

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB**

(Mark One)

Annual Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934
For The Fiscal Year Ended: December 31, 2007.

Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934
For the Transition Period from _____ to _____

Commission file number 333-121485

Independence Bancshares, Inc.

(Exact name of small business issuer as specified in its charter)

South Carolina
(State of Incorporation)

20-1734180
(I.R.S. Employer Identification No.)

500 E. Washington Street, Greenville, SC
(Address of principal executive offices)

29601
(Zip Code)

864-672-1776
(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act: None
Securities registered under Section 12(g) of the Exchange Act: Common Stock

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

State issuer's revenues for its most recent fiscal year. \$7,318,664

The estimated aggregate market value of the Common Stock held by non-affiliates (shareholders holding less than 5% of an outstanding class of stock, excluding directors and executive officers) of the Company on March 14, 2008 was \$14,160,930. This calculation is based upon an estimate of the fair market value of the Common Stock of \$10.50 per share, which was the price of the last several trades of which management is aware prior to this date.

The number of shares outstanding of the issuer's common stock, as of March 14, 2008 was 2,085,010.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the Annual Meeting of Shareholders Part III (Items 9-12, 14)
to be held on May 15, 2008

Transitional Small Business Disclosure Format (Check one): Yes ___ No X

PART I

Item 1. Business.

This report, including information included or incorporated by reference in this document, contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may relate to our financial condition, results of operation, plans, objectives, or future performance. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words “may,” “would,” “could,” “should,” “will,” “expect,” “anticipate,” “predict,” “project,” “potential,” “believe,” “continue,” “assume,” “believe,” “intend,” “plan,” and “estimate,” as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to those described below under Risk Factors and the following:

- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated margins;
- changes in political conditions or the legislative or regulatory environment;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in monetary and tax policies;
- adequacy of the level of our allowance for loan losses;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

General

Independence Bancshares, Inc. (the “Company”) is a South Carolina corporation organized to operate as a bank holding company pursuant to the Federal Bank Holding Company Act of 1956 and the South Carolina Bank Holding Company Act, and to own and control all of the capital stock of Independence National Bank (the “Bank”). Our Bank is a national association organized under the laws of the United States and provides banking services to consumers and small- to mid-size businesses, principally in Greenville County, South Carolina. The Bank opened for business on May 16, 2005.

Marketing Focus

Our primary focus and target market is to fulfill the financial needs of the small business owners, the legal community, the medical community, insurance agencies, and real estate developers, including clients involved in residential construction, acquisition/development, and clients owning and developing income producing properties primarily in the City of Greenville and the broader Greenville metropolitan area. We intend to use our “closeness” to the market via local ownership, quick response time, pricing discretion, person to person relationships and an experienced, well known senior management team in leveraging our market share in the greater Greenville area while looking for ways to differentiate the Bank from our competition.

Banking Services

The Bank is primarily engaged in the business of accepting demand and time deposits and providing commercial, consumer and mortgage loans to the general public. Deposits of the Bank are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$100,000 for each non-retirement depositor and up to \$250,000 for certain retirement-account depositors. Other services which the Bank offers include online banking, commercial cash management, remote deposit capture, safe deposit boxes, bank official checks, traveler’s checks, and wire transfer capabilities.

Location and Service Area

Our primary market is Greenville County, which is located in the upstate region of South Carolina. The Greenville metropolitan area, positioned on the I-85 corridor, is home to one of the nation's largest concentrations of international investment. We believe, with such significant investment and growth potential, the area's demographics have changed considerably over the past 10 years. The Cities of Fountain Inn, Greenville, Greer, Mauldin, Simpsonville, and Travelers Rest make up Greenville County. According to the 2000 United States Census, while the population in the City of Greenville has remained stable between 56,000 and 58,000 residents for several decades, the most dramatic numerical growth has occurred in Greer, Mauldin and Simpsonville, where dozens of new single - family developments and apartment communities have been constructed since 1980.

Greenville County, South Carolina's largest county, has experienced a significant population growth over the past decade. With an average yearly growth rate of more than 1.9% over the past decade, Greenville County's 2005 population is estimated to stand at 395,760, according to United States Census Bureau. By 2010, growth is expected to reach 420,910, and 472,480 by 2020. Greenville is one of the 10 counties that comprise the Upstate region, with a population of more than 1.2 million people. The five-county Metropolitan Statistical Area was the nation's 52nd largest metropolitan area in 1999.

Our main office is located in Greenville, one block off a major artery, and provides excellent visibility for the Bank. In October 2007 we opened a full service branch on Wade Hampton Boulevard in Taylors, South Carolina. In October 2007 we also received regulatory approval to open our third location in Simpsonville, South Carolina at the intersection of Highways 14 and 417. We purchased approximately one acre of land in November 2007 for approximately \$986,000. We have engaged a firm to design and build a full service branch on this site. We anticipate we will begin construction on this facility in second quarter 2008 and estimate the construction and equipment costs to be approximately \$750,000. These branch offices will extend the market reach of our Bank and will increase our personal service delivery capabilities to all of our customers. We have and plan to continue to take advantage of existing contacts and relationships with individuals and companies in this area to more effectively market the services of the Bank.

Lending Activities

General. We emphasize a range of lending services, including real estate, commercial, and equity-line consumer loans to individuals and small- to medium-sized businesses and professional firms that are located in or conduct a substantial portion of their business in our market area. The well established banks in our service area make proportionately more loans to medium- to large-sized businesses than we do. Our small- to medium-sized borrowers may be less able to withstand competitive, economic, and financial conditions than larger borrowers. Our underwriting standards vary for each type of loan, as described below. We compete for these loans with competitors who are well established in our service area and have greater resources and lending limits. As a result, we may have to charge lower interest rates to attract borrowers.

Loan Approval. Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. We attempt to mitigate repayment risks by adhering to internal credit policies and procedures. These policies and procedures include officer and client lending limits, a multi-layered approval process for larger loans, documentation examination, and follow-up procedures for exceptions to credit policies. Our loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds an individual officer's lending authority, the loan request will be considered by an officer with a higher lending limit, executive officers combining authority or the directors' loan committee. We do not make any loans to any director or executive officer of the Bank unless the loan is approved by the board of directors of the Bank and is on terms not more favorable than would be available to a person not affiliated with the Bank.

Credit Administration and Loan Review. We maintain a continuous loan review system. We also apply a credit grading system to each loan, and we use an independent consultant to review the loan files on a test basis to confirm the grading of each loan. Each loan officer is responsible for each loan he or she makes, regardless of whether other individuals or committees joined in the approval. This responsibility continues until the loan is repaid or until the loan is officially assigned to another officer.

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by federal law. In general, the Bank is subject to a legal limit on loans to a single borrower equal to 15% of the Bank's capital and unimpaired surplus. These limits will increase or decrease in response to increases or decreases in the Bank's level of capital. We are able to sell participations in our larger loans to other financial institutions, which allow us to manage the risk involved in these loans and to meet the lending needs of our clients requiring extensions of credit in excess of these limits.

Real Estate Mortgage Loans. The principal component of our loan portfolio is loans secured by real estate mortgages. We obtain a security interest in real estate whenever possible, in addition to any other available collateral, in order to increase the likelihood of the ultimate repayment of the loan. At December 31, 2007, loans secured by first or second mortgages on real estate made up approximately 81% of our loan portfolio.

These loans will generally fall into one of four categories: commercial real estate loans, construction and development loans, residential real estate loans, or home equity loans. Most of our real estate loans are secured by residential or commercial property. Interest rates for all categories may be fixed or adjustable, and will more likely be fixed for shorter-term loans. We generally charge an origination fee for each loan. Other loan fees consist primarily of late charge fees. Real estate loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate. Fluctuations in the value of real estate, as well as other factors arising after a loan has been made, could negatively affect a borrower's cash flow, credit-worthiness, and ability to repay the loan.

- *Commercial Real Estate Loans.* Commercial real estate loans generally have terms of five years or less, although payments may be structured on a longer amortization basis. We evaluate each borrower on an individual basis and attempt to determine its business risks and credit profile. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio, established by independent appraisals, does not exceed 85%. We generally require that debtor cash flow exceed 115% of monthly debt service obligations. We typically review all of the personal financial statements of the principal owners and require their personal guarantees. These reviews generally reveal secondary sources of payment and liquidity to support a loan request.
- *Construction and Development Real Estate Loans.* We offer adjustable and fixed rate residential and commercial construction loans to builders and developers and to consumers who wish to build their own home. The term of construction and development loans generally is limited to eighteen months, although payments may be structured on a longer amortization basis. Most loans will mature and require payment in full upon the sale of the property. We believe that construction and development loans generally carry a higher degree of risk than long term financing of existing properties. Repayment depends on the ultimate completion of the project and usually on the sale of the property. Specific risks include:
 - cost overruns;
 - mismanaged construction;
 - inferior or improper construction techniques;
 - economic changes or downturns during construction;
 - a downturn in the real estate market;
 - rising interest rates which may prevent sale of the property; and
 - failure to sell completed projects in a timely manner.

We attempt to reduce risk by obtaining personal guarantees where possible, and by keeping the loan-to-value ratio of the completed project below specified percentages. We also may reduce risk by selling participations in larger loans to other institutions when possible.

- *Residential Real Estate Loans and Home Equity Loans.* We do not generally originate traditional long term residential mortgages, but we do issue traditional second mortgage residential real estate loans and home equity lines of credit. Generally, we limit the loan-to-value ratio on our residential real estate loans to 80%. We offer fixed and adjustable rate residential real estate loans with terms of up to 30 years. We typically offer these fixed rate loans through a third party rather than originating and retaining these loans ourselves. We typically originate and retain residential real estate loans only if they have adjustable rates. We also offer home equity lines of credit. Our underwriting criteria and the risks associated with home equity loans and lines of credit are generally the same as those for first mortgage loans. Home equity lines of credit typically have terms of fifteen years or less. We generally limit the extension of credit to 90% of the available equity of each property, although we may extend up to 100% of the available equity.

Commercial Business Loans. We make loans for commercial purposes in various lines of businesses. Commercial loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or if they are secured, the value of the security may be difficult to assess and more likely to decrease than real estate.

Equipment loans typically will be made for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term and secured by the financed equipment. Generally, we limit the loan-to-value ratio on these loans to 80% or less. Working capital loans typically have terms not exceeding one year and usually are secured by accounts receivable, inventory, or

personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal will typically be repaid as the assets securing the loan are converted into cash, and in other cases principal will typically be due at maturity. Trade letters of credit, standby letters of credit, and foreign exchange will generally be handled through a correspondent bank as agent for the bank.

We offer small business loans utilizing government enhancements such as the Small Business Administration's ("SBA") 7(a) program and SBA's 504 programs. These loans typically are partially guaranteed by the government, which may help to reduce the Bank's risk. Government guarantees of SBA loans will not exceed 80% of the loan value and will generally be less.

Consumer Loans. We make a variety of loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. Consumer loans are underwritten based on the borrower's income, current debt level, past credit history, and the availability and value of collateral. Consumer rates are both fixed and variable, with terms negotiable. Our installment loans typically amortize over periods up to 60 months. We will offer consumer loans with a single maturity date when a specific source of repayment is available. We typically require monthly payments of interest and a portion of the principal on our revolving loan products. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

Deposit Services

Our principal source of funds is core deposits. We offer a full range of deposit services, including checking accounts, commercial accounts, NOW accounts, savings accounts, and time deposits of various types, ranging from daily money market accounts to long-term certificates of deposit. We solicit these accounts from individuals, businesses, associations, organizations and governmental authorities. During the fourth quarter of 2006, we also began obtaining deposits outside of our local market area in the form of brokered time deposits. Due to the interest rate environment in our market, as well as strong competition from other banking and financial services companies in gathering deposits, brokered time deposits allow us to obtain funding at a lower interest rate in order to support loan growth. We plan to continue the use of brokered time deposits, while maintaining an effort to gather deposits in our local market. Deposit rates are reviewed regularly by senior management of the Bank. We believe that the rates we offer are competitive with those offered by other financial institutions in our area.

Other Banking Services

We offer other bank services including cashier's checks, banking by mail, direct deposit of payroll and social security checks, remote deposit capture, United States Savings Bonds, and travelers checks. We are associated with the Plus and Star ATM networks, which are available to our clients throughout the country. We offer merchant banking and credit card services through a correspondent bank. We also offer internet banking services, bill payment services, and cash management services. We do not expect to exercise trust powers during our next few years of operation.

Competition

The Greenville market is highly competitive, with all of the largest banks in the state, as well as super regional banks, represented. The competition among the various financial institutions is based upon a variety of factors, including interest rates offered on deposit accounts, interest rates charged on loans, credit and service charges, the quality of services rendered, the convenience of banking facilities and, in the case of loans to large commercial borrowers, relative lending limits. In addition to banks and savings associations, we compete with other financial institutions including securities firms, insurance companies, credit unions, leasing companies and finance companies. Size gives larger banks certain advantages in competing for business from large corporations. These advantages include higher lending limits and the ability to offer services in other areas of South Carolina. As a result, we do not generally attempt to compete for the banking relationships of large corporations, but concentrate our efforts on small-to medium-sized businesses and individuals. We believe we have competed effectively in this market by offering quality and personal service.

Market Share

As of June 30, 2007, the most recent date for which market data is available, total deposits in the Bank's primary service area were almost \$11.7 billion, an increase of 12.6% over \$10.4 billion from 2006. At June 30, 2007, the Bank's deposits represented 0.66% of the market, increasing from 0.41% at June 30, 2006.

Employees

As of March 14, 2008, we had 23 full-time employees and two part-time employees.

Corporate Information

Our corporate headquarters are located at 500 East Washington Street, Greenville, South Carolina, 29601, and our telephone number is (864) 672-1776. Our website is located at www.independencenb.com.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that we file at the SEC's public reference facilities at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information regarding the public reference facilities. The SEC maintains a website, <http://www.sec.gov>, which contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the SEC, including us. Our SEC filings are also available to the public from commercial document retrieval services.

