

President's Message

The Bank's net income for the 3rd quarter ending September 30, 2011, was \$518,436. Year to date net income for the period ending September 30, 2011 was \$1,589,008 as compared to \$1,200,432 for the same period 2010. The Bank has now posted seven consecutive profitable quarters. We continue to benefit from lower loan collection costs, lower loan loss provision and a higher net interest margin in 2011 when compared to 2010.

Over the past quarter the Bank reports significant progress with loan and REO resolution. The effort has resulted in a reduction of our classified asset to total loan and REO from 5.5% at June 30, 2011 to 4.5% at September 30, 2011. Accordingly, our classified assets to Tier 1 capital ratio plus ALLL, has dropped from 32.4% at June 30, 2011 to 25.0% at September 30, 2011. We anticipate additional improvement of these ratios during the fourth quarter 2011. We have benefitted from lower resolution costs during the third quarter and we do expect the velocity of cost reduction to increase during the fourth quarter. As stated in our last quarterly report, despite loan collection improvement we will continue to add to our provision for loan and lease losses as an added safety measure against unforeseen loan problems.

Here are some key performance ratios. The Bank's net interest margin improved from 4.27% at June 30, 2011 to 4.35% at September 30, 2011. Our expense as a percent of total assets increased from 2.91% to 2.97% during the third quarter. Most of these additional expenses can be attributed to hiring and training staff for our new Tustin Office, which is scheduled to open during the fourth quarter. Also, we continue to identify and hire seasoned business developers, which contributed to our higher expenses. Capital ratios for the quarter ending September 30, 2011 are: Tier 1 Leverage is 12.22% and Total Risk Based Capital is 16.25%. Both of these ratios are well above regulatory minimums for well capitalized institutions.

We will stay on course regarding our conservative approach towards growth and safety. We do plan to end our commercial real estate loan de-leveraging strategy during the fourth quarter and continue to focus our development effort on loans to small and medium sized, well managed companies. Our Business Banking Group has transitioned several companies to Independence Bank recently and our loan and deposit pipelines reflect robust future business development activity.

I would like to thank our shareholders and customers for your loyalty and confidence in Independence Bank. To our employees, thank you for your hard work and dedication to excellence.

Sincerely,



Charles W. Thomