



INDEPENDENCE
BANGSHARES, INC.

May 13, 2011

Dear Shareholder:

The following is a summary of our results of operations as of and for the three months ended March 31, 2011.

Operations resulted in a net loss of \$1.5 million for the three months ended March 31, 2011, compared to a net loss of \$629,741 for the three months ended March 31, 2010. Our loss in 2011 can be attributed primarily to two factors. First, non-performing loans have increased, resulting in an increase in the provision for loan losses. Our loan provision expense was \$870,000 for the three months ended March 31, 2011 compared to \$100,000 for the same period in 2010. Second, we have seen an increase in real estate owned and the related write-downs taken on these properties due to declining market values. Write-downs and losses on real estate owned were \$445,795 and \$232,055 for the three months ended March 31, 2011 and 2010, respectively.

As disclosed in September and December 2010, we did fall below and remain below the individual minimum capital ratio requirements established for us by our regulators. Total capital as a percentage of risk weighted assets was 10.3% as of March 31, 2011, below the 12% requirement but still above the FDIC's well-capitalized requirement of 10% applicable to banks not subject to formal capital directives. This shortfall could result in additional administrative actions by our regulators as the Bank's capital ratios continue to decline. The Bank is currently working with several advisors and consultants regarding strategies to increase capital.

At March 31, 2011, total assets were \$120.6 million, decreasing \$1.2 million, or 1%, from December 31, 2010. The decrease in total assets is primarily a result of a decrease in loans. Total gross loans outstanding at March 31, 2011 were \$90.4 million, decreasing \$4.0 million, or 4%, from December 31, 2010. The decrease in loans is primarily due to low market demand, careful consideration of liquidity needs and credit risk management.

Total deposits as of March 31, 2011 were \$104.5 million. We are pleased to report that growth in retail or customer deposits was \$3.3 million, or 4%, for the first three months of 2011, which was utilized to reduce brokered deposit levels. At March 31, 2011, brokered deposits, included in total deposits, were \$23.1 million compared to \$26.0 million at December 31, 2010, decreasing approximately \$3.0 million.

We believe our liquidity sources are adequate to meet our operating needs. Our liquidity ratio, measured as cash, cash



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equivalents, and investment securities available for sale to total assets, was at 20.36% as of March 31, 2011, an increase from 17.52% as of December 31, 2010. This increase is a result of net loan payoffs and an increase in retail deposits during the first three months of the year, offset by a decrease in brokered time deposits. We will continue to reduce brokered time deposits and FHLB advances as cash balances, retail deposit growth and operating needs allow.

As previously reported, on January 20, 2010, the Bank entered into a Formal Agreement with its primary regulator, the OCC. The Formal Agreement seeks to enhance the Bank's existing practices and procedures in the areas of management oversight, strategic and capital planning, credit risk management, credit underwriting, liquidity, and funds management. The Board of Directors and management of the Bank have continued to work aggressively to address the findings of the exam, and we have submitted much documentation to the OCC to make strides toward compliance. The determination of our compliance will be made by the OCC once our submitted documentation has been fully reviewed. For more detailed information related to the requirements of the Formal Agreement and the Bank's status on complying with the Formal Agreement, please see our Quarterly Report on Form 10-Q as of March 31, 2011.

In closing, we appreciate your continued support as we aggressively attack the key areas that have impacted our Bank as noted throughout this letter. We remain encouraged with the results of our attention to expense control, our liquidity levels and our margin improvement due to increased core deposits and decreased wholesale funding reliance. Our focus continues to be managing non-performing loans and real estate owned as well as capital preservation. Our goal is to return to profitability and maintain and eventually improve our capital levels, but it is clear that this recovery will take time, patience and a concerted effort from all our staff, management and directors. We continue to work together in one accord towards the common goal of realizing eventual recovery and coming out of this recession a stronger bank.

Best Regards,

Lawrence R. Miller

Lawrence R. Miller
President & CEO

Charles D. Walters

Charles D. Walters
Chairman of the Board



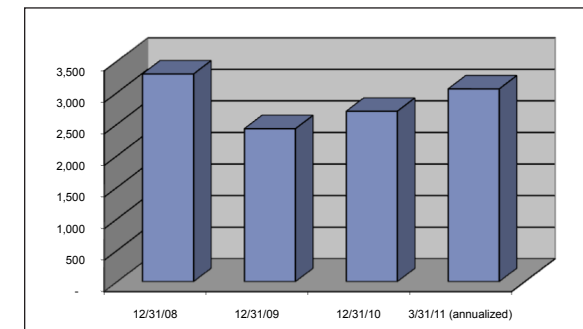
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Financial Highlights
(unaudited)

Balance Sheet Data	As of		
	3/31/2011	12/31/2010	3/31/2010
Total assets	\$120,635,455	\$121,810,968	\$ 137,724,718
Loans, gross	90,430,365	94,465,241	105,326,036
Allowance for loan losses	3,123,772	3,062,492	1,985,293
Deposits	104,458,000	104,080,669	109,432,753
Shareholders' equity	8,973,737	10,451,344	16,076,512

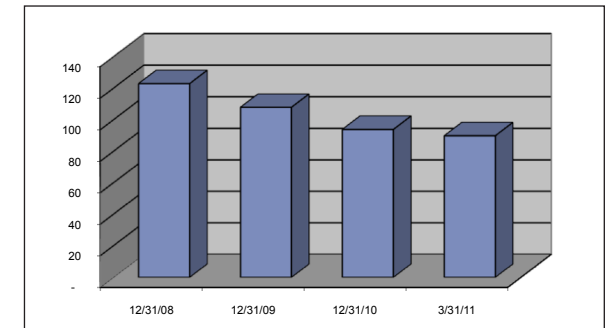
Income Statement Data	For the Quarter Ended	For the Year Ended	For the Quarter Ended
	3/31/2011	12/31/2010	3/31/2010
Net interest income	\$764,268	\$2,702,805	\$ 652,749
Provision for loan losses	870,000	3,075,000	100,000
Non-interest income	54,734	268,570	72,025
Non-interest expenses	1,430,304	4,866,984	1,254,515
Net loss, net of tax	(1,481,302)	(6,345,546)	(629,741)
Net loss, per diluted share	(0.71)	(3.04)	(0.30)

Annual Net Interest Income (\$ in thousands)

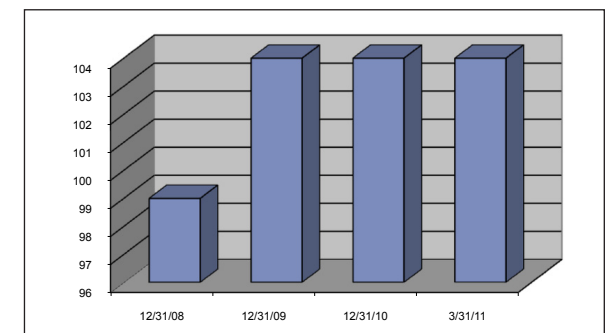


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Gross Loans Outstanding (\$ in millions)



Deposits Outstanding (\$ in millions)



Total Assets (\$ in millions)