You may also request a copy of our filings at no cost by writing to us at Independence Bancshares, Inc., 500 East Washington Street, Greenville, South Carolina, 29601, Attention: Ms. Katie N. Tuttle, Chief Financial Officer, or telephoning us at: (864) 672-1776.

SUPERVISION AND REGULATION

Both the Company and the Bank are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, not shareholders. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and the policies of various regulatory authorities. We cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

Independence Bancshares, Inc.

We own 100% of the outstanding capital stock of the Bank, and therefore we are considered to be a bank holding company under the federal Bank Holding Company Act of 1956 (the "Bank Holding Company Act"). As a result, we are primarily subject to the supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve (the "Federal Reserve") under the Bank Holding Company Act and its regulations promulgated thereunder. Moreover, as a bank holding company of a bank located in South Carolina, we also are subject to the South Carolina Banking and Branching Efficiency Act.

Permitted Activities. Under the Bank Holding Company Act, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks;
- furnishing services to or performing services for our subsidiaries; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities;
- leasing personal or real property;
- operating a non-bank depository institution, such as a savings association;
- trust company functions;
- financial and investment advisory activities;
- conducting discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

As a bank holding company we also can elect to be treated as a “financial holding company,” which would allow us to engage in a broader array of activities. In sum, a financial holding company can engage in activities that are financial in nature or incidental or complementary to financial activities, including insurance underwriting, sales and brokerage activities, providing financial and investment advisory services, underwriting services and limited merchant banking activities. We have not sought financial holding company status, but may elect such status in the future as our business matures. If we were to elect financial holding company status, each insured depository institution we control would have to be well capitalized, well managed, and have at least a satisfactory rating under the Community Reinvestment Act (discussed below).

The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company’s continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Change in Control. In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with regulations promulgated thereunder, require Federal Reserve approval prior to any person or company acquiring “control” of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the company has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction. In certain cases, a company may also be presumed to have control under the Bank Holding Company Act if it acquires 5% or more of any class of voting securities of a bank holding company. Our common stock is registered under Section 12 of the Securities Exchange Act. The regulations provide a procedure for rebutting control when ownership of any class of voting securities is below 25%.

Source of Strength. In accordance with Federal Reserve Board policy, we are expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which we might not otherwise do so. Under the Bank Holding Company Act, the Federal Reserve Board may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary, other than a non-bank subsidiary of a bank, upon the Federal Reserve’s determination that such activity or control constitutes a serious risk to the financial soundness or stability of any depository institution subsidiary of a bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiaries if the agency determines that divestiture may aid the depository institution’s financial condition. Further, any loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and certain other indebtedness of the subsidiary bank. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank at a certain level would be assumed by the bankruptcy trustee and entitled to priority payment.

Capital Requirements. The Federal Reserve Board imposes certain capital requirements on the bank holding company under the Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of “qualifying” capital to risk-weighted assets. These requirements are essentially the same as those that apply to the Bank and are described below under “Independence National Bank.” Subject to our capital requirements and certain other restrictions, we are able to borrow money to make a capital contribution to the Bank, and these loans may be repaid from dividends paid from the Bank to the Company. Our ability to pay dividends depends on the Bank’s ability to pay dividends to us, which is subject to regulatory restrictions as described below in “Independence National Bank – Dividends.” We are also able to raise capital for contribution to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

South Carolina State Regulation. As a South Carolina bank holding company under the South Carolina Banking and Branching Efficiency Act, we are subject to limitations on sale or merger and to regulation by the South Carolina Board of Financial Institutions (the “S.C. Board”). We are not required to obtain the approval of the S.C. Board prior to acquiring the capital stock of a national bank, but we must notify them at least 15 days prior to doing so. We must receive the Board’s approval prior to engaging in the acquisition of a South Carolina state chartered bank or another South Carolina bank holding company.

Independence National Bank

The Bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the Office of the Comptroller of the Currency (the "OCC"). Deposits in the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum amount, which is currently \$100,000 for each non-retirement depositor and \$250,000 for certain retirement-account depositors. Accordingly, the FDIC also has enforcement authority over the Bank. Together, the OCC and the FDIC regulate or monitor virtually all areas of the Bank's operations, including

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- interest rates payable on deposits;
- interest rates or fees chargeable on loans;
- establishment of branches;
- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

The OCC requires that the Bank maintain specified capital ratios of capital to assets and imposes limitations on the Bank's aggregate investment in real estate, bank premises, and furniture and fixtures. Two categories of regulatory capital are used in calculating these ratios—Tier 1 capital and total capital. Tier 1 capital generally includes common equity, retained earnings, a limited amount of qualifying preferred stock, and qualifying minority interests in consolidated subsidiaries, reduced by goodwill and certain other intangible assets, such as core deposit intangibles, and certain other assets. Total capital generally consists of Tier 1 capital plus Tier 2 capital, which includes the allowance for loan losses, preferred stock that did not qualify as Tier 1 capital, certain types of subordinated debt and a limited amount of other items.

The Bank is required to calculate three ratios: the ratio of Tier 1 capital to risk-weighted assets, the ratio of total capital to risk-weighted assets, and the "leverage ratio," which is the ratio of Tier 1 capital to average assets on a non-risk-adjusted basis. For the two ratios of capital to risk-weighted assets, certain assets, such as cash and U.S. Treasury securities, have a zero risk weighting. Others, such as commercial and consumer loans, have a 100% risk weighting. Some assets, notably purchase-money loans secured by first-liens on residential real property, are risk-weighted at 50%. Assets also include amounts that represent the potential funding of off-balance sheet obligations such as loan commitments and letters of credit. These potential assets are assigned to risk categories in the same manner as funded assets. The total assets in each category are multiplied by the appropriate risk weighting to determine risk-adjusted assets for the capital calculations.

The minimum capital ratios for both the Company and the Bank are generally 8% for total capital, 4% for Tier 1 capital and 4% for leverage. To be eligible to be classified as “well-capitalized,” the Bank must generally maintain a total capital ratio of 10% or more, a Tier 1 capital ratio of 6% or more, and a leverage ratio of 5% or more. Certain implications of the regulatory capital classification system are discussed in greater detail below.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) established a “prompt corrective action” program in which every bank is placed in one of five regulatory categories, depending primarily on its regulatory capital levels. The OCC and the other federal banking regulators are permitted to take increasingly severe action as a bank’s capital position or financial condition declines below the “Adequately Capitalized” level described below. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank’s leverage ratio reaches two percent. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital. The OCC’s regulations set forth five capital categories, each with specific regulatory consequences. The categories are:

- **Well Capitalized** — The institution exceeds the required minimum level for each relevant capital measure. A well capitalized institution is one (i) having a total capital ratio of 10% or greater, (ii) having a Tier 1 capital ratio of 6% or greater, (iii) having a leverage capital ratio of 5% or greater and (iv) that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.
- **Adequately Capitalized** — The institution meets the required minimum level for each relevant capital measure. No capital distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution is one (i) having a total capital ratio of 8% or greater, (ii) having a Tier 1 capital ratio of 4% or greater and (iii) having a leverage capital ratio of 4% or greater or a leverage capital ratio of 3% or greater if the institution is rated composite 1 under the CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) rating system.
- **Undercapitalized** — The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution is one (i) having a total capital ratio of less than 8% or (ii) having a Tier 1 capital ratio of less than 4% or (iii) having a leverage capital ratio of less than 4%, or if the institution is rated a composite 1 under the CAMELS rating system, a leverage capital ratio of less than 3%.
- **Significantly Undercapitalized** — The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution is one (i) having a total capital ratio of less than 6% or (ii) having a Tier 1 capital ratio of less than 3% or (iii) having a leverage capital ratio of less than 3%.
- **Critically Undercapitalized** — The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution is one having a ratio of tangible equity to total assets that is equal to or less than 2%.

If the OCC determines, after notice and an opportunity for hearing, that the Bank is in an unsafe or unsound condition, the regulator is authorized to reclassify the Bank to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

If the Bank is not well capitalized, it cannot accept brokered time deposits without prior FDIC approval and, if approval is granted, cannot offer an effective yield in excess of 75 basis points on interests paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted from within its normal market area, or national rate paid on deposits of comparable size and maturity for deposits accepted outside the Bank's normal market area. Moreover, if the Bank becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the OCC that is subject to a limited performance guarantee by the corporation. The Bank also would become subject to increased regulatory oversight, and is increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution also must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless determined by the appropriate Federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution, would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such would cause the Bank to become undercapitalized, it could not pay a management fee or dividend to us.

As of December 31, 2007, the Bank was deemed to be "well capitalized."

Standards for Safety and Soundness. The Federal Deposit Insurance Act ("FDIA") also requires the federal banking regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset growth. The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if the OCC determines that the Bank fails to meet any standards prescribed by the guidelines, the agency may require the Bank to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the OCC. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

Regulatory Examination. The OCC requires the Bank to prepare annual reports on the Bank's financial condition and to conduct an annual audit of its financial affairs in compliance with its minimum standards and procedures.

All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate federal banking agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. The federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to the following:

- internal controls;
- information systems and audit systems;
- loan documentation;
- credit underwriting;
- interest rate risk exposure; and
- asset quality.

Deposit Insurance and Assessments. Deposits at the Bank are insured by the Deposit Insurance Fund (the “DIF”) as administered by the FDIC, up to the applicable limits established by law—generally \$100,000 per account holder and \$250,000 for certain retirement account holders. In November 2006, the FDIC adopted final regulations that set the deposit insurance assessment rates that took effect in 2007. The FDIC uses a risk-based assessment system that assigns insured depository institutions to one of four risk categories based on three primary sources of information—supervisory risk ratings for all institutions, financial ratios for most institutions, including the Company, and long-term debt issuer ratings for large institutions that have such ratings. The new premium rate structure imposes a minimum assessment of from five to seven cents for every \$100 of domestic deposits on institutions that are assigned to the lowest risk category. This category is expected to encompass substantially all insured institutions, including the Bank. A one time assessment credit is available to offset up to 100% of the 2007 assessment. Any remaining credit can be used to offset up to 90% of subsequent annual assessments through 2010. For institutions assigned to higher risk categories, the premium that took effect in 2007 ranges from ten cents to forty-three cents per \$100 of deposits.

The FDIC also collects a deposit-based assessment from insured financial institutions on behalf of The Financing Corporation (“FICO”). The funds from these assessments are used to service debt issued by FICO in its capacity as a financial vehicle for the Federal Savings and Loan Insurance Corporation. The FICO assessment rate is set quarterly and in 2006 ranged from 1.32 cents to 1.24 cents per \$100 of assessable deposits. For the first quarter of 2007, the FICO assessment rate was 1.22 cents per \$100 of assessable deposits.

Transactions with Affiliates and Insiders. The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company or its non-bank subsidiaries. The Company and the Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W. Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank’s capital and surplus and, as to all affiliates combined, to 20% of the Bank’s capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. The Bank is forbidden to purchase low quality assets from an affiliate.

Section 23B of the Federal Reserve Act, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates. The regulation also limits the amount of loans that can be purchased by a bank from an affiliate to not more than 100% of the bank’s capital and surplus.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates, and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Dividends. The Company’s principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends it receives from the Bank. Statutory and regulatory limitations apply to the Bank’s payment of dividends to the Company. As a general rule, the amount of a dividend may not exceed, without prior regulatory approval, the sum of net income in the calendar year to date and the retained net earnings of the immediately preceding two calendar years. A depository institution may not pay any dividend if payment would cause the institution to become undercapitalized or if it already is undercapitalized. The OCC may prevent the payment of a dividend if it determines that the payment would be an unsafe and unsound banking practice. The OCC also has advised that a national bank should generally pay dividends only out of current operating earnings.

Branching. National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current South Carolina law, the Bank may open branch offices throughout South Carolina with the prior approval of the OCC. In addition, with prior regulatory approval, the Bank is able to acquire existing banking operations in South Carolina. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks if allowed by state law, and interstate merging by banks. South Carolina law, with limited exceptions, currently permits branching across state lines only through interstate mergers.

Anti-Tying Restrictions. Under amendments to the Bank Holding Company Act and Federal Reserve regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that (i) the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or subsidiaries thereof or (ii) the customer may not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. Certain arrangements are permissible: a bank may offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products; and certain foreign transactions are exempt from the general rule. A bank holding company or any bank affiliate also is subject to anti-tying requirements in connection with electronic benefit transfer services.

Community Reinvestment Act. The Community Reinvestment Act requires that the OCC evaluate the record of the Bank in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank.

Finance Subsidiaries. Under the Gramm-Leach-Bliley Act (the “GLBA”), subject to certain conditions imposed by their respective banking regulators, national and state-chartered banks are permitted to form “financial subsidiaries” that may conduct financial or incidental activities, thereby permitting bank subsidiaries to engage in certain activities that previously were impermissible. The GLBA imposes several safeguards and restrictions on financial subsidiaries, including that the parent bank’s equity investment in the financial subsidiary be deducted from the bank’s assets and tangible equity for purposes of calculating the bank’s capital adequacy. In addition, the GLBA imposes new restrictions on transactions between a bank and its financial subsidiaries similar to restrictions applicable to transactions between banks and non-bank affiliates.

Consumer Protection Regulations. Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank’s loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to:

- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Enforcement Powers. The Bank and its “institution-affiliated parties,” including its management, employees, agents, independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution’s affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as \$1,000,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible

enforcement actions include the termination of deposit insurance. Furthermore, banking agencies' power to issue cease-and-desist orders were expanded. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Anti-Money Laundering. Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. The Company and the Bank are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA Patriot Act, enacted in 2001 and renewed in 2006. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications. The regulatory authorities have been active in imposing "cease and desist" orders and money penalty sanctions against institutions found to be violating these obligations.

