



INDEPENDENCE
BANGSHARES, INC.

November 5, 2010

Dear Shareholder:

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

Operations resulted in a net loss of \$3,165,994 for the three months ended September 30, 2010, compared to a net loss of \$374,159 for the three months ended September 30, 2009. For the nine months ended September 30, 2010, our net loss was \$5,044,486 compared to \$1,404,081 for the nine months ended September 30, 2009. Our losses in 2010 can be attributed primarily to three factors. First, non-performing loans have increased, resulting in an increase in the provision for loan losses. Our loan provision expense was \$1,220,000 for the three months ended September 30, 2010 compared to \$137,000 for the same period in 2009, and \$2,055,000 for the nine months ended September 30, 2010 compared to \$787,000 for the same period in 2009. Second, we have seen an increase in real estate owned and the related write-downs taken on these properties due to declining market values. Write-downs on real estate owned were \$318,131 and \$692,290 for the three and nine months ended September 30, 2010, respectively, compared to only \$7,832 for both the three and nine months ended September 30, 2009.

Third, during the current quarter, as a result of continued economic decline and the impact it has had on our operations, we recorded a 100% valuation allowance on our net deferred tax assets resulting in \$1.4 million in income tax expense. This had no impact on our regulatory capital levels and is a non-cash expense (i.e. we are not required to pay this tax expense to the IRS). Deferred tax assets are recorded when a taxable benefit is created in one year but will not be realized on filed tax returns until future years. The majority of our deferred tax assets are the result of net operating losses reported to the IRS, which can be carried forward and used in future years to offset taxable income. We have not forfeited these net operating loss carry-forwards; however, we believe it is most appropriate to record an allowance against them until it is highly probable that we will use the carry-forwards with future taxable income within the timeframe allowed by the IRS.

The capital levels of the Bank remain strong compared to peers, with total capital as a percentage of risk weighted assets of 11.8% as of September 30, 2010, above the FDIC's well-capitalized requirement of 10%. We did fall slightly below our individual minimum capital ratio requirement of 12%, which was established for us by our regulators. This shortfall could result in additional administrative actions by our regulators if the Bank's capital ratios continue to decline.

At September 30, 2010, total assets were \$123.9 million, decreasing \$11.4 million, or 8%, from December 31, 2009. The decrease in total assets is primarily a result of a decrease in loans. Total gross loans outstanding were \$95.8 million, decreasing \$12.2 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.



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Total deposits as of September 30, 2010 were \$104.9 million. We are pleased to report that growth in retail or customer deposits was \$11.6 million, or 18%, for the first nine months of 2010, which was utilized to reduce brokered deposit levels. At September 30, 2010, brokered deposits, included in total deposits, were \$27.9 million compared to \$38.9 million at December 31, 2009, decreasing approximately \$11.0 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 17.31% as of September 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 nine months of the year, offset by a decrease in brokered time deposits and FHLB advances. 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. 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. The Board of Directors and management of the Bank have continued to work aggressively to address the findings of the exam, and we have submitted much documentation to the OCC to make strides toward compliance. 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 September 30, 2010.

In closing, we appreciate your continued support as we aggressively attack the key areas that have impacted our Bank as noted throughout this letter. We remain encouraged 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. Our focus continues to be managing non-performing loans and real estate owned as well as capital preservation. Our goal is to return to profitability and maintain and eventually improve our capital levels, but it is clear that this recovery will take time, patience and a concerted effort from all our staff, management and directors. We continue to work 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



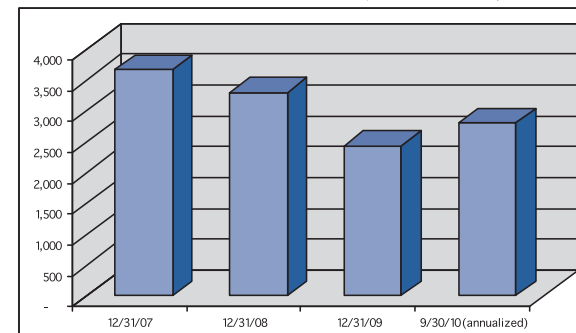
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Financial Highlights (unaudited)

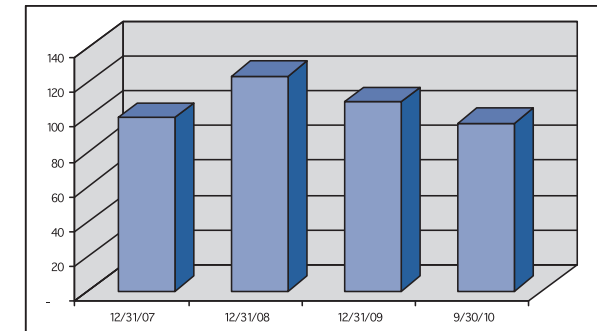
Balance Sheet Data	As of		
	9/30/2010	12/31/2009	9/30/2009
Total assets	\$123,916,693	\$135,311,199	\$137,701,573
Loans, gross	95,787,006	107,977,469	107,699,023
Allowance for loan losses	2,781,168	1,847,513	2,146,535
Deposits	104,865,653	104,275,456	103,886,193
Shareholders' equity	11,816,857	16,686,867	17,433,231

Income Statement Data	For the Nine Months Ended	For the Quarter Ended	For the Quarter Ended
	9/30/2010	9/30/2010	9/30/2009
Net interest income	\$1,982,268	\$699,249	\$703,868
Provision for loan losses	2,055,000	1,220,000	137,000
Non-interest income	188,418	76,004	68,155
Non-interest expenses	3,785,235	1,346,310	1,009,182
Net loss, net of tax	(5,044,486)	(3,165,994)	(374,159)
Net loss, per diluted share	(2.42)	(1.52)	(0.18)

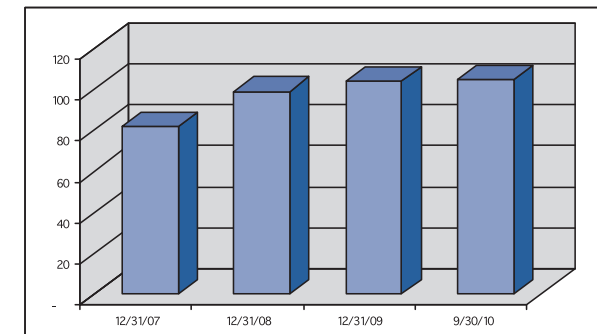
Annual Net Interest Income (\$ in thousands)



Gross Loans Outstanding (\$ in millions)



Deposits Outstanding (\$ in millions)



Total Assets (\$ in millions)

