



INDEPENDENCE
BANGSHARES, INC.

May 7, 2010

Dear Shareholder:

As communicated to you throughout 2009, the measures adopted by the Board of Directors and management of the Bank to promote the long term stability of the Bank have begun to bear fruit; however, we still have some challenges ahead of us. These measures included a restructuring of the balance sheet to focus on credit quality, to better manage our funding sources and to increase liquidity. Currently our primary focus is managing non-performing loans and real estate owned as well as capital preservation. Apart from the impact credit quality is having on our operating results, we are pleased with the results of our attention to expense control, our liquidity levels and our margin improvement due to increased core deposits and decreased wholesale funding reliance. While not pleased overall with the operating results for the three months ended March 31, 2010, we are confident that the measures and disciplines we have implemented will continue to drive us toward the desired results.

At March 31, 2010, total assets were \$137.7 million, increasing \$2.4 million, or 2%, from December 31, 2009, and decreasing \$2.6 million, or 2%, from March 31, 2009. Total gross loans outstanding were \$105.3 million, decreasing \$2.7 million, or 2%, from December 31, 2009, and decreasing \$13.6 million, or 11%, from March 31, 2009. Total deposits as of March 31, 2010 were \$109.4 million, increasing \$5.2 million, or 5%, from December 31, 2009, and \$6.9 million, or 7%, from March 31, 2009. We are pleased to report that growth in retail or customer deposits was \$6.1 million, or 9%, for the three months ended March 31, 2010. At March 31, 2010, brokered deposits, included in total deposits, were \$38.0 million compared to \$38.9 million at December 31, 2009, decreasing almost \$1.0 million.

Operations resulted in a net loss of \$629,741 for the quarter ended March 31, 2010. We recognized a reasonable increase of \$98,328 in net interest income for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009. Our net interest margin increased from 1.75% for the quarter ended March 31, 2009 to 2.16% for the quarter ended March 31, 2010. This increase is primarily due to a continued decrease in cost of funds from 3.15% for the quarter ended March 31, 2009 to 2.48% for the quarter ended March 31, 2010 due to the decrease in higher cost wholesale funding and an increase in lower cost retail or customer deposits. We have seen slow, steady progress in our margin throughout 2009 and first quarter 2010; however, as discussed in greater detail below, these improvements are negatively impacted by non-accrual loans. This continues to be a focus point for the Bank as an increase in margin is essential for our return to profitability.

We recognized a solid increase in non-interest income to \$72,025 for the quarter ended March 31, 2010 compared to \$8,724 for the quarter ended March 31, 2009 due to an other-



INDEPENDENCE
BANGSHARES, INC.

than-temporary impairment charge required during first quarter 2009. Non-interest income is derived from service charges on deposits, customer service fees, rental income, and mortgage origination income.

In spite of these favorable results, a decline in credit quality impacted our operating results in several ways. First, our provision for loan losses was \$100,000 for the three months ended March 31, 2010, compared to \$90,000 for the three months ended March 31, 2009. This increase in provision expense is due to specific reserves taken on impaired loans primarily due to the continued deterioration of the national and local economy. Also, due to our level of non-accrual loans, we were unable to recognize over \$196,000 in interest income, or a 64 basis point impact on net interest margin, during the quarter ended March 31, 2010. Lastly, as a result of declining real estate values in our market, we wrote down other real estate owned by \$190,000 and repossessed assets (contract rights related to a land development project) by \$42,055 during the three months ended March 31, 2010. These items impacted our first quarter operating results by more than \$528,000. We continue to focus on our loan portfolio and believe that as the economy improves, the deterioration in these impaired credits will also improve.

Our non-interest expenses also continue to be impacted by increased FDIC insurance premium assessments which were approximately \$82,000 for the quarter ended March 31, 2010.