USA PATRIOT Act/Bank Secrecy Act. The USA PATRIOT Act, amended, in part, the Bank Secrecy Act and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: (i) requiring standards for verifying customer identification at account opening; (ii) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (iii) reports by nonfinancial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding \$10,000; and (iv) filing suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations and requires enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the USA PATRIOT Act, the FBI can send to the banking regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank can be requested to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI.

The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Department of the Treasury, is responsible for helping to insure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Privacy and Credit Reporting. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. It is the Bank's policy not to disclose any personal information unless required by law. The OCC and the federal banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information. The Bank is subject to such standards, as well as standards for notifying consumers in the event of a security breach.

Like other lending institutions, the Bank utilizes credit bureau data in its underwriting activities. Use of such data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis, including credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act") permits states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the FACT Act.

Check 21. The Check Clearing for the 21st Century Act gives “substitute checks,” such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring the re-crediting of funds to an individual’s account on the next business day after a consumer proves that the financial institution has erred.

Effect of Governmental Monetary Policies. Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank’s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Proposed Legislation and Regulatory Action. New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation’s financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Risk Factors

Our recent operating results may not be indicative of our future operating results.

We may not be able to sustain our historical rate of growth and may not even be able to grow our business at all. Because of our relatively small size and short operating history, it will be difficult for us to generate similar earnings growth as we continue to expand, and consequently our historical results of operations will not necessarily be indicative of our future operations. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected because a high percentage of our operating costs are fixed expenses.

Our decisions regarding credit risk and reserves for loan losses may materially and adversely affect our business.

Making loans and other extensions of credit is an essential element of our business. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans and other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including:

- the duration of the credit;
- credit risks of a particular customer;
- changes in economic and industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors, including:

- an ongoing review of the quality, mix, and size of our overall loan portfolio;
- our historical loan loss experience;
- evaluation of economic conditions;
- regular reviews of loan delinquencies; and
- the amount and quality of collateral, including guarantees, securing the loans.

There is no precise method of predicting credit losses since any estimate of loan losses is necessarily subjective and the accuracy of the estimate depends on the outcome of future events. Therefore, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. Additions to the allowance for loan losses would adversely affect our results of operations and financial condition, and possibly a decrease in our capital.

While we generally underwrite the loans in our portfolio in accordance with our own internal underwriting guidelines and regulatory supervisory guidelines, in certain circumstances we have made loans which exceed either our internal underwriting guidelines, supervisory guidelines, or both. We are permitted to hold loans that exceed supervisory guidelines up to 100% of our capital. We have made loans that exceed our internal guidelines to a limited number of our customers who have significant liquid assets, net worth, and amounts on deposit with the Bank. As of December 31, 2007, approximately \$11.9 million of our loans, or 69% of our Bank's capital, had loan-to-value ratios that exceeded regulatory supervisory guidelines. In addition, supervisory limits on commercial loan to value exceptions are generally set at 30% of our Bank's capital. At December 31, 2007, \$7.1 million of our commercial loans, or 42% of our Bank's capital, exceeded the supervisory loan to value ratio. Management is taking steps, including requesting additional collateral, requesting principal reductions, or reevaluating the property through tax valuations or new appraisals, to correct the Bank's supervisory exception position. The number of loans in our portfolio with loan-to-value ratios in excess of supervisory guidelines, our internal guidelines, or both could increase the risk of delinquencies and defaults in our portfolio.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

Due to our short operating history, all of the loans in our loan portfolio and our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

We may have higher loan losses than we have allowed for in our allowance for loan losses.

Our loan losses could exceed our allowance for loan losses. Our average loan size continues to increase and reliance on our historic allowance for loan losses may not be adequate. Approximately 80% of our loan portfolio is composed of construction, commercial mortgage, and commercial loans. Repayment of such loans is generally considered more subject to market risk than residential mortgage loans. Industry experience shows that a portion of loans will become delinquent and a portion of loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond our control, including among other things, changes in market conditions affecting the value of loan collateral and problems affecting the credit of our borrowers.

An economic downturn, especially one affecting the Greenville County area, could reduce our customer base, our level of deposits, and demand for financial products such as loans.

Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our markets, especially in Greenville County. If the communities in which we operate do not grow, or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn would likely contribute to the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt our business. Interest received on loans represented 94.1% of our interest income for the year ended December 31, 2007. If an economic downturn occurs in the economy as a whole, or especially in the Greenville County area, borrowers may be less likely to repay their loans as scheduled. Moreover, the value of real estate or other collateral that may secure our loans could be adversely affected. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business.

A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt our business.

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2007, 81% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A weakening of the real estate market in our primary market area could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Acts of nature, including hurricanes, tornados, earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition.

Our small- to medium-sized business target markets may have fewer financial resources to weather a downturn in the economy.

We target the banking and financial services needs of small- and medium-sized businesses. These businesses generally have fewer financial resources in terms of capital borrowing capacity than larger entities. If general economic conditions negatively impact these businesses in the markets in which we operate, our business, financial condition, and results of operation may be adversely affected.

Changes in prevailing interest rates may reduce our profitability.

Our results of operations depend in large part upon the level of our net interest income, which is the difference between interest income from interest-earning assets, such as loans and mortgage-backed securities, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Depending on the terms and maturities of our assets and liabilities, a significant change in interest rates could have a material adverse effect on our profitability. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While we intend to manage the effects of changes in interest rates by adjusting the terms, maturities, and pricing of our assets and liabilities, our efforts may not be effective and our financial condition and results of operations could suffer.

We are dependent on key individuals and the loss of one or more of these key individuals could curtail our growth and adversely affect our prospects.

Lawrence R. Miller, our president and chief executive officer, has extensive and long-standing ties within our primary service areas and provides us with an important medium through which to market our products and services. If we lose the services of Mr. Miller, he could be difficult to replace and our business and development could be materially and adversely affected.

Our success also depends, in part, on our continued ability to attract and retain experienced loan originators, as well as other management personnel. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel, or the loss of the services of several of such key personnel, could adversely affect our growth strategy and seriously harm our business, results of operations, and financial condition.

We are subject to extensive regulation that could limit or restrict our activities.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission that are applicable to us, will increase the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. We have experienced, and we expect to continue to experience, significant compliance costs, including costs related to internal controls, as a result of the Sarbanes-Oxley Act.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. To support our continued growth, we may need to raise additional capital. Our ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted.

We face strong competition for clients, which could prevent us from obtaining clients and may cause us to pay higher interest rates to attract deposits.

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in our primary market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our client base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. These institutions offer some services, such as extensive and established branch networks, that we do not provide. There are also a number of other relatively new community banks in our market that share our general marketing focus on small- to medium-sized businesses and individuals. There is a risk that we will not be able to compete successfully with other financial institutions in our market, and that we may have to pay higher interest rates to attract deposits, resulting in reduced profitability. In addition, competitors that are not depository institutions are generally not subject to the extensive regulations that apply to us.

We will face risks with respect to future expansion and acquisitions or mergers.

Although we do not have any current plans to do so, we may seek to acquire other financial institutions or parts of those institutions. We may also expand into new markets or lines of business or offer new products or services. These activities would involve a number of risks, including:

- the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to a target institution;
- the time and costs of evaluating new markets, hiring or retaining experienced local management, and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on our results of operations; and
- the risk of loss of key employees and customers.

There is no public market for our shares, and we do not believe that we have enough shareholders or outstanding shares to support an active trading market, even if we are eventually listed on a recognized trading exchange.

There is currently no established market for our common stock, and we have no current plans to list our stock on NASDAQ or any other exchange. For these reasons, we do not expect a liquid market for our common stock to develop for several years, if at all.

Item 2. Description of Property.

Our main office facility is located at the corner of East Washington and Mordecai Streets in downtown Greenville, South Carolina. The building is a full service banking facility with two drive-through banking stations. Our address is 500 East Washington Street, Greenville, South Carolina 29601. The site is in excess of one acre in size, and the building is approximately 6,500 square feet. The Bank has a four-year operating lease, with three two-year renewal options, on this main office facility which began in October 2004.

On November 17, 2004, we purchased approximately one acre of land in downtown Greenville for approximately \$1.2 million. We acquired rights to purchase this property after being assigned an option, at par, from Focus Investment Group, LLC, a business interest of one of our organizers, Vivian A. Wong.

We lease a branch facility at 2801B Wade Hampton Boulevard in Taylors, South Carolina. The building is a full service banking facility with two drive-through banking stations as well as a 24-hour Automated Teller Machine (“ATM”). This office is approximately 3,250 square feet. The Bank has a ten-year operating lease on this branch office which began in August 2007.

In November 2007, we purchased approximately one acre of land in Simpsonville, South Carolina for approximately \$986,000. The OCC has approved the opening of a full service branch facility on this site. We anticipate opening this branch facility by the fourth quarter of 2008.

We believe that all of our properties are adequately covered by insurance.

Item 3. Legal Proceedings.

In the ordinary course of operations, we may be a party to various legal proceedings from time to time. We do not believe that there is any pending or threatened proceeding against us, which, if determined adversely, would have a material effect on our business, results of operations, or financial condition.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Item 5. Market for Common Equity and Related Stockholder Matters.

We are currently quoted on the OTC Bulletin Board under the symbol "IEBS" and have a sponsoring broker-dealer to match buy and sell orders for our common stock. Although we are quoted on the OTC Bulletin Board, the trading markets on the OTC Bulletin Board lack the depth, liquidity, and orderliness necessary to maintain a liquid market. We have no current plans to seek listing on any stock exchange, and we do not expect to qualify for listing on NASDAQ or any other exchange for at least several years. The OTC Bulletin Board prices are quotations, which reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

As of March 14, 2008, there were 2,085,010 shares of common stock outstanding held by approximately 625 shareholders of record. All of our currently issued and outstanding common stock was issued in our initial public offering which was completed in May 2005. The price per share in our initial public offering was \$10.00.

There is currently no established public trading market in our common stock, and trading and quotations of our common stock have been limited and sporadic. Because there has not been an established market for our common stock, we may not be aware of all prices at which our common stock has been traded. We have not determined whether the trades of which we are aware were the result of arm's-length negotiations between the parties. Based on information available to us from a limited number of sellers and purchasers of common stock who have engaged in privately negotiated transactions of which we are aware, there were several stock trades in 2007 with prices per share ranging from \$10.00 to \$10.75.

We have not declared or paid any cash dividends on our common stock since our inception. For the foreseeable future, we do not intend to declare cash dividends. We intend to retain earnings to grow our business and strengthen our capital base. Our ability to pay dividends depends on the ability of our subsidiary, Independence National Bank, to pay dividends to us. As a national bank, Independence National Bank may only pay dividends out of its net profits, after deducting expenses, including losses and bad debts. In addition, the Bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the Bank's net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC will be required if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years less any required transfers to surplus. The OCC also has the authority under federal law to enjoin a national bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

Item 6. Management's Discussion and Analysis or Plan of Operation.

CRITICAL ACCOUNTING POLICIES

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in footnote 1 to our audited consolidated financial statements as of December 31, 2007.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

Income Taxes

We use assumptions and estimates in determining income taxes payable or refundable for the current year, deferred income tax liabilities and assets for events recognized differently in our financial statements and income tax returns, and income tax expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations. Management exercises judgment in evaluating the amount and timing of recognition of resulting tax liabilities and assets. These judgments and estimates are reevaluated on a continual basis as regulatory and business factors change. No assurance can be given that either the tax returns submitted by us, or the income tax reported on the financial statements, will not be adjusted by either adverse rulings by the United States Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service. We are subject to potential adverse adjustments, including, but not limited to, an increase in the statutory federal or state income tax rates, the permanent non-deductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income in order to ultimately realize deferred income tax assets.

General

Our Bank opened for business on May 16, 2005. Until May 2005, our principal activities related to our organization, the conducting of our initial public offering, the pursuit of approvals from the OCC for our application to charter the Bank, the pursuit of approvals from the Federal Reserve to become a bank holding company, and the pursuit of approvals from the FDIC for our application for insurance of the deposits of the Bank. We completed our stock offering in May 2005, upon the issuance of 2,085,010 shares with net proceeds totaling \$20.5 million. We capitalized the Bank with \$18 million of the proceeds from the stock offering.

Like most community banks, we derive the majority of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income earned on our interest-earning assets, such as loans and investments, and the expense cost of our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

We have included a number of tables to assist in our description of these measures. For example, the "Average Balances" table shows the average balance during 2007 and 2006 of each category of our assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that our loans typically provide higher interest yields than do other types of interest-earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included a table to help explain this. Finally, we have included a number of tables that provide detail about our investment securities, our loans, and our deposits and other borrowings.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with our financial statements and the other statistical information included in this report.

Results of Operations

General

Our net income for the year ended December 31, 2007 was \$322,193, or \$0.15 per share, compared to a net loss of \$641,728 for the year ended December 31, 2006, or a net loss of \$0.31 per share.

Net Interest Income

Net interest income was \$3.7 million for the year ended December 31, 2007, an increase of \$1.2 million or 47.1% over net interest income of \$2.5 million for the year ended December 31, 2006. Net interest income is the company's primary source of revenue. Net interest income is the difference between income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on the Company's interest-earning assets and the rates paid on its interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

Interest income for the year ended December 31, 2007 included \$6.8 million on loans, \$284,785 on investment securities and \$145,628 on federal funds sold and other. Total interest expense of \$3.6 million for the year ended December 31, 2007 included \$3.4 million related to deposit accounts and \$171,492 on borrowings.

