



INDEPENDENCE
BANGSHARES, INC.

August 9, 2010

Dear Shareholder:

The following is a summary of our results of operations as of and for the three and six months ended June 30, 2010.

Operations resulted in a net loss of \$1,878,492 for the six months ended June 30, 2010 compared to a net loss of \$1,029,922 for the six months ended June 30, 2009. For the three months ended June 30, 2010, our net loss was \$1,248,751 compared to \$661,277 for the three months ended June 30, 2009. The losses thus far in 2010 can be attributed primarily to an increase in non-performing loans and the resulting increase in the provision for loan losses as well as the increase in real estate owned and the related write-downs taken on these properties due to declining market values. Currently our primary focus is managing non-performing loans and real estate owned as well as capital preservation. Apart from the impact credit quality is having on our operating results, we are pleased with the results of our attention to expense control, our liquidity levels and our margin improvement due to increased core deposits and decreased wholesale funding reliance which is discussed below.

The capital levels of the Bank remain strong, with total capital as a percentage of risk weighted assets of 12.8% as of June 30, 2010, well above the FDIC's well capitalized requirement of 10% and above our individual minimum capital ratio requirement of 12%.

At June 30, 2010, total assets were \$132.6 million, decreasing \$2.7 million, or 2%, from December 31, 2009. The decrease in total assets is primarily a result of a decrease in loans. Total gross loans outstanding were \$96.6 million, decreasing \$11.3 million, or 11%, from December 31, 2009. The decrease in loans is primarily due to low market demand, careful consideration of liquidity needs and credit risk management.

Total deposits as of June 30, 2010 were \$107.4 million, increasing \$3.1 million, or 3%, from December 31, 2009. We are pleased to report that growth in retail or customer deposits was \$10.7 million, or 16%, for the first half of 2010. At June 30, 2010, brokered deposits, included in total deposits, were \$31.4 million compared to \$38.9 million at December 31, 2009, decreasing approximately \$7.6 million.

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 19.64% as of June 30, 2010, an increase from 13.60% as of December 31, 2009. This increase is a result of net loan payoffs and an increase in retail deposits during the first six months of the year, offset by a decrease in brokered time deposits



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and FHLB advances. We will continue to reduce brokered time deposits and FHLB advances as cash balances, retail deposit growth and operating needs allow.

On January 20, 2010, the Bank entered into a Formal Agreement with its primary regulator, the OCC. The Formal Agreement seeks to enhance the Bank's existing practices and procedures in the areas of management oversight, strategic and capital planning, credit risk management, credit underwriting, liquidity, and funds management. In response, the Bank set up a compliance committee of its Board of Directors to oversee management's response to all sections of the Formal Agreement. The compliance committee also monitors adherence to deadlines for submission to the OCC of information required under the Formal Agreement. The Board of Directors and management of the Bank have been aggressively working to address the findings of the exam. We have submitted all documentation required as of this date to the OCC. The determination of our compliance will be made by the OCC once our submitted documentation has been fully reviewed. 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, 2010.

In closing, we appreciate your continued support as we aggressively attack the key areas that have impacted our Bank. We believe the remainder of the year will continue to challenge us as we aggressively focus on our non-performing assets. We strive to keep losses on our non-performing loans and real estate owned to a minimum in what has proven to be an unprecedented credit and real estate market. We are committed to seeking quality lending opportunities to serve our community as well as increase our earning asset levels. We also will continue to work diligently to continue our strong core deposit growth throughout the remainder of the year. All of these initiatives are critical to returning to profitability and maintaining and eventually improving our capital levels. It is clear that recovery from this economic downturn will take time, patience and a concerted effort from all our staff, management and directors. I assure you that all of these groups are working together in one accord towards the common goal of realizing eventual recovery and coming out of this recession a stronger bank.

Best Regards,

Lawrence R. Miller
President & CEO

Charles D. Walters
Chairman of the Board



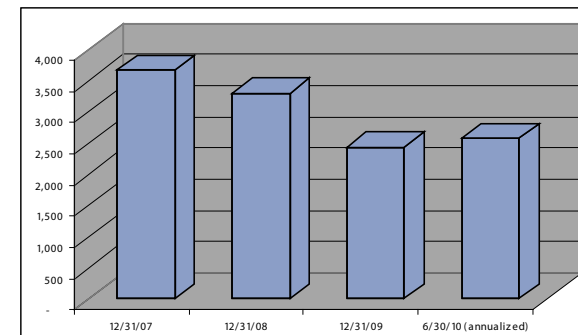
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Financial Highlights (unaudited)

Balance Sheet Data	As of		
	6/30/2010	12/31/2009	6/30/2009
Total assets	\$ 132,568,901	\$ 135,311,199	\$ 135,745,072
Loans, gross	96,628,676	107,977,469	116,109,026
Allowance for loan losses	2,122,456	1,847,513	2,261,977
Deposits	107,379,780	104,275,456	101,475,393
Shareholders' equity	14,955,168	16,686,867	17,761,848

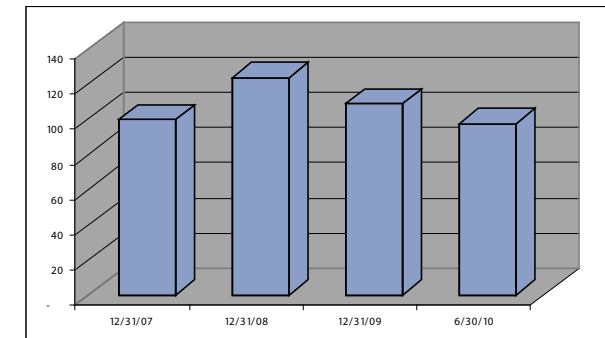
Income Statement Data	For the Six Months Ended	For the Quarter Ended	For the Quarter Ended
	6/30/2010	6/30/2010	6/30/2009
Net interest income	\$ 1,283,019	\$ 630,270	\$ 580,643
Provision for loan losses	835,000	735,000	560,000
Non-interest income	112,414	40,389	99,851
Non-interest expenses	2,438,925	1,184,410	1,122,471
Net loss, net of tax	(1,878,492)	(1,248,751)	(661,277)
Net loss, per diluted share	(0.90)	(0.60)	(0.32)

Annual Net Interest Income (\$ in thousands)

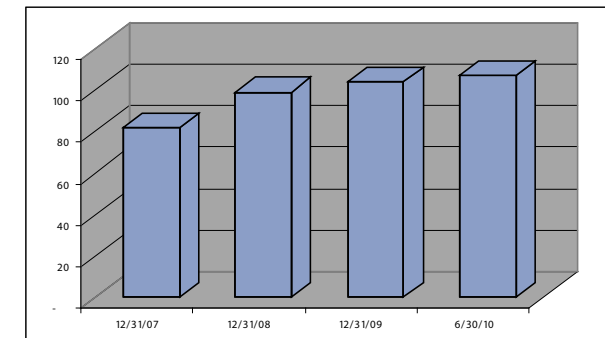


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Gross Loans Outstanding (\$ in millions)



Deposits Outstanding (\$ in millions)



Total Assets (\$ in millions)

