



INDEPENDENCE
BANGSHARES, INC.

November 18, 2011

Dear Shareholder:

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

Operations resulted in net income of \$39,525 for the three months ended September 30, 2011 compared to a net loss of \$3,165,994 for the three months ended September 30, 2010. For the second consecutive quarter, our net income was primarily due to a recovery of provision for loan losses as well as a recovery of interest and fee income. As noted in our second quarter mailing to you, we continue to be encouraged by positive glimpses of possible economic recovery. We have experienced declines in our delinquency and non-performing loan levels due to successful collections as well as payoffs, and we have seen an increase in inquiries and contracts on our real estate owned. Nevertheless, we remain fervently focused on expense control, capital levels and margin improvement.

Combined with the results of the first six months of the year, we have recognized a net loss of \$1,409,085 for the nine months ended September 30, 2011, compared to a net loss of \$5,044,486 for the nine months ended September 30, 2010. Our year to date loss in 2011 can be attributed primarily to two factors. First, non-performing loan levels have remained elevated overall, resulting in the need for continued high levels of provision for loan losses. Second, we continue to experience significant expenses related to real estate owned and the related write-downs taken on these properties due to declining market values. However, as noted above, we have been experiencing declining levels of non-performing loans coupled with successful movement of other real estate owned.

At September 30, 2011, total assets were \$113.1 million, decreasing \$8.7 million, or 7%, from December 31, 2010. The decrease in total assets is primarily a result of a decrease in loans. Total gross loans outstanding at September 30, 2011 were \$82.7 million, decreasing \$11.7 million, or 12%, from December 31, 2010. Our decrease in the loan portfolio primarily resulted from loan payoffs and the transfer of problem loans into other real estate owned at the time of collateral repossession. This activity, coupled with continued low market demand, careful consideration of liquidity needs and credit risk management resulted in the continued contraction of our loan portfolio.

Total deposits as of September 30, 2011 were \$96.6 million. Growth in retail or customer deposits was \$4.9 million, or 6%, for the first nine months of 2011, which was utilized to reduce brokered deposit levels. At September 30, 2011, brokered deposits, which are included in total deposits, were \$13.6 million, compared to \$26.0 million at December 31, 2010, a decrease of approximately \$12.4 million, or 48%.



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Total capital as a percentage of risk weighted assets was 11.0% as of September 30, 2011, below the 12% requirement set by our regulators, the OCC. Even though this level is above the FDIC's well-capitalized requirement of 10% applicable to banks not subject to formal capital directives, our non-compliance with our individual minimum capital ratio requirements, as well as an inadequate passage of time to prove compliance with some of our Formal Agreement articles, has resulted in an additional enforcement action by our regulators in the form of a Consent Order entered into on November 14, 2011. The Consent Order, like the Formal Agreement, is intended to enhance the Bank's existing practices and procedures. The Board of Directors and management of the Bank are committed to work aggressively to address the findings that led to the Consent Order; however, the determination of our compliance will ultimately be made by the OCC as more time is required to prove the effectiveness of our initiatives. For more detailed information related to the requirements of the Consent Order please refer to our report on Form 8-K filed with the SEC on November 18, 2011 (available at www.sec.gov). The Bank continues to work with several advisors and consultants regarding strategies to increase capital as well as to effectively implement policies and procedures to fully comply with the Consent Order.

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

Best Regards,

Lawrence R. Miller
President & CEO



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Financial Highlights (unaudited)

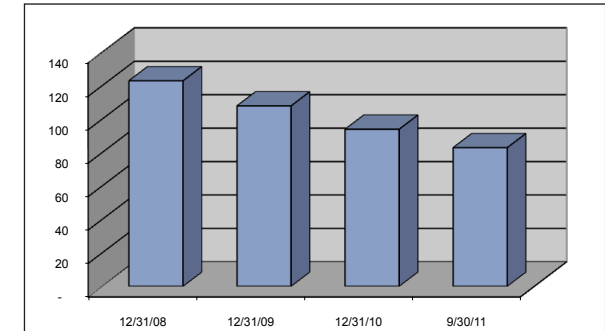
Balance Sheet Data	As of		
	9/30/2011	12/31/2010	9/30/2010
Total assets	\$113,098,890	\$121,810,968	\$123,916,693
Loans, gross	82,717,677	94,465,241	95,787,006
Allowance for loan losses	2,350,886	3,062,492	2,781,168
Deposits	96,555,520	104,080,669	104,865,653
Shareholders' equity	9,172,740	10,451,344	11,816,857

Income Statement Data	For the Nine Months Ended 9/30/2011	For the Quarter Ended 9/30/2011	For the Quarter Ended 9/30/2010
Net interest income	\$2,394,579	\$885,185	\$699,249
Provision for loan losses	730,000	(80,000)	1,220,000
Non-interest income	169,999	73,916	76,004
Non-interest expenses	3,243,663	999,576	1,346,310
Net income (loss), net of tax	(1,409,085)	39,525	(3,165,994)
Net income (loss), per diluted share	(0.68)	0.02	(1.52)

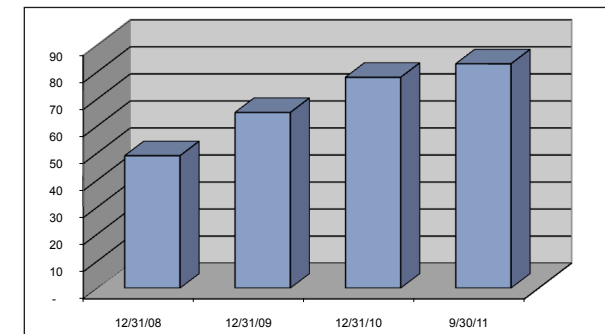


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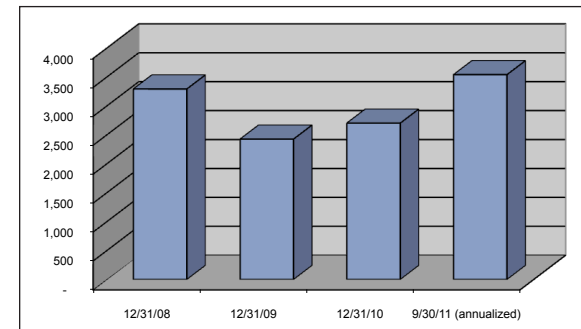
Gross Loans Outstanding (\$ in millions)



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



Annual Net Interest Income (\$ in thousands)



Total Assets (\$ in millions)