Our consolidated net interest margin for the year ended December 31, 2007 was 3.94%, a decrease of 32 basis points from the net interest margin for the year ended December 31, 2006 of 4.26%. Earning assets averaged \$93.1 million for the year ended December 31, 2007, increasing from \$58.6 million for the year ended December 31, 2006. The net interest margin is calculated as net interest income divided by year-to-date average earning assets. Our net interest spread was 2.93% for the year ended December 31, 2007 compared to 2.85% for the year ended December 31, 2006. The net interest spread is the difference between the yield we earn on our interest-earning assets and the rate we pay on our interest-bearing liabilities. In pricing deposits, we considered our liquidity needs, the direction and levels of interest rates and local market conditions. As such, higher rates have been paid initially to attract deposits.

The following table sets forth information related to our average balance sheet, average yields on assets, and average costs of liabilities. We derived these yields by dividing income or expense by the average balance of the corresponding assets or liabilities. We derived average balances from the daily balances throughout the periods indicated. The net amount of capitalized loan fees are amortized into interest income on loans.

	For the Years Ended December 31,					
	2007			2006		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Interest-earning assets:						
Federal funds sold and other	\$ 2,662,250	\$ 145,628	5.47%	\$ 3,343,502	\$ 168,003	5.02%
Investment securities (1)	6,690,695	284,785	4.26%	10,911,634	446,189	4.09%
Loans (2)	83,741,373	6,825,760	8.15%	44,310,415	3,632,213	8.20%
Total interest-earning assets	93,094,318	7,256,173	7.79%	58,565,551	4,246,405	7.25%
Noninterest-earning assets	2,344,242			2,308,650		
Total assets	<u>\$ 95,438,560</u>			<u>\$ 60,874,201</u>		
Interest-bearing liabilities:						
NOW accounts	\$ 2,898,549	34,114	1.18%	\$ 2,257,066	27,571	1.22%
Savings & money market	12,684,295	515,061	4.06%	16,233,671	681,919	4.20%
Time deposits (excluding brokered time deposits)	27,499,058	1,423,388	5.18%	18,241,797	883,921	4.85%
Brokered time deposits	27,218,736	1,441,970	5.30%	1,484,952	78,895	5.31%
Total interest-bearing deposits	70,300,638	3,414,533	4.86%	38,217,486	1,672,306	4.38%
Borrowings	3,463,917	171,492	4.95%	1,596,902	79,442	4.97%
Total interest-bearing liabilities	73,764,555	3,586,025	4.86%	39,814,388	1,751,748	4.40%
Noninterest-bearing liabilities	3,003,554			2,337,116		
Shareholders' equity	18,670,451			18,722,697		
Total liabilities and shareholders' equity	<u>\$ 95,438,560</u>			<u>\$ 60,874,201</u>		
Net interest spread			2.93%			2.85%
Net interest income/ margin		<u>\$ 3,670,148</u>	3.94%		<u>\$ 2,494,657</u>	4.26%

- (1) The average balances for investment securities exclude the unrealized loss recorded for available for sale securities.
(2) Nonaccrual loans are included in average balances for yield computations.

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following tables set forth the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

	2007 Compared to 2006		
	Total Change	Change in Volume	Change in Rate
Earning assets:			
Federal funds sold and other	\$ (22,375)	\$ (36,346)	\$ 13,971
Investment securities	(161,404)	(178,986)	17,582
Loans	3,193,547	3,214,133	(20,586)
Total interest income	3,009,768	2,998,801	10,967
Interest-bearing liabilities:			
Interest-bearing deposits	1,742,227	1,701,643	40,584
Borrowings	92,050	92,434	(384)
Total interest expense	1,834,277	1,794,077	40,200
Net Interest Income	<u>\$ 1,175,491</u>	<u>\$ 1,204,724</u>	<u>\$ (29,233)</u>

Provision for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged as a non-cash expense to our statement of operations. We review our loan portfolio periodically to evaluate our outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under "Provision and Allowance for Loan Losses" for a description of the factors we consider in determining the amount of the provision we expense each period to maintain this allowance.

Our provision for loan losses was \$483,000 for the year ended December 31, 2007, a decrease of \$382,750 or 44.2% from provision of \$865,750 for the year ended December 31, 2006. The allowance as a percentage of gross loans decreased to 1.30% at December 31, 2007 from 1.90% at December 31, 2006. This decrease in the allowance percentage is due to a charge off in 2007 of \$397,661 related to a loan relationship we determined to be impaired during the three months ended September 30, 2006 for which additional provision was recorded in 2006. See additional information related to this loan relationship under the 'Nonperforming Assets' section below.

Noninterest Income

Noninterest income for the year ended December 31, 2007 was \$62,491 compared to \$49,132 for the year ended December 31, 2006. Service fees on deposit accounts increased \$9,366 during the year ended December 31, 2007 due to an increase in deposit accounts. For the year ended December 31, 2007, other income was \$37,930, an increase of \$3,993 over the year ended December 31, 2006. Included in other income for the year ended December 31, 2007 was \$23,911 in rental income related to the lease of our land at South Irvine Street, and \$11,528 in mortgage origination fees we received on residential loans funded and closed by a third party.

Noninterest Expenses

The following table sets forth information related to our noninterest expenses for the years ended December 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Compensation and benefits	\$ 1,651,551	\$ 1,487,441
Professional fees	199,976	152,209
Marketing	287,297	206,033
Insurance	125,059	55,258
Occupancy and equipment	430,663	300,059
Data processing and related costs	262,627	185,855
Telephone and supplies	53,643	40,944
Other	133,130	113,728
Total noninterest expenses	<u>\$ 3,143,946</u>	<u>\$ 2,541,527</u>

Income Tax Benefit

An income tax benefit of \$216,500 and \$221,760 was recognized for the years ended December 31, 2007 and 2006, respectively. This benefit related primarily to net operating loss carry-forwards created in 2006 and 2005 and the reduction of the related valuation allowance on these deferred tax assets. In 2006 and 2005, the Company recorded a valuation allowance related to the deferred tax assets created by the net operating loss carry-forwards due to the uncertainty of the ability to fully utilize these carry-forwards based on our short operating history. In 2007, the Bank generated taxable income and determined through internal projections that the net operating loss carry-forwards would more likely than not be utilized prior to their expiration beginning in 2025. Therefore, in 2007, the Company reversed the valuation allowance on its deferred tax assets.

Balance Sheet Review

General

At December 31, 2007, we had total assets of \$110.5 million, an increase of \$34.8 million or 45.9% over total assets of \$75.7 million at December 31, 2006. This increase in assets was driven by a \$35.9 million or 58.1% increase in net loans, which rose from \$61.8 million at December 31, 2006 to \$97.6 million at December 31, 2007. Other assets at December 31, 2007 consisted of cash and due from banks of \$813,663; federal funds sold of \$1,804,000, investment securities available for sale of \$5.2 million, non-marketable equity securities of \$1.0 million, property and equipment of \$2.7 million, and accrued interest receivable and other assets of \$1.4 million. Total liabilities at December 31, 2007 were \$91.5 million compared to \$57.3 million at December 31, 2006, an increase of \$34.3 million or 59.8%. This increase in liabilities was primarily a result of an increase in deposits of \$25.2 million or 44.3%, and advances from the Federal Home Loan Bank of Atlanta (FHLB) of \$9.0 million. At December 31, 2007, liabilities consisted of deposits of \$82.1 million, FHLB advances of \$9.0 million, securities sold under agreements to repurchase of \$39,359, and accrued interest payable and other liabilities of \$349,336. Shareholders' equity at December 31, 2007 was \$19.0 million, compared to \$18.5 million at December 31, 2006, an increase of \$515,963 or 2.8%. This increase was primarily a result of our net income for the year ended December 31, 2007. A more detailed analysis of the primary components of our balance sheet follows.

Investments

At December 31, 2007, the \$5.2 million in our investment securities portfolio represented approximately 4.7% of total assets. Investments decreased from \$9.6 million at December 31, 2006, or 12.7% of total assets. Decreases in investment balances during 2007 were due to normal investment maturities and repayments. At December 31, 2007 and 2006, we held Government-sponsored enterprise securities and mortgage-backed securities as investment securities available for sale. The amortized costs and the fair value of our investments at December 31, 2007 and 2006 are shown in the following table.

	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for Sale				
Government-sponsored enterprises	\$ 2,000,000	\$ 2,018,125	\$ 5,997,738	\$ 5,962,100
Mortgage-backed securities	3,153,916	3,144,230	3,708,724	3,622,846
Total	<u>\$ 5,153,916</u>	<u>\$ 5,162,355</u>	<u>\$ 9,706,462</u>	<u>\$ 9,584,946</u>

We believe, based on industry analyst reports and credit ratings that the deterioration in fair values of investment securities available for sale is attributed to changes in market interest rates and not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary. The Company has the ability and intent to hold these securities until such time as the value recovers or the securities mature.

Contractual maturities and yields on our investment securities available for sale at December 31, 2007 are shown in the following table. Expected maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Less than one year		One year to five years		Five years to ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for Sale										
Government-sponsored enterprises	\$ --	--	\$ 2,000,000	4.78%	\$ --	--%	\$ --	--%	\$ 2,000,000	4.78%
Mortgage-backed securities	--	--	1,332,358	4.11	1,125,533	4.57	696,025	4.90	3,153,916	4.45
Total	<u>\$ --</u>	<u>--</u>	<u>\$ 3,332,358</u>	<u>4.50%</u>	<u>\$ 1,125,533</u>	<u>4.57%</u>	<u>\$ 696,025</u>	<u>4.90%</u>	<u>\$ 5,153,916</u>	<u>4.58%</u>

At December 31, 2007 and 2006, we also held non-marketable equity securities, which consisted of Federal Reserve Bank stock of \$476,200 and \$475,050, respectively, and Federal Home Loan Bank stock of \$541,400 and \$81,700, respectively. These investments are carried at cost, which approximates fair market value.

Loans

Since loans typically provide higher interest yields than other types of interest-earning assets, a substantial percentage of our earning assets are invested in our loan portfolio. Average loans for the year ended December 31, 2007 were \$83.7 million, an increase of \$39.4 million over average loans of \$44.3 million for the year ended December 31, 2006. Before allowance for loan losses, gross

loans outstanding at December 31, 2007 were \$98.9 million, or 89.5% of total assets, compared to \$63.0 million, or 83.1% of total assets at December 31, 2006.

The principal component of our loan portfolio is loans secured by real estate mortgages. Most of our real estate loans are secured by residential or commercial property. We do not generally originate traditional long term residential mortgages, but we do issue traditional second mortgage residential real estate loans and home equity lines of credit. We obtain a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to increase the likelihood of the ultimate repayment of the loan. Generally, we limit the loan-to-value ratio on loans we make to 80%.

The following table summarizes the composition of our loan portfolio as of December 31, 2007 and 2006.

	2007		2006	
	Amount	% of Total	Amount	% of Total
Real Estate:				
Commercial	\$ 36,727,543	37.1%	\$ 28,847,461	45.8%
Construction and development	24,798,489	25.1	12,791,969	20.3
Consumer residential	10,264,378	10.4	7,429,775	11.8
Home equity	8,024,879	8.1	3,382,398	5.4
Total real estate	79,815,289	80.7	52,451,603	83.3
Commercial business	17,195,517	17.4	9,486,187	15.1
Consumer - other	2,046,738	2.1	1,193,946	1.9
Deferred origination fees, net	(166,174)	(0.2)	(178,540)	(0.3)
Gross loans	98,891,370	100.0%	62,953,196	100.0%
Less allowance for loan losses	(1,283,491)		(1,198,152)	
Total loans, net	\$ 97,607,879		\$ 61,755,044	

The largest component of our loan portfolio at year-end was commercial real estate loans which represented 37.1% of the portfolio. Due to the short time our portfolio has existed, the current mix may not be indicative of the ongoing portfolio mix. We attempt to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration of certain types of collateral.

Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following tables is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

The following table summarizes the loan maturity distribution by type and related interest rate characteristics at December 31, 2007.

	One year or less	After one but within five years	After five years	Total
Real Estate:				
Commercial	\$ 9,666,630	\$ 25,748,019	\$ 1,312,894	\$ 36,727,543
Construction and development	12,657,938	10,413,208	1,727,343	24,798,489
Consumer residential	2,191,366	4,054,867	4,018,145	10,264,378
Home equity	-	-	8,024,879	8,024,879
Total real estate	24,515,934	40,216,094	15,083,261	79,815,289
Commercial	10,560,784	5,227,298	1,407,435	17,195,517
Consumer- other	834,464	771,223	441,051	2,046,738
Gross loans	\$ 35,911,182	\$ 46,214,615	\$ 16,931,747	\$ 99,057,544
Deferred origination fees, net				(166,174)
Gross loans, net of deferred fees				\$ 98,891,370
Loans maturing- after one year with				
Fixed interest rates				\$ 29,403,438
Floating interest rates				\$ 33,742,924

Provision and Allowance for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged to expense on our consolidated statement of operations. At December 31, 2007, the allowance for loan losses was \$1,283,491, or 1.30% of gross loans, compared to \$1,198,152 at December 31, 2006, or 1.90% of gross loans. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectibility of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons. Due to our limited operating history, to date the provision for loan losses has been made primarily as a result of our assessment of general loan loss risk compared to banks of similar size and maturity. Due to our short operating history, the loans in our loan portfolio and our lending relationships are of very recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process known as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition. Periodically, we will adjust the amount of the allowance based on changing circumstances. We will charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period.

We do not allocate the allowance for loan losses to specific categories of loans. Instead, we evaluate the adequacy of the allowance for loan losses on an overall portfolio basis utilizing our credit grading system which we apply to each loan. We have retained an independent consultant to review the loan files on a test basis to confirm the grading of samples of loans.

Nonperforming Assets

During the years ended December 31, 2007 and 2006, the Bank charged off loans in the amount of \$397,661 and \$5,598, respectively. At December 31, 2007 and 2006, there were non-accrual loans of \$1,084,883 and \$583,262, respectively. There were no impaired loans at December 31, 2007. Impaired loans totaled \$477,885 at December 31, 2006 with a related specific allowance of \$398,900. At both December 31, 2007 and 2006, there were no accruing loans which were contractually past due 90 days or more as to principal or interest payments. Generally, a loan will be placed on non-accrual status when it becomes 90 days past due as to principal or interest, or when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as non-accrual will be recognized as income when received.

