

President's Message



It gives me great pleasure to report that the Bank's 2nd quarter net income was \$590,427 compared to \$480,145 for the 1st quarter 2011. Net income for the six months ending June 30, 2011 was \$1,070,572 compared to \$622,334 for the same period in 2010. The principal drivers for our year to date income improvement over 2010 were increased net interest margin, stabilized expenses, and a reduced level of REO and other problem loans. We have now posted six consecutive profitable quarters.

Our focus for the foreseeable future is increasing revenues, both interest income and non-interest income. We have restructured our non-interest fee schedules to accommodate higher operating costs. This effort was designed to be fair to all customers and reward those customers who maintain a multiple deposit account relationship with the Bank. To improve interest income we are actively pursuing business loans as evidenced by the hiring of several experienced business bankers over the course of the past six months. This initiative is gaining traction as our loan pipelines are steadily growing. Identifying qualified business borrowers has always been difficult, today it is even harder. Borrowers are reluctant to consider changing banks in today's environment, even if they dislike their current bank, because of the unknowns of a new banking relationship. Hiring seasoned business bankers helps us cross initial hurdles but it takes much more energy and time to convince business prospects that we are the bank of choice. Our best advertisement comes from those customers who made the change and are thrilled with the opportunity to share their Independence Bank experience.

The Bank's loan portfolio performance is consistently improving. In our 1st quarter letter we anticipated a significant reduction in REO properties during the 2nd quarter and I am happy to report that as of June 30, 2011, we are now reporting the lowest level of REO properties in several quarters. The Bank also experienced a significant reduction in classified and non performing loans during the 2nd quarter. We remain diligent in our management of the loan portfolio, utilizing tools we developed to anticipate and catch individual and portfolio wide issues early in the resolution process. Our loan administration has consistently demonstrated its ability to manage portfolio risk during this economic crisis.

Here are a few key performance ratios with a comparison to our 1st quarter 2011 results. Our net interest spread at 6/30/11 was 4.35% compared to 4.27% at 3/31/11. Our net interest margin at 6/30/11 was 4.42% compared to 4.44% for the same period. The Bank's tier 1 leverage ratio at 6/30/11 was 11.42% compared to 11.01% at 3/31/11 and total risk based capital was 15.08% compared to 14.19% for the same period. Our allowance for loan and lease losses was 2.33% at 6/30/11 compared to 2.26% at 3/31/11. We have maintained our ALLL at high levels even though our problem loan levels have declined.

As I mentioned above, we have significantly increased our market presence by hiring several seasoned business bankers. This has resulted in a 14% core deposit increase during the first six months of 2011. We expect this very positive trend to continue throughout 2011 and beyond.

As always, I want to thank all Independence Bank employees for their individual contribution and dedication to the Bank's success. I am very proud of their performance. To our shareholders and customers, thank you for your continued confidence and loyalty. We sincerely appreciate the opportunity to serve our customers financial needs and understand that every customer has choices and that we must earn your business each and every day.

Charles W. Thomas,
President and Chief Executive Officer

2011 SECOND QUARTER REPORT (Unaudited)

BALANCE SHEET

	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 3,261,884	\$ 1,917,954
Investments	57,249,646	56,121,692
Loans, net	239,216,526	252,071,696
Property and equipment, net	1,563,405	1,507,535
Other assets	8,911,129	11,119,664
Total Assets	<u>\$ 310,202,589</u>	<u>\$ 322,738,541</u>
Liabilities and Shareholders' Equity		
NOW/Money Market/Savings	86,634,977	75,942,760
Certificates of Deposit	141,417,622	164,264,220
Total Deposits	228,052,599	240,206,980
Other borrowings	43,800,000	46,000,000
Other liabilities	2,193,157	2,070,341
	274,045,755	288,277,321
Shareholders' Equity:	36,156,833	34,461,220
Total Liabilities & Shareholders' Equity	<u>\$ 310,202,589</u>	<u>\$ 322,738,541</u>

STATEMENT OF EARNINGS

	6 Months Ended	
	June 30, 2011	June 30, 2010
Interest income	8,412,474	9,541,244
Interest expense	1,929,068	3,133,394
Net interest income	6,483,406	6,407,850
Provision for loan losses	100,000	525,000
Other income	146,037	253,379
Other expenses	4,635,024	4,618,106
OREO Operations, Net	199,339	440,414
Earnings before income taxes	1,695,080	1,077,709
Income taxes	624,508	455,375
Net earnings	<u>\$ 1,070,572</u>	<u>\$ 622,334</u>
Common shares outstanding	4,210,310	4,210,310
Basic earnings per share	\$ 0.25	\$ 0.15
Return on average assets (annualized)	0.67%	0.35%
Return on average equity (annualized)	6.05%	3.75%
Net interest margin	4.27%	3.87%
Efficiency ratio	69.92%	69.33%

SELECTED RATIOS

Tier 1 leverage capital ratio	11.42%	9.70%
Tier 1 risk-based capital ratio	13.82%	11.50%
Total risk-based capital ratio	15.08%	12.76%
ALLL % of total loans	2.33%	2.36%
Classified assets % of total loans	5.53%	7.72%
Net chargeoffs % of total loans	0.06%	0.14%
Basic book value per share	\$ 8.59	\$ 8.10