We are pleased to report that the capital levels of the Bank remain strong, with total capital as a percentage of risk weighted assets of 12.47%, well above the FDIC's well capitalized requirement of 10% and above our individual minimum capital ratio requirement of 12%. We believe our liquidity sources are adequate to meet our operating needs. Our liquidity ratio, measured as cash, cash equivalents, and investment securities available for sale to total assets, was at 17.62% as of March 31, 2010, an increase from 13.60% as of December 31, 2009. This increase is a result of net loan payoffs and an increase in retail deposits during the first three months of the year, offset by a decrease in brokered time deposits and FHLB advances. We will continue to reduce brokered time deposits and FHLB advances as cash balances, retail deposit growth and operating needs allow.

In closing, we appreciate your continued support as we aggressively attack the key areas that have impacted our Bank. We are committed to you, the shareholder, to stay focused on returning to profitability, strict management of our assets, preservation of capital, liquidity management, and continued growth in our customer deposit base.

Best Regards,

Lawrence R. Miller
President & CEO

Charles D. Walters
Chairman of the Board



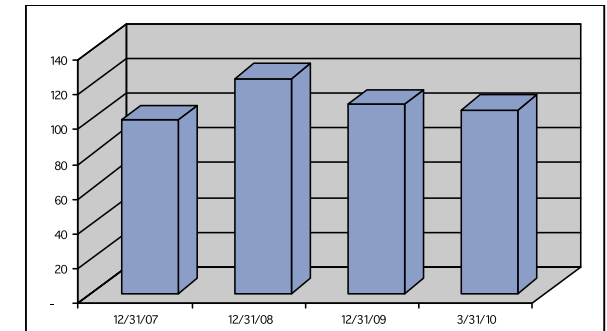
INDEPENDENCE
BANGSHARES, INC.

Financial Highlights (unaudited)

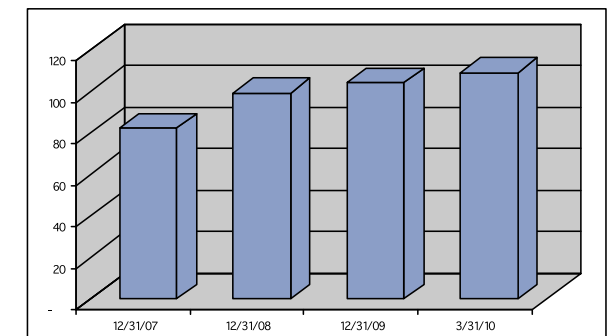
Balance Sheet Data	As of		
	3/31/2010	12/31/2009	3/31/2009
Total assets	\$ 137,724,718	\$ 135,311,199	\$ 140,346,475
Loans, gross	105,326,036	107,977,469	118,918,566
Allowance for loan losses	1,985,293	1,847,513	1,701,977
Deposits	109,432,753	104,275,456	102,515,810
Shareholders' equity	16,076,512	16,686,867	18,389,433

Income Statement Data	For the Quarter Ended	For the Year Ended	For the Quarter Ended
	3/31/2010	12/31/2009	3/31/2009
Net interest income	\$ 652,749	\$ 2,427,409	\$ 554,421
Provision for loan losses	100,000	1,212,000	90,000
Non-interest income	72,025	267,116	8,724
Non-interest expenses	1,254,515	4,136,164	993,640
Net loss, net of tax	(629,741)	(2,161,089)	(368,645)
Net loss, per diluted share	(0.30)	(1.04)	(0.18)

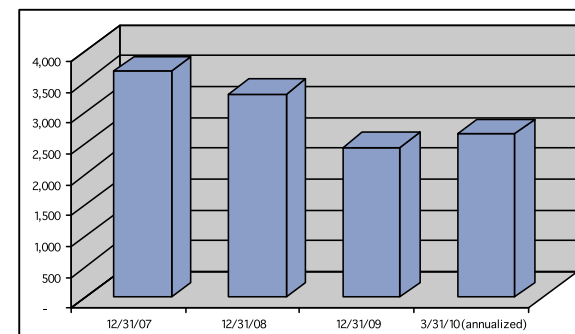
Gross Loans Outstanding (\$ in millions)



Deposits Outstanding (\$ in millions)



Annual Net Interest Income (\$ in thousands)



Total Assets (\$ in millions)