At December 31, 2007, we had one borrowing relationship with an aggregate principal balance of \$1.1 million that was considered classified. This relationship was placed on non-accrual status in July 2007. In January 2008 one loan in this relationship with a principal balance of \$700,000 was paid in full plus interest and legal fees. Based on our current evaluation of the financial condition of the borrower and the sufficient value of the collateral, at this time we do not believe we will incur a material loss from the remaining loans in this relationship. Based on the same factors, management does not consider this relationship to be impaired.

On September 6, 2006, we determined it necessary to record an additional provision for loan losses of \$398,900 as an impairment charge, or specific reserve, related to one borrowing relationship with an aggregate principal balance of approximately \$895,000, of which \$477,885 was considered impaired. Our loss estimate was based on an assessment of the underlying collateral securing this relationship. We were informed by the borrower that it would be unable to meet the repayment terms of the loans due to severe deterioration in the financial condition of its business causing the borrower to cease operation. Prior to this event, these loans had performed in accordance with repayment terms, and financial information had been provided in accordance with loan covenants indicating no material adverse change in the financial condition of the borrower. In April 2007, the underlying collateral of this relationship was fully liquidated, the funds were applied to the loans, and the remaining balances were charged off. No additional loss was incurred by the Bank.

At December 31, 2007, we were not aware of any potential problem loans that were not already categorized as nonaccrual.

Deposits and Other Interest-Bearing Liabilities

Our primary source of funds for loans and investments is our deposits and short-term repurchase agreements. Average total deposits for the years ended December 31, 2007 and 2006 were \$73.0 million and \$40.4 million, respectively. The following table shows the balance outstanding and the average rates paid on deposits held by us for the years ended December 31, 2007 and 2006.

	2007		2006	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Noninterest bearing demand deposits	\$ 2,924,754	- %	\$ 2,368,069	- %
Interest bearing demand deposits	3,039,618	1.77	2,153,828	1.35
Money market accounts	11,656,304	3.59	14,362,860	4.11
Savings accounts	84,765	0.75	71,126	0.75
Time deposits less than \$100,000	10,763,727	5.14	8,115,273	5.13
Time deposits of \$100,000 or more	18,483,949	5.15	17,432,560	5.22
Brokered time deposits less than \$100,000	35,180,000	5.19	12,403,000	5.27
Total	<u>\$ 82,133,117</u>	<u>4.63%</u>	<u>\$ 56,906,716</u>	<u>3.39%</u>

Core deposits, which exclude time deposits of \$100,000 or more, provide a relatively stable funding source for our loan portfolio and other earning assets. Beginning in the fourth quarter of 2006, we chose to obtain deposits outside of our local market area in the form of brokered time deposits. Due to the interest rate environment in our market, as well as strong competition from other banking and financial services companies in gathering deposits, brokered time deposits allow us to obtain funding at a lower interest rate in order to support loan growth. At December 31, 2007 and 2006, brokered time deposits were \$35.2 million and \$12.4 million, respectively. We plan to continue the use of brokered time deposits, while maintaining an effort to gather deposits in our local market. Our loan-to-deposit ratio was 118.8% and 108.5% at December 31, 2007 and 2006, respectively.

All of our time deposits are certificates of deposits. The maturity distribution of our time deposits of \$100,000 or more at December 31, 2007 is as follows:

Three months or less	\$ 4,268,565
Over three through six months	5,306,248
Over six through twelve months	8,637,949
Over twelve months	271,187
Total	<u>\$ 18,483,949</u>

Short-Term Borrowings

At December 31, 2007 and 2006, respectively, the Bank had sold \$39,359 and \$123,773 of securities under agreements to repurchase with brokers with a weighted rate of 1.88% and 2.86%, respectively, that mature in less than 90 days. These agreements were secured with approximately \$439,000 and \$518,000 of investment securities. The securities, under agreement to repurchase averaged \$205,958 during 2007, with \$543,529 being the maximum amount outstanding at any month-end. The average rate paid in 2007 was 3.22%. The securities, under agreement to repurchase averaged \$1,032,431 during 2006, with \$5,132,475 being the maximum amount outstanding at any month-end. The average rate paid in 2006 was 4.57%.

At December 31, 2007 and 2006, we had short-term lines of credit with correspondent banks to purchase unsecured federal funds totaling \$7.0 million.

Federal Home Loan Bank Advances

At December 31, 2007 the Bank had \$9.0 million of advances from the FHLB. These advances are secured with approximately \$14.9 million of first and second mortgage loans and \$541,400 of stock in the FHLB. The Bank had one advance for \$5,000,000 at a rate of 5.045% maturing June, 2012 with a call date of June, 2009 and one advance for \$4,000,000 at a rate of 4.47% maturing November, 2008. At December 31, 2006 there were no advances outstanding.

Capital Resources

Total shareholders' equity was \$19.0 million at December 31, 2007, an increase of \$515,963 or 2.8% from \$18.5 million at December 31, 2006. Shareholders' equity increased during 2007 primarily due to the net income for the year ended December 31, 2007 of \$322,193. Other components of the change in shareholder's equity related to a change in the unrealized loss on investment securities, net of tax, of \$85,770 and compensation expense related to stock options granted of \$108,000.

The Federal Reserve guidelines contain an exemption from the capital requirements for "small bank holding companies" which in 2006 were amended to cover most bank holding companies with less than \$500 million in total assets that do not have a material amount of debt or equity securities outstanding registered with the SEC. Although our class of common stock is registered under Section 12 of the Securities Exchange Act, we believe that because our stock is not listed on any exchange or otherwise actively traded, the Federal Reserve Board will interpret its new guidelines to mean that we qualify as a small bank holding company. Nevertheless, our Bank remains subject to these capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Regardless, our Bank is "well capitalized" under these minimum capital requirements as set per bank regulatory agencies.

Under the capital adequacy guidelines, regulatory capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses, subject to certain limitations. We are also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

At the bank level, we are subject to various regulatory capital requirements administered by the federal banking agencies. To be considered "adequately capitalized" under these capital guidelines, we must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, we must maintain a minimum Tier 1 leverage ratio of at least 4%. To be considered "well-capitalized," we must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%.

The following table sets forth the Company's and the Bank's various capital ratios at December 31, 2007. For all periods, the Bank was considered "well capitalized".

	<u>Holding Company</u>	<u>Bank</u>
Total risk-based capital	18.0%	15.5%
Tier 1 risk-based capital	17.2%	14.3%
Leverage capital	17.6%	14.7%

We believe that our capital is sufficient to fund the activities of the Bank in its initial stages of operation and that the rate of asset growth will not negatively impact the capital base. As of December 31, 2007, there were no significant firm commitments outstanding for capital expenditures. However, we have engaged a firm to design and build a full service branch on our new site in Simpsonville, South Carolina. We anticipate we will begin construction on this facility in second quarter 2008 and estimate the construction and equipment costs to be approximately \$750,000.

Return on Equity and Assets

The following table shows the return on average assets (net income (loss) divided by average total assets), return on average equity (net income (loss) divided by average equity), and equity to assets ratio (average equity divided by average total assets) for the years ended December 31, 2007 and 2006. Since our inception, we have not paid cash dividends.

	<u>2007</u>	<u>2006</u>
Return on average assets	0.34%	(1.05)%
Return on average equity	1.73%	(3.43)%
Equity to assets ratio	19.56%	30.76%

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in our consolidated financial statements. Rather, our financial statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, our assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on our performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude.

Off-Balance Sheet Risk

Commitments to extend credit are agreements to lend to a client as long as the client has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2007, unfunded commitments to extend credit were \$34.7 million, of which \$2.4 million was at fixed rates and \$32.3 million was at variable rates. A significant portion of the unfunded commitments related to consumer equity lines of credit and commercial lines of credit. Based on historical experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

Except as disclosed in this document, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arises from interest rate risk inherent in our lending, investing, deposit gathering, and borrowing activities. Other types of market risks, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of our business.

We actively monitor and manage our interest rate risk exposure principally by measuring our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available for sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. We generally would benefit from increasing market rates of interest when we have an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when we are liability-sensitive.

Approximately 66% of our loans were variable rate loans at December 31, 2007, an increase from 63% at December 31, 2006. The ratio of cumulative gap to total earning assets after 12 months was (8.3)% because \$8.9 million more liabilities will reprice in a 12 month period than assets. However, our gap analysis is not a precise indicator of our interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by us as significantly less interest-sensitive than market-based rates such as those paid on noncore deposits. Net interest income may be affected by other significant factors in a given interest rate environment, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities.

Liquidity and Interest Rate Sensitivity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At December 31, 2007, our liquid assets, consisting of cash and due from banks and federal funds sold, amounted to \$2.6 million, or 2.4% of total assets. Our investment securities available for sale at December 31, 2007 amounted to \$5.2 million or 4.7% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, at December 31, 2007, \$3.9 million of these securities were pledged against outstanding debt. Therefore, the related debt would need to be repaid prior to the securities being sold and converted to cash.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. We plan to meet our future cash needs through the liquidation of temporary investments and the generation of deposits, both within our market and brokered time deposits. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. We also maintain federal funds purchased lines of credit with correspondent banks totaling \$7.0 million. We are a member of the Federal Home Loan Bank of Atlanta, from which applications for borrowings can be made for leverage purposes. The FHLB requires that securities, qualifying mortgage loans, and stock of the FHLB owned by the Bank be pledged to secure any advances from the FHLB. The unused borrowing capacity currently available from the FHLB at December 31, 2007 was approximately \$13.1 million, assuming that the Bank's investment in FHLB stock, as well as qualifying mortgages or investment securities, would be available to secure any future borrowings.

Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. Our asset/liability management committee ("ALCO") monitors and considers methods of managing exposure to interest rate risk. We have both an internal ALCO consisting of senior management that meets at various times during each month and a board ALCO that meets monthly. The ALCOs are responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

The following table sets forth information regarding our rate sensitivity, as of December 31, 2007, at each of the time intervals. The information in the table may not be indicative of our rate sensitivity position at other points in time. In addition, the maturity distribution indicated in the table may differ from the contractual maturities of the earning assets and interest-bearing liabilities presented due to consideration of prepayment speeds under various interest rate change scenarios in the application of the interest rate sensitivity methods described above.

	<u>Within three months</u>	<u>After three but within twelve months</u>	<u>After one but within five years</u>	<u>After five years</u>	<u>Total</u>
Interest-earning assets:					
Federal funds sold and other	\$ 2,908,096	\$ --	\$ --	\$ --	\$ 2,908,096
Investment securities	116,361	1,349,083	2,676,184	1,012,288	5,153,916
Loans	<u>67,184,303</u>	<u>2,469,803</u>	<u>23,587,680</u>	<u>5,815,758</u>	<u>99,057,544</u>
Total interest-earning assets	<u>\$ 70,208,760</u>	<u>\$ 3,818,886</u>	<u>\$ 26,263,864</u>	<u>\$ 6,828,046</u>	<u>\$ 107,119,556</u>
Interest-bearing liabilities:					
Money market and NOW	\$ 14,695,922	\$ --	\$ --	\$ --	\$ 14,695,922
Regular savings	84,765	--	--	--	84,765
Time deposits	6,829,363	22,076,938	341,375	--	29,247,676
Brokered time deposits	16,597,000	18,583,000	--	--	35,180,000
FHLB advances	--	4,000,000	5,000,000	--	9,000,000
Repurchase agreements	<u>39,359</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>39,359</u>
Total interest-bearing liabilities	<u>\$ 38,246,409</u>	<u>\$ 44,659,938</u>	<u>\$ 5,341,375</u>	<u>\$ --</u>	<u>\$ 88,247,722</u>
Period gap	\$ 31,962,351	\$ (40,841,052)	\$ 20,922,489	\$ 6,828,046	
Cumulative gap	31,962,351	(8,878,701)	12,043,788	18,871,834	
Ratio of cumulative gap to total earning assets	29.8%	(8.3)%	11.2%	17.6%	

Accounting, Reporting, and Regulatory Matters

The following is a summary of recent authoritative pronouncements that may affect our accounting, reporting, and disclosure of financial information:

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard eliminates inconsistencies found in various prior pronouncements but does not require any new fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and will not impact the Company’s accounting measurements but it is expected to result in additional disclosures.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115” (“SFAS 159”). This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement 1) applies to all entities, 2) specifies certain election dates, 3) can be applied on an instrument-by-instrument basis with some exceptions, 4) is irrevocable and 5) applies only to entire instruments. One exception is demand deposit liabilities which are explicitly excluded as qualifying for fair value. With respect to SFAS 115, available-for-sale and held-to-maturity securities at the effective date are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date shall be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. SFAS 159 is effective for the Company on January 1, 2008. The Company is currently analyzing the fair value option that is permitted, but not required, under SFAS 159.

In November 2007, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 109, “Written Loan Commitments Recorded at Fair Value Through Earnings” (“SAB 109”). SAB 109 expresses the current view of the SEC staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply this guidance on a prospective basis to derivative loan commitments issued or modified in the first quarter of 2008 and thereafter. The Company is currently analyzing the impact, if any, of this guidance.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Item 7. Financial Statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Directors
Independence Bancshares, Inc.
Greenville, South Carolina

We have audited the accompanying consolidated balance sheets of Independence Bancshares, Inc. and subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss) and cash flows for the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Bancshares, Inc. and subsidiary as of December 31, 2007 and 2006 and the results of their operations and their cash flows for the years ended December 31, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of Independence Bancshares, Inc. and subsidiary's internal control over financial reporting as of December 31, 2007, included in the accompanying Management's Report on Internal Controls Over Financial Reporting, and, accordingly, we do not express an opinion thereon.

