

President's Message

Dear Fellow Customers:

We are pleased to report that net income for the 1st quarter 2011 was \$480,145 compared to \$255,647 for the 1st quarter 2010. Although our income from loans receivable has decreased over the past 4 quarters due to our deleveraging strategy, we kept pace by reducing our interest expense resulting in increased net interest income. The Bank's interest spread for the first quarter increased to 4.27% compared to 3.99% for the same period in 2010 and our first quarter net interest margin was 4.44% compared to 3.96% in the first quarter 2010. The bank has now posted five consecutive profitable quarters.

The Bank's loan portfolio continues to perform well. We have experienced some problem loan migration but the velocity of this migration has slowed and the Bank's loss exposure continues to be minimal. This is due to maintaining above peer bank loan loss reserve levels and the fact that we have seen general real estate market improvements within our geographic lending areas. Our loan loss reserve ratio at March 31, 2011 was 2.26% of total loans versus 2.21% at March 31, 2010.

We have not waived from our strategy to recognize potential loss exposure early in the resolution process and move problem assets off our books in a timely manner. This strategy has served us well over the past 30 months and minimized our realized losses on these assets. Although we have experienced a spike in OREO properties during the first quarter, most properties are under contract for sale and should move off the books by June 30, 2011 with minimal, if any, additional write down.

The Bank's capital ratios continue to increase primarily due to steady net income. At March 30, 2011 our tier one leverage ratio was 11.01% and our total risk based capital was 14.19%. Both ratios reflect capital levels well in excess of the regulatory guidelines to qualify as a well capitalized institution. By comparison, our ratios at March 31, 2010 were 9.31% and 11.94% respectively.

During the past several quarters we have focused on realigning our balance sheet to improve our liquidity ratio, wholesale funds ratio and our mix of deposits. These company-wide efforts have resulted in our liquidity ratio improving from 14.35% at March 31, 2010 to 17.35% at March 31, 2011. The Bank's wholesale funding ratio improved from 17.69% to 16.50% during the same reporting periods. The most dramatic positive change has been the improvement in our deposit mix. At March 31, 2010 our core deposits to total retail deposits was 33%. At March 31, 2011 this ratio was 49.66%, which represents a significant improvement.

The Bank continues to invest in attracting quality business bankers and providing our existing business bankers with the tools and support necessary to attract new business and expand existing business relationships. This effort is paying dividends as evidenced by our core deposit gains.

I would like to thank all Independence Bank employees for their dedication and hard work, our shareholders for their confidence and our customers for their loyalty and for giving us the opportunity to serve their financial needs.



Charles W. Thomas,
President and Chief Executive Officer



2011 FIRST QUARTER REPORT (Unaudited)

BALANCE SHEET

	March 31, 2011	March 31, 2010
Assets		
Cash and cash equivalents	\$ 2,112,475	\$ 1,419,162
Investments	57,096,250	54,474,805
Loans, net	245,433,057	280,691,443
Property and equipment, net	1,587,320	325,293
Other assets	13,606,790	14,346,254
Total Assets	<u>\$ 319,835,892</u>	<u>\$ 351,256,957</u>
Liabilities and Shareholders' Equity		
NOW/Money Market/Savings	86,539,325	71,111,521
Certificates of Deposit	155,655,977	201,339,630
Total Deposits	242,195,302	272,451,151
Other borrowings	40,300,000	43,000,000
Other liabilities	2,071,019	3,073,608
	284,566,320	318,524,758
Shareholders' Equity:	35,269,572	32,732,199
Total Liabilities & Shareholders' Equity	<u>\$ 319,835,892</u>	<u>\$ 351,256,957</u>

STATEMENT OF EARNINGS

	3 Months Ended	
	March 31, 2011	March 31, 2010
Interest income	4,198,306	4,831,091
Interest expense	1,005,389	1,674,673
Net interest income	3,192,917	3,156,418
Provision for loan losses	50,000	75,000
Other income	72,429	171,150
Other expenses	2,282,521	2,324,947
OREO Operations, Net	140,419	484,176
Earnings before income taxes	792,406	443,446
Income taxes	312,261	187,799
Net earnings	<u>\$ 480,145</u>	<u>\$ 255,647</u>
Common shares issued and outstanding	4,210,310	4,074,855
Basic earnings per share	\$ 0.11	\$ 0.06
Return on average assets (annualized)	0.60%	0.29%
Return on average equity (annualized)	5.50%	3.13%
Net interest margin	4.16%	3.80%
Efficiency ratio	69.90%	69.87%

SELECTED RATIOS

Tier 1 leverage capital ratio	11.01%	9.31%
Tier 1 risk-based capital ratio	12.93%	10.68%
Total risk-based capital ratio	14.19%	11.94%
Allowance for loan losses as % of total loans net of charge off	2.26%	2.22%
Book value per share	\$ 8.38	\$ 8.03