue to experience significant expenses related to real estate owned and the related write-downs taken on these properties due to declining market values.

As noted above, we did recognize net income for the quarter ended June 30, 2011, primarily due to a recovery of provision for loan losses as well as a fair value recovery and a gain on real estate owned. However, these are non-recurring recoveries. We are encouraged by these recoveries, as well as by other positive glimpses of possible economic recovery, such as an increase in inquiries and contracts on our real estate owned and some successful collections on non-performing loans. Nevertheless, we remain fervently focused on expense control, capital levels and margin improvement.

As disclosed previously, we did fall below and remain below the individual minimum capital ratio requirements established for us by our regulators. Total capital as a percentage of risk weighted assets was 10.7% as of June 30, 2011, below the 12% requirement but still above the FDIC's well-capitalized requirement of 10% applicable to banks not subject to formal capital directives. This shortfall could result in additional administrative actions by our regulators as the Bank's capital ratios continue to decline. The Bank is currently working with several advisors and consultants regarding strategies to increase capital.

At June 30, 2011, total assets were \$116.7 million, decreasing \$5.1 million, or 4%, from December 31, 2010. The decrease in total assets is primarily a result of a decrease in loans. Total gross loans outstanding at June 30, 2011 were \$84.4 million, decreasing \$10.1 million, or 11%, from December 31, 2010. Our decrease in the loan portfolio primarily resulted from loan payoffs and the transfer of problem loans into other real estate owned at the time of collateral repossession. This activity, coupled with continued low market demand, careful consideration of liquidity needs and credit risk management resulted in the continued contraction of our loan portfolio.



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Total deposits as of June 30, 2011 were \$100.1 million. We are pleased to report that growth in retail or customer deposits was \$3.2 million, or 4%, for the first six months of 2011, which was utilized to reduce brokered deposit levels. At June 30, 2011, brokered deposits, which are included in total deposits, were \$18.8 million, compared to \$26.0 million at December 31, 2010, a decrease of approximately \$7.2 million, or 28%.

We believe our liquidity sources continue to be 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 20.44% as of June 30, 2011, an increase from 17.52% as of December 31, 2010. This increase is a result of net loan payoffs and an increase in retail deposits during the first three months of the year, offset by a decrease in brokered time deposits. We will continue to reduce brokered time deposits and FHLB advances as cash balances, retail deposit growth and operating needs allow.

As previously reported, on January 20, 2010, the Bank entered into a Formal Agreement with its primary regulator, the OCC, which is intended to enhance the Bank's existing practices and procedures. The Board of Directors and management of the Bank have continued to work aggressively to address the findings of the exam that led to the Formal Agreement; however, the determination of our compliance will ultimately be made by the OCC. For more detailed information related to the requirements of the Formal Agreement and the Bank's status on complying with the Formal Agreement, please see our Quarterly Report on Form 10-Q as of June 30, 2011.

In closing, we appreciate your continued support as we aggressively attack the key areas that have impacted our Bank. We remain encouraged with the results of our attention to expense control, our liquidity levels and our margin improvement. Our focus continues to be managing non-performing loans and real estate owned as well as capital preservation. Our goal of returning to operational profitability and maintaining and eventually improving our capital levels will take time, patience and a concerted effort from all our staff, management and directors. We continue to work together towards the common goal of realizing eventual recovery and coming out of this recession a stronger bank.

Best Regards,

Lawrence R. Miller

Lawrence R. Miller
President & CEO

Charles D. Walters

Charles D. Walters
Chairman of the Board



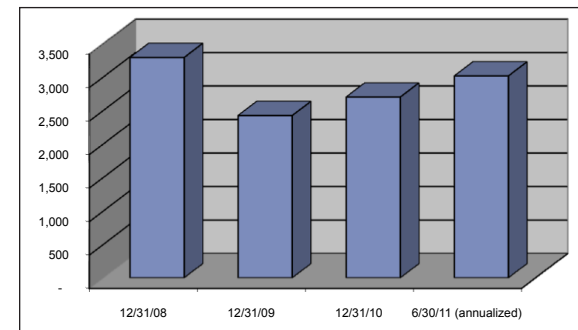
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Financial Highlights (unaudited)

Balance Sheet Data	6/30/2011	12/31/2010	6/30/2010
Total assets	\$116,698,691	\$121,810,968	\$132,568,901
Loans, gross	84,398,233	94,465,241	96,628,676
Allowance for loan losses	2,436,411	3,062,492	2,122,456
Deposits	100,135,723	104,080,669	107,379,780
Shareholders' equity	9,086,981	10,451,344	14,955,168

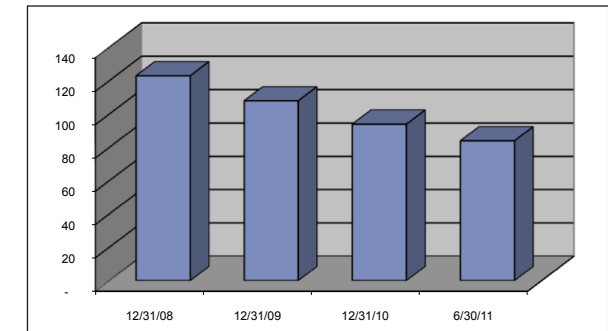
Income Statement Data	For the Six Months Ended 6/30/2011	For the Quarter Ended 6/30/2011	For the Quarter Ended 6/30/2010
Net interest income	\$1,509,394	\$745,126	\$630,270
Provision for loan losses	810,000	(60,000)	735,000
Non-interest income	96,083	41,349	40,389
Non-interest expenses	2,244,087	813,783	1,184,410
Net income (loss), net of tax	(1,448,610)	32,692	(1,248,751)
Net income (loss), per diluted share	(0.69)	(0.02)	(0.60)

Annual Net Interest Income (\$ in thousands)

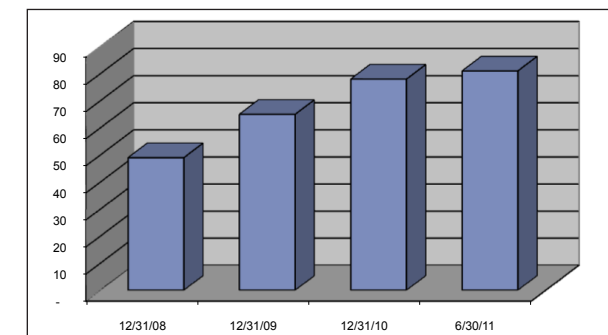


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Gross Loans Outstanding (\$ in millions)



Retail Deposits Outstanding (\$ in millions) (excludes brokered deposits)



Total Assets (\$ in millions)