/s/ Elliott Davis, LLC

Elliott Davis, LLC
Greenville, South Carolina
March 14, 2008

INDEPENDENCE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	2006
Assets		
Cash and due from banks	\$ 813,663	\$ 397,010
Federal funds sold	1,804,000	779,000
Investment securities available for sale	5,162,355	9,584,946
Non-marketable equity securities	1,017,600	556,750
Loans, net	97,607,879	61,755,044
Accrued interest receivable	467,186	357,257
Property and equipment, net	2,733,202	1,618,513
Other assets	905,360	681,813
Total assets	\$ 110,511,245	\$ 75,730,333
Liabilities		
Deposits:		
Noninterest bearing	\$ 2,924,754	\$ 2,368,069
Interest bearing	79,208,363	54,538,647
Total deposits	82,133,117	56,906,716
Federal Home Loan Bank advances	9,000,000	-
Securities sold under agreements to repurchase	39,359	123,773
Accrued interest payable	126,433	84,512
Accounts payable and accrued expenses	222,903	141,862
Total liabilities	91,521,812	57,256,863
Commitments and contingencies – notes 11 and 12		
Shareholders' equity		
Preferred stock, par value \$.01 per share; 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value \$.01 per share; 10,000,000 shares authorized; 2,085,010 shares issued and outstanding	20,850	20,850
Additional paid-in capital	20,671,588	20,563,588
Accumulated other comprehensive income (loss)	5,570	(80,200)
Accumulated deficit	(1,708,575)	(2,030,768)
Total shareholders' equity	18,989,433	18,473,470
Total liabilities and shareholders' equity	\$ 110,511,245	\$ 75,730,333

See notes to consolidated financial statements that are an integral part of these consolidated statements.

INDEPENDENCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2007	2006
Interest income		
Loans	\$ 6,825,760	\$ 3,632,213
Investment securities	284,785	446,189
Federal funds sold and other	145,628	168,003
Total interest income	7,256,173	4,246,405
Interest expense		
Deposits	3,414,533	1,672,306
Borrowings	171,492	79,442
Total interest expense	3,586,025	1,751,748
Net interest income	3,670,148	2,494,657
Provision for loan losses	483,000	865,750
Net interest income after provision for loan losses	3,187,148	1,628,907
Noninterest income		
Service fees on deposit accounts	24,561	15,195
Other income	37,930	33,937
Total noninterest income	62,491	49,132
Noninterest expenses		
Compensation and benefits	1,651,551	1,487,441
Professional fees	199,976	152,209
Marketing	287,297	206,033
Insurance	125,059	55,258
Occupancy and equipment	430,663	300,059
Data processing and related costs	262,627	185,855
Telephone and supplies	53,643	40,944
Other	133,130	113,728
Total noninterest expenses	3,143,946	2,541,527
Income (loss) before income tax benefit	105,693	(863,488)
Income tax benefit	216,500	221,760
Net income (loss)	\$ 322,193	\$ (641,728)
Income (loss) per common share - basic	\$ 0.15	\$ (0.31)
Income (loss) per common share - diluted	\$ 0.15	\$ (0.31)
Weighted average common shares outstanding - basic	2,085,010	2,085,010
Weighted average common shares outstanding - diluted	2,092,454	2,085,010

See notes to consolidated financial statements that are an integral part of these consolidated statements.

INDEPENDENCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Accumulated deficit</u>	<u>Total shareholders' equity</u>
	<u>Shares</u>	<u>Amount</u>				
December 31, 2005	2,085,010	\$ 20,850	\$ 20,515,188	\$ (108,450)	\$ (1,389,040)	\$ 19,038,548
Compensation expense related to stock options granted	-	-	48,400	-	-	48,400
Net loss	-	-	-	-	(641,728)	(641,728)
Unrealized gain on investment securities available for sale, net of tax	-	-	-	28,250	-	<u>28,250</u>
Total comprehensive loss	-	-	-	-	-	<u>(613,478)</u>
December 31, 2006	2,085,010	20,850	20,563,588	(80,200)	(2,030,768)	18,473,470
Compensation expense related to stock options granted	-	-	108,000	-	-	108,000
Net income	-	-	-	-	322,193	322,193
Unrealized gain on investment securities available for sale, net of tax	-	-	-	85,770	-	<u>85,770</u>
Total comprehensive income	-	-	-	-	-	<u>407,963</u>
December 31, 2007	2,085,010	\$ 20,850	\$ 20,671,588	\$ 5,570	\$ (1,708,575)	\$ 18,989,433

See notes to consolidated financial statements that are an integral part of these consolidated statements.

INDEPENDENCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2007	2006
Operating activities		
Net income (loss)	\$ 322,193	\$ (641,728)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Provision for loan losses	483,000	865,750
Depreciation	213,311	192,198
Amortization (accretion) of investment securities discounts/premiums, net	1,393	(6,783)
Benefit for deferred income taxes	(216,500)	(221,760)
Compensation expense related to stock options granted	108,000	48,400
Increase in other assets, net	(161,161)	(286,244)
Increase in other liabilities, net	122,962	151,677
Net cash provided by operating activities	873,198	101,510
Investing activities		
Increase (decrease) in cash realized from:		
Origination of loans, net	(36,441,211)	(36,962,303)
Purchase of investment securities available for sale	(2,000,000)	-
Maturity of investment securities available for sale	6,000,000	1,000,000
Repayments of investment securities available for sale	551,153	666,860
Purchase of non-marketable equity securities	(460,850)	(7,000)
Purchase of property and equipment	(1,328,000)	(70,793)
Sale of other real estate owned	105,376	-
Net cash used in investing activities	(33,573,532)	(35,373,236)
Financing activities		
Increase in deposits, net	25,226,401	40,490,370
Decrease in short-term borrowings	(84,414)	(5,160,527)
Increase in Federal Home Loan Bank advances	9,000,000	-
Net cash provided by financing activities	34,141,987	35,329,843
Net increase in cash and cash equivalents	1,441,653	58,117
Cash and cash equivalents at beginning of the year	1,176,010	1,117,893
Cash and cash equivalents at end of the year	\$ 2,617,663	\$ 1,176,010
Supplemental information		
Cash paid for		
Interest	\$ 3,544,104	\$ 1,679,896
Schedule of non-cash transactions		
Decrease in unrealized loss on securities, net of tax	\$ 85,770	\$ 28,250
Loans transferred to other real estate owned	\$ (105,376)	\$ -

See notes to consolidated financial statements that are an integral part of these consolidated statements.

INDEPENDENCE BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

Independence Bancshares, Inc. (the “Company”) is a South Carolina corporation organized to operate as a bank holding company pursuant to the Federal Bank Holding Company Act of 1956 and the South Carolina Bank Holding Company Act, and to own and control all of the capital stock of Independence National Bank (the “Bank”). The Bank is a national association organized under the laws of the United States to conduct general banking business in Greenville, South Carolina. On May 31, 2005, the Company sold 2,085,010 shares of its common stock in its initial public offering. All shares were sold at \$10.00 per share. The offering raised approximately \$20.5 million, net of offering costs.

The following is a description of the more significant accounting and reporting policies that the Company follows in preparing and presenting consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Independence National Bank. In consolidation, all significant intercompany transactions have been eliminated. The accounting and reporting policies conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, including valuation allowances for impaired loans, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for loan losses on loans and valuation of foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for loan losses and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for loan losses and foreclosed real estate may change materially in the near term.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Risks and Uncertainties

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default within the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to changes with respect to valuation of assets, amount of required loss allowance and operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examinations. The Bank makes loans to individuals and businesses in and around "Upstate" South Carolina for various personal and commercial purposes. The Bank has a diversified loan portfolio. Borrowers' ability to repay their loans is not dependent upon any specific economic sector.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash, due from banks and federal funds sold. Generally, federal funds are sold for one-day periods. At December 31, 2007 and 2006, the Company had restricted cash totaling \$2,000 with the Federal Home Loan Bank of Atlanta ("FHLB"). The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Investment Securities

Investment securities are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Management classifies securities at the time of purchase into one of three categories as follows: (1) Securities Held to Maturity: securities which the Company has the positive intent and ability to hold to maturity, which are reported at amortized cost; (2) Trading Securities: securities that are bought and held principally for the purpose of selling them in the near future, which are reported at fair value with unrealized gains and losses included in earnings; and (3) Securities Available for Sale: securities that may be sold under certain conditions, which are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity as accumulated other comprehensive income (loss). The amortization of premiums and accretion of discounts on investment securities are recorded as adjustments to interest income. Gains or losses on sales of investment securities are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Unrealized losses on securities, reflecting a decline in value or impairment judged by the Company to be other than temporary, are charged to earnings in the consolidated statements of operations.

Non-Marketable Equity Securities

The Bank, as a member of the Federal Reserve Bank ("FRB") and the FHLB, is required to own capital stock in these organizations. The amount of FRB stock owned is based on the Bank's capital levels and totaled \$476,200 and \$475,050 at December 31, 2007 and 2006, respectively. The amount of FHLB stock owned is determined based on the Bank's balances of residential mortgages and advances from the FHLB and totaled \$541,400 and \$81,700 at December 31, 2007 and 2006, respectively. No ready market exists for these stocks, and they have no quoted market value. However, redemption of these stocks has historically been at par value. Accordingly, the carrying amounts are deemed to be a reasonable estimate of fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Loans Receivable

Loans are stated at their unpaid principal balance. Interest income is computed using the simple interest method and is recorded in the period earned. Fees earned on loans are amortized over the life of the loan.

When serious doubt exists as to the collectibility of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed. Cash receipts on non-accrual loans are not recorded as interest income, but are used to reduce principal.

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected in accordance with the contractual terms. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected.

Allowance for Loan Losses

An allowance for loan losses is maintained at a level deemed appropriate by management to provide adequately for known and inherent losses in the loan portfolio. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Due to the Company's limited operating history, to date the provision for loan losses has been made primarily as a result of the assessment of general loan loss risk compared to banks of similar size and maturity. Due to the Company's short operating history, the loans in the loan portfolio and the lending relationships are of very recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process known as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because the loan portfolio is new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Property and Equipment

Property, furniture and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 40 years, and for furniture and equipment of 5 to 15 years. Leasehold improvements are amortized over the life of the lease. The cost of assets sold or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts and the resulting gains or losses are reflected in the statement of operations when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Securities Sold Under Agreements to Repurchase

The Bank enters into sales of securities under agreements to repurchase. Fixed-coupon repurchase agreements are treated as financing, with the obligation to repurchase securities sold being reflected as a liability and the securities underlying the agreements remaining as assets.

Income Taxes

The company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" and FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109." Under SFAS No. 109 and FIN 48, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Under SFAS No. 109 and FIN 48, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets if it is determined to be "more likely than not" that all or some portion of the potential deferred tax asset will not be realized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Income (Loss) per Share

Basic income (loss) per share represents net income (loss) divided by the weighted-average number of common shares outstanding during the period. Dilutive loss per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and warrants, and are determined using the treasury stock method. For the year ended December 31, 2007 there were 100,017 stock options that were excluded from the calculation of diluted earnings per share because their exercise prices were greater than the calculated average market price of the common shares. For the year ended December 31, 2006, as a result of the Company's net loss, all of the potential common shares (44,650 stock options and 412,500 warrants) were considered anti-dilutive.

The following schedule reconciles the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2007 and 2006.

	Year Ended December 31,	
	2007	2006
Basic Income (Loss) Per Share		
Average common shares outstanding	2,085,010	2,085,010
Net income (loss)	\$ 322,193	\$ (641,728)
Earnings per share	\$ 0.15	\$ (0.31)
Diluted Income (Loss) Per Share		
Average common shares outstanding	2,085,010	2,085,010
Average dilutive common shares	<u>7,444</u>	<u>-</u>
Adjusted average common shares	2,092,454	2,085,010
Net income (loss)	\$ 322,193	\$ (641,728)
Earnings per share	\$ 0.15	\$ (0.31)

Stock Compensation Plans

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") SFAS No. 123(R), "Share-Based Payments", to account for compensation costs under its stock option plan. In adopting SFAS No. 123(R), the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant.

Residential Loan Origination Fees

The Company offers residential loan origination services to its customers. The loans are offered on terms and prices offered by the Company's correspondents and are closed in the name of the correspondents. The Company receives fees for services it provides in conjunction with these origination services. The fees are recognized at the time the loans are closed by the Company's correspondent. Residential loan origination fees are included in other income on the Company's consolidated statements of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that may affect our accounting, reporting, and disclosure of financial information:

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard eliminates inconsistencies found in various prior pronouncements but does not require any new fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and will not impact the Company's accounting measurements but it is expected to result in additional disclosures.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" ("SFAS 159"). This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement 1) applies to all entities, 2) specifies certain election dates, 3) can be applied on an instrument-by-instrument basis with some exceptions, 4) is irrevocable and 5) applies only to entire instruments. One exception is demand deposit liabilities which are explicitly excluded as qualifying for fair value. With respect to SFAS 115, available-for-sale and held-to-maturity securities at the effective date are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date shall be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. SFAS 159 is effective for the Company on January 1, 2008. The Company is currently analyzing the fair value option that is permitted, but not required, under SFAS 159.

In November 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" ("SAB 109"). SAB 109 expresses the current view of the SEC staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply this guidance on a prospective basis to derivative loan commitments issued or modified in the first quarter of 2008 and thereafter. The Company is currently analyzing the impact, if any, of this guidance.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 2 – INVESTMENT SECURITIES

The amortized costs and fair value of investment securities available for sale are as follows:

	December 31, 2007			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Government-sponsored enterprises	\$ 2,000,000	\$ 18,125	\$ -	\$ 2,018,125
Mortgage-backed securities	3,153,916	3,592	(13,278)	3,144,230
Total investment securities	\$ 5,153,916	\$ 21,717	\$ (13,278)	\$ 5,162,355

	December 31, 2006			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Government-sponsored enterprises	\$ 5,997,738	\$ -	\$ (35,638)	\$ 5,962,100
Mortgage-backed securities	3,708,724	-	(85,878)	3,622,846
Total investment securities	\$ 9,706,462	\$ -	\$ (121,516)	\$ 9,584,946

At December 31, 2007, mortgage-backed securities with a fair value of \$2,549,185 and unrealized losses of \$13,278 had been in a continuous loss position for twelve months or longer. At December 31, 2007, all remaining investment securities were in an unrealized gain position. At December 31, 2006, all investments had been in a continuous loss position for twelve months or longer. The Company believes, based on industry analyst reports and credit ratings that the deterioration in fair values of investment securities available for sale is attributed to changes in market interest rates and not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary. The Company has the ability and intent to hold these securities until such time as the value recovers or the securities mature.

The amortized costs and fair values of investment securities available for sale at December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers have the right to prepay the obligations.

	December 31, 2007	
	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -
Due after one through three years	1,332,358	1,321,548
Due after three through five years	2,000,000	2,018,125
Due after five through ten years	1,125,533	1,129,118
Due after ten years	696,025	693,564
Total investment securities	\$ 5,153,916	\$ 5,162,355

The Company sold no investment securities in 2007 or 2006. Accordingly, no gains or losses were recorded. At December 31, 2007, \$3.9 million in securities were pledged as collateral for repurchase agreements and public deposits.

The Company's investment portfolio consists principally of obligations of the United States of America, its agencies or enterprises it sponsors. In the opinion of management, there is no concentration of credit risk in its investment portfolio.

NOTE 3 – LOANS

The composition of net loans by major loan categories is as follows:

	December 31,	
	2007	2006
Real estate:		
Commercial	\$ 60,417,106	\$ 39,288,936
Consumer residential	11,373,304	9,780,269
Home equity	<u>8,024,879</u>	<u>3,382,398</u>
Total real estate loans	<u>79,815,289</u>	<u>52,451,603</u>
Commercial business	17,195,517	9,486,187
Consumer-other	2,046,738	1,193,946
Deferred origination fees, net	<u>(166,174)</u>	<u>(178,540)</u>
Gross loans	98,891,370	62,953,196
Less allowance for loan losses	<u>(1,283,491)</u>	<u>(1,198,152)</u>
Loans, net	<u>\$ 97,607,879</u>	<u>\$ 61,755,044</u>

At December 31, 2007 and 2006, there were non-accrual loans of \$1,084,883 and \$583,262, respectively, included in the above loan balance. Foregone interest income related to non-accrual loans equaled \$73,388 and \$28,622 for the year ended December 31, 2007 and 2006, respectively. No interest income was recognized on non-accrual loans during 2007 and 2006. At both December 31, 2007 and 2006, there were no accruing loans which were contractually past due 90 days or more as to principal or interest payments.

There were no impaired loans at December 31, 2007. In January 2008 one loan, of the \$1,084,883 in non-accrual status, with a principal balance of \$700,000 was paid in full plus interest and legal fees. Impaired loans totaled \$477,885 at December 31, 2006 with a related specific allowance of \$398,900. The average recorded investment in impaired loans during the year ended December 31, 2007 and 2006 was approximately \$140,000 and \$160,000.

The Company, through the Bank, makes loans to individuals and small- to mid-sized businesses for various personal and commercial purposes primarily in Greenville County, South Carolina. The Company has a diversified loan portfolio and the Company's loan portfolio is not dependent on any specific economic segment. The Company regularly monitors its credit concentrations based on loan purpose, industry and customer base. As of December 31, 2007, there were no material concentrations of credit risk within the Company's loan portfolio.

In addition to monitoring potential concentrations of loans to a particular borrower or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk that could arise from potential concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc) and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

Directors, executive officers and associates of such persons are customers of and have transactions with the Bank in the ordinary course of business. Included in such transactions are outstanding loans and commitments, all of which were made under substantially the same credit terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility. The aggregate dollar amount of these outstanding loans was \$12.3 million and \$9.1 million at December 31, 2007 and 2006, respectively. During 2007, new loans and advances on these lines of credit totaled \$8.5 million and repayments were \$5.3 million. At December 31, 2007, there were commitments to extend additional credit to related parties in the amount of approximately \$2.2 million.

NOTE 3 – LOANS, Continued

The composition of gross loans, before the deduction for deferred origination fees, by rate type is as follows:

	December 31, 2007
Variable rate loans	\$ 33,543,139
Fixed rate loans	65,514,405
	\$ 99,057,544

The allowance for loan losses for each of the years in the two year period ended December 31, 2007 is presented below:

	2007	2006
Balance at beginning of year	\$ 1,198,152	\$ 338,000
Provision for loan losses	483,000	865,750
Loans charged-off	(397,661)	(5,598)
Recoveries of loans previously charged-off	-	-
Balance at end of year	\$ 1,283,491	\$ 1,198,152

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Components of property and equipment included in the consolidated balance sheets are as follows:

	December 31,	
	2007	2006
Land	\$ 2,172,371	\$ 1,165,312
Leasehold improvements	179,975	138,317
Furniture and equipment	871,138	591,855
Automobile	35,526	35,526
	3,259,010	1,931,010
Accumulated depreciation	(525,808)	(312,497)
Total property and equipment	\$ 2,733,202	\$ 1,618,513

Depreciation expense for the years ended December 31, 2007 and 2006 was \$213,311 and \$192,198, respectively.

NOTE 5 – DEPOSITS

Deposits at December 31 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Non-interest bearing	\$ 2,924,754	\$ 2,368,069
Interest bearing:		
NOW accounts	3,039,618	2,153,828
Money market accounts	11,656,304	14,362,860
Savings	84,765	71,126
Time, less than \$100,000	10,763,727	8,115,273
Time, \$100,000 and over	18,483,949	17,432,560
Brokered time deposits, less than \$100,000	35,180,000	12,403,000
Total deposits	<u>\$ 82,133,117</u>	<u>\$ 56,906,716</u>

Interest expense on time deposits greater than \$100,000 was \$956,633 and \$593,893 for the years ended December 31, 2007 and 2006, respectively.

At December 31, 2007 the scheduled maturities of certificates of deposit (including brokered time deposits) are as follows:

2008	\$ 64,086,300
2009	147,287
2010	22,902
2011	171,187
	<u>\$ 64,427,676</u>

At December 31, 2007, \$3.4 million in securities were pledged as collateral for public deposits.

NOTE 6 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At December 31, 2007 and 2006, respectively, the Bank had sold \$39,359 and \$123,773 of securities under agreements to repurchase with brokers with a weighted rate of 1.88% and 2.86%, respectively, that mature in less than 90 days. These agreements were secured with approximately \$439,000 and \$518,000 of investment securities. The securities, under agreement to repurchase averaged \$205,958 during 2007, with \$543,529 being the maximum amount outstanding at any month-end. The average rate paid in 2007 was 3.22%. The securities, under agreement to repurchase averaged \$1,032,431 during 2006, with \$5,132,475 being the maximum amount outstanding at any month-end. The average rate paid in 2006 was 4.57%.

NOTE 7 – FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2007 the bank had \$9.0 million of advances from the FHLB. The Bank utilizes FHLB advances as long-term sources of funding. These advances are secured with approximately \$14.9 million of first and second mortgage loans and \$541,400 of stock in the FHLB. The Bank had one advance for \$5,000,000 at a rate of 5.045% maturing June, 2012 with a call date of June, 2009 and one advance for \$4,000,000 at a rate of 4.47% maturing November, 2008. At December 31, 2006 there were no advances outstanding.

NOTE 8 – UNUSED LINES OF CREDIT

At December 31, 2007, the Bank had an unused lines of credit to purchase federal funds for \$7.0 million. The lines of credit are available on a one to fourteen day basis for general corporate purposes of the Bank. The lender has reserved the right to withdraw the line at their option. The Bank has an additional line of credit with the Federal Home Loan Bank to borrow funds, subject to a pledge of qualified collateral. At December 31, 2007, the Bank has collateral that would support approximately \$13 million in additional borrowings.

NOTE 9 – INCOME TAXES

The company had no currently taxable income for years ended December 31, 2007 and 2006. The following is a summary of the items that caused recorded income taxes to differ from taxes computed using the statutory tax rate:

	Year Ended December 31,	
	2007	2006
Income tax expense (benefit) at federal statutory rate	\$ 35,936	\$ (293,586)
Change in valuation allowance	(334,620)	53,093
Other	82,184	18,733
Income tax benefit	\$ (216,500)	\$ (221,760)

The components of the net deferred tax assets are as follows:

	December 31,	
	2007	2006
Deferred tax assets:		
Allowance for loan losses	\$ 334,367	\$ 326,937
Net operating loss carry-forward	242,210	293,813
Deferred operational and start-up costs	194,020	221,279
Unrealized (gain) loss on securities available for sale	(2,869)	41,316
Other	(50,809)	(4,121)
	716,919	879,224
Valuation allowance	-	(334,620)
Net deferred tax asset	\$ 716,919	\$ 544,604

The Company recorded a valuation allowance of \$334,620 as of December 31, 2006 as the realization of the assets is dependent on the Company's ability to generate future taxable income during the periods in which temporary differences become deductible. As of December 31, 2007, the Company had determined that it is more likely than not that these assets will be recognized in the future. A portion of the change in the net deferred tax asset relates to the decrease in the tax effect of the unrealized (gain) loss on investment securities available for sale of \$44,185. The remainder of the change in the net deferred tax asset is due to the current period deferred tax benefit of \$216,500. The net deferred tax asset is recorded in other assets in the Company's consolidated balance sheets.

The Company has analyzed the tax positions taken or expected to be taken in and its tax returns and concluded it has no liability related to uncertain tax positions in accordance with FIN 48.

At December 31, 2007, the Company has federal operating loss carry-forwards of approximately \$712,000 that may be used to offset future taxable income and expire beginning in 2025.

NOTE 10 – RELATED PARTY TRANSACTIONS

On December 31, 2007 and 2006, the Bank had various loans outstanding to directors and officers. All of these loans were made under normal credit terms and did not involve more than normal credit risk of collection. See Note 3 for further details.

NOTE 11 – FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

In the ordinary course of business, and to meet the financing needs of its customers, the Company is a party to various financial instruments with off balance sheet risk. These financial instruments, which include commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets. The contract amount of those instruments reflects the extent of involvement the Company has in particular classes of financial instruments.

NOTE 11 – FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK, Continued

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2007, unfunded commitments to extend credit were approximately \$34.7 million, of which \$2.4 million is at fixed rates and \$32.3 million is at variable rates. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate. The fair value of these off-balance sheet financial instruments is considered immaterial.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Bank has a four-year operating lease on its main office facility which began in October 2004. The monthly rent under the lease amendment is \$9,393 through September 30, 2008. If the Bank chooses to exercise the first of three two-year renewal options, the monthly rent under the first renewal option is \$9,580 from October 1, 2008 through September 30, 2009 and \$9,772 from October 1, 2009 through September 20, 2010. The Bank has a ten-year operating lease on a branch facility which began in August 2007. The monthly rent under the lease is \$8,025 through July 2012, and \$9,229 from July 31, 2012 through July 31, 2017. Rent expense of \$144,993 and \$70,368 was recorded for the years ended December 31, 2007 and 2006, respectively.

Future minimum lease payments under these operating leases are summarized as follows:

For the year ended December 31,	
2008	\$209,573
2009	211,836
2010	184,248
2011	96,300
2012	102,320
Thereafter	507,595
	<hr/>
	\$1,311,872

As of December 31, 2007, there were no significant firm commitments outstanding for capital expenditures. However, we have engaged a firm to design and build a full service branch on our new site in Simpsonville, South Carolina. We anticipate we will begin construction on this facility in second quarter 2008 and estimate the construction and equipment costs to be approximately \$750,000.

The Bank has entered into an agreement with a data processor with a remaining term of three years to provide item processing and general ledger processing. The cost of monthly service is based on activity volume but is expected to be no less than \$10,000 per month.

The Board of Directors has approved employment agreements with the president and chief executive officer and the retail banking officer. The agreements include provisions regarding term, compensation, benefits, annual bonus, incentive program, stock option plan and severance and non-compete upon early termination.

The Bank may become party to litigation and claims in the normal course of business. As of December 31, 2007, management believes there is no material litigation pending.

NOTE 13 – STOCK COMPENSATION PLANS

On July 26, 2005, the Company adopted a stock option plan for the benefit of the directors, officers and employees. The Board may grant up to 260,626 options at an option price per share not less than the fair market value on the date of grant. The options granted to officers and employees vest over a three year period from the date of grant, or the anniversary of the Bank's opening for certain officers. The options expire 10 years from the grant date.

A summary of the status of the plan and changes for the years ended December 31, 2007 and 2006 is presented below:

	<u>2007</u>		<u>2006</u>		
	<u>Shares</u>	<u>Weighted average exercise price</u>	<u>Average Intrinsic Value</u>	<u>Shares</u>	<u>Weighted average exercise price</u>
Outstanding at beginning of year	44,650	\$ 10.00		41,950	\$ 10.00
Granted	62,850	10.13		17,150	10.00
Exercised	-	-		-	-
Forfeited or expired	(7,483)	10.00		(14,450)	10.00
Outstanding at end of year	<u>100,017</u>	10.08	<u>\$ 41,758</u>	<u>44,650</u>	10.00
Options exercisable at year-end	<u>24,717</u>		<u>\$ 12,359</u>	<u>9,833</u>	
Shares available for grant	<u>160,609</u>			<u>215,976</u>	

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. This amount changes based on the fair market value of the Company's stock.

Upon completion of the stock offering in 2005, the Company issued warrants to each of its organizers to purchase up to an additional 412,500 shares of common stock at \$10.00 per share. These warrants vested six-months from the date the Bank opened for business, or May 16, 2005, and they are exercisable in whole or in part until May 16, 2015. No warrants were exercised during 2007 or 2006.

Compensation expense related to stock options granted was \$108,000 and \$48,400 for the years ended December 31, 2007 and 2006, respectively. The weighted average fair value per share of options granted in 2007 and 2006 amounted to \$4.24 and \$4.33, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used: expected volatility of 28% for 2007 and 2006, weighted average risk-free interest rate of 4.43% and 4.96%, respectively, and an expected life of seven and a half years.

NOTE 14 – EMPLOYEE BENEFIT PLAN

The Bank maintains an employee benefit plan for all eligible employees of the Bank under the provisions of Internal Revenue Code Section 401(k). The Independence National Bank 401(k) Profit Sharing Plan (the "Plan"), adopted in 2005, allows for employee contributions. Upon annual approval of the Board of Directors, the Company also matches 25% of employee contributions up to a maximum of 6% of annual compensation. A total of \$14,070 and \$10,315 was charged to operations in 2007 and 2006, respectively, for the Company's matching contribution. Employees are immediately vested in their contributions to the Plan and become fully vested in the employer matching contribution after six years of service.

NOTE 15 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of Tier 1 and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Tier 1 capital consists of common shareholders’ equity, excluding the unrealized gain or loss on securities available for sale, less certain intangible assets. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital.

The Bank is also required to maintain capital at a minimum level based on average assets, which is known as the leverage ratio. Only the strongest banks are allowed to maintain capital at the minimum requirement of 3%. All others are subject to maintaining ratios 1% to 2% above the minimum.

As of December 31, 2007, the most recent notification from the Bank’s primary regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank’s category.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2007 and 2006.

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
			Minimum		Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Total Capital (to risk weighted assets)	\$ 17,096,000	15.5%	\$ 8,820,000	8.0 %	\$ 11,025,000	10.0 %
Tier 1 Capital (to risk weighted assets)	15,813,000	14.3	4,410,000	4.0	6,615,000	6.0
Tier 1 Capital (to average assets)	15,813,000	14.7	4,306,000	4.0	5,383,000	5.0
As of December 31, 2006						
Total Capital (to risk weighted assets)	\$ 16,834,000	24.4 %	\$ 5,512,000	8.0 %	\$ 6,890,000	10.0 %
Tier 1 Capital (to risk weighted assets)	15,969,000	23.2	2,756,000	4.0	4,134,000	6.0
Tier 1 Capital (to average assets)	15,969,000	22.4	2,856,000	4.0	3,570,000	5.0

The Federal Reserve Board has similar requirements for bank holding companies. The Company is currently not subject to these requirements because the Federal Reserve guidelines contain an exemption for bank holding companies of less than \$500 million in consolidated assets, subject to certain limitations.

NOTE 16 – RESTRICTIONS ON SUBSIDIARY DIVIDENDS, LOANS, OR ADVANCES

The ability of Independence Bancshares, Inc. to pay cash dividends is dependent upon receiving cash in the form of dividends from the Bank. However, certain restrictions exist regarding the ability of the subsidiary to transfer funds to Independence Bancshares, Inc. in the form of cash dividends, loans, or advances. The approval of the OCC is required to pay dividends in excess of the Bank's net profits (as defined) for the current year plus retained net profits (as defined) for the preceding two years, less any required transfers to surplus.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" requires disclosure of fair value information, whether or not recognized in the consolidated balance sheets, when it is practical to estimate the fair value. SFAS No. 107 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations which require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, property and equipment and other assets and liabilities.

Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument: cash and due from banks, federal funds sold, and securities sold under agreement to repurchase.

Investment securities are valued using quoted fair market prices.

No ready market exists for non-marketable equity securities, and they have no quoted market value. However, redemption of these stocks has historically been at par value. Accordingly, the carrying amounts are deemed to be a reasonable estimate of fair value.

Fair value for variable rate loans that reprice frequently and for loans that mature in less than one year is based on the carrying value. Fair value for fixed rate mortgage loans, personal loans and all other loans (primarily commercial) maturing after one year is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality.

Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. Certificate of deposit accounts with a maturity within one year are valued at their carrying value. The fair value of certificate of deposit accounts with a maturity after one year are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

The Company has used management's best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts that could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses, which would be incurred in an actual sale or settlement, are not taken into consideration in the fair value presented.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

The estimated fair values of the Company's financial instruments at December 31, 2007 and 2006 are as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and due from banks	\$ 813,663	\$ 813,663	\$ 397,010	\$ 397,010
Federal funds sold	1,804,000	1,804,000	779,000	779,000
Investment securities available for sale	5,162,355	5,162,355	9,584,946	9,584,946
Non-marketable equity securities	1,017,600	1,017,600	556,750	556,750
Loans, net	97,607,879	97,571,870	61,755,044	61,372,215
Financial Liabilities:				
Deposits	82,133,117	82,273,026	56,906,716	56,931,540
Federal Home Loan Bank advances	9,000,000	9,245,873	-	-
Securities sold under agreements to repurchase	39,359	39,359	123,773	123,773

NOTE 18 – PARENT COMPANY FINANCIAL INFORMATION

Following is condensed financial information of Independence Bancshares, Inc. (parent company only):

Condensed Balance Sheets

	December 31,	
	2007	2006
Assets		
Cash and cash equivalents	\$ 2,536,038	\$ 2,536,038
Investment in subsidiary	16,453,395	15,937,432
	\$ 18,989,433	\$ 18,473,470
Liabilities and Shareholders' Equity		
Shareholders' equity	\$ 18,989,433	\$ 18,473,470
Total liabilities and shareholders' equity	\$ 18,989,433	\$ 18,473,470

Condensed Statements of Operations

	Year Ended December 31,	
	2007	2006
Equity in undistributed net income (loss) of subsidiary	\$ 322,193	\$ (641,728)
Net income (loss)	\$ 322,193	\$ (641,728)

NOTE 18 – PARENT COMPANY FINANCIAL INFORMATION, Continued

Condensed Statements of Cash Flows

	Year Ended December 31,	
	2007	2006
Operating activities		
Net income (loss)	\$ 322,193	\$ (641,728)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Equity in undistributed net income of subsidiary	(322,193)	641,728
Net cash provided by operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	2,536,038	2,536,038
Cash and cash equivalents, end of year	\$ 2,536,038	\$ 2,536,038

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective as of December 31, 2007. There have been no significant changes in our internal controls over financial reporting during the fourth fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.-

Management's Report on Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, the Company's management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2007 based on the criteria established in a report entitled "Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission" and the interpretive guidance issued by the Commission in Release No. 34-55929. Based on this evaluation, the Company's management has evaluated and concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in modifications to its processes throughout the Company. However, there has been no change in its internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. The Company's registered public accounting firm was not required to issue an attestation on its internal controls over financial reporting pursuant to temporary rules of the Securities and Exchange Commission.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

The information required by Item 9 is hereby incorporated by reference from our proxy statement for our 2008 annual meeting of shareholders to be held on May 15, 2008.

Item 10. Executive Compensation.

The information required by Item 10 is hereby incorporated by reference from our proxy statement for our 2007 annual meeting of shareholders to be held on May 15, 2008.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth equity compensation plan information at December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (c) (excluding securities reflected in column(a))
Equity compensation plans approved by security holders (1)	100,017	\$10.08	160,609
Equity compensation plans not approved by security holders (2)	412,500	\$10.00	-
Total	512,517	\$10.00	160,609

(1) At our annual meeting of shareholders held on May 16, 2006 shareholders approved the Independence Bancshares, Inc. 2005 Stock Incentive Plan. The 260,626 of shares of common stock available for issuance under the plan will automatically increase each time we issue additional shares so that it continues to equal 12.5% of our total outstanding shares.

(2) Each of our organizers received, for no additional consideration, a warrant to purchase one share of common stock for \$10.00 per share for each share purchased during our initial public offering up to a maximum of 25,000 warrants. The warrants are represented by separate warrant agreements. The warrants vested six months from the date our Bank opened for business, or May 16, 2005, and they are exercisable in whole or in part until May 16, 2015. The warrants may not be assigned, pledged, or hypothecated in any way. The 412,500 of shares issued pursuant to the exercise of such warrants are transferable, subject to compliance with applicable securities laws. If the South Carolina Board of Financial Institutions or the FDIC issues a capital directive or other order requiring the Bank to obtain additional capital, the warrants will be forfeited, if not immediately exercised.

The additional information required by this Item 11 is hereby incorporated by reference from our proxy statement for our 2008 annual meeting of shareholders to be held on May 15, 2008.

Item 12. Certain Relationships and Related Transactions.

The information required by Item 12 is hereby incorporated by reference from our proxy statement for our 2008 annual meeting of shareholders to be held on May 15, 2008.

Item 13. Exhibits.

- 3.1. Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Form SB-2, File No. 333-121485).
- 3.2. Bylaws (incorporated by reference to Exhibit 3.2 of the Company's Form SB-2, File No. 333-121485).
- 4.1. See Exhibits 3.1 and 3.2 for provisions in Independence Bancshares, Inc.'s Articles of Incorporation and Bylaws defining the rights of holders of the common stock (incorporated by reference to Exhibit 4.1 of the Company's Form SB-2, File No. 333-121485).
- 4.2. Form of certificate of common stock (incorporated by reference to Exhibit 4.2 of the Company's Form SB-2, File No. 333-121485).
- 10.1. Employment Agreement between Independence Bancshares, Inc. and Larry Miller dated July 1, 2004 (incorporated by reference to Exhibit 10.1 of the Company's Form SB-2, File No. 333-121485).*
- 10.2. Employment Agreement between Independence Bancshares, Inc. and Kimberly D. Barrs dated October 4, 2004 (incorporated by reference to Exhibit 10.3 of the Company's Form SB-2, File No. 333-121485).*
- 10.3. Form of Stock Warrant Agreement (incorporated by reference to Exhibit 10.4 of the Company's Form SB-2, File No. 333-121485).*
- 10.4. Form of Escrow Agreement between The Bankers Bank and Independence Bancshares, Inc. (incorporated by reference to Exhibit 10.5 of the Company's Form SB-2, File No. 333-121485).
- 10.5. Independence Bancshares, Inc. 2005 Stock Incentive Plan and Form of Option Agreement (incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the period ended June 30, 2005). *
- 10.6. Employment Agreement between Independence Bancshares, Inc. and Susan B. Hoag dated January 10, 2005 (incorporated by reference to Exhibit 10.6 of the Company's Form SB-2, File No. 333-121485).*
- 10.7. Employment Agreement between Independence Bancshares, Inc. and Schaefer M. Carpenter dated January 10, 2005 (incorporated by reference to Exhibit 10.7 of the Company's Form SB-2, File No. 333-121485).*
- 10.8. Form of Sales Agency Agreement between Independence Bancshares, Inc. and FIG Partners, L.L.C. (incorporated by reference to Exhibit 10.8 of the Company's Form SB-2, File No. 333-121485).
- 10.9. Stock Warrant Agreement between Lawrence R. Miller and the Company dated May 16, 2005 (incorporated by reference to Exhibit 10.2 of the Company's Form 10-QSB for the period ended June 30, 2005).*
- 21.1. Subsidiaries of the Company.
- 23.1. Consent of Elliott Davis, LLC.
- 24.1. Power of Attorney (filed as part of the signature page herewith).

31.1 Rule 13a-14(a) Certification of the Principal Executive Officer.

31.2 Rule 13a-14(a) Certification of the Principal Financial Officer.

32 Section 1350 Certifications.

* Management contract of compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-KSB.

Item 14. Principal Accountant and Fees.

The information required by Item 14 is hereby incorporated by reference from our proxy statement for our 2008 annual meeting of shareholders to be held on May 15, 2008.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INDEPENDENCE BANCSHARES, INC.

Dated: March 18, 2008

By: /s/ Lawrence R. Miller
Lawrence R. Miller
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Lawrence R. Miller, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KSB, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Robert M. Austell</u> Robert M. Austell	Director	<u>March 18, 2008</u>
<u>/s/ John W. Burnett</u> John W. Burnett	Director	<u>March 18, 2008</u>
<u>Robert M. Carpenter, Sr.</u>	Director	
<u>/s/ Billy J. Coleman</u> Billy J. Coleman	Director	<u>March 18, 2008</u>
<u>/s/ Jose De Ocampo</u> Jose De Ocampo	Director	<u>March 18, 2008</u>
<u>/s/ Robert E. Hamby, Jr.</u> Robert E. Hamby, Jr.	Director	<u>March 18, 2008</u>
<u>/s/ H. Neel Hipp, Jr.</u> H. Neel Hipp, Jr.	Director	<u>March 18, 2008</u>
<u>/s/ James D. King</u> James D. King	Director	<u>March 18, 2008</u>
<u>/s/ William R. Mathis</u> William R. Mathis	Director	<u>March 18, 2008</u>

<u>/s/ Lawrence R. Miller</u> Lawrence R. Miller	Chief Executive Officer, Director	<u>March 18, 2008</u>
<u>/s/ Sudhirkumar C. Patel</u> Sudhirkumar C. Patel	Director	<u>March 18, 2008</u>
<u>Hasmukh P. Rama</u>	Director	
<u>/s/ W. Ray Samuels</u> W. Ray Samuels	Director	<u>March 18, 2008</u>
<u>/s/ Katie N. Tuttle</u> Katie N. Tuttle	Chief Financial Officer	<u>March 18, 2008</u>
<u>/s/ Charles D. Walters</u> Charles D. Walters	Director	<u>March 18, 2008</u>
<u>/s/ Roger W. Walters</u> Roger W. Walters	Director	<u>March 18, 2008</u>
<u>/s/ Vivian A. Wong</u> Vivian A. Wong	Director	<u>March 18, 2008</u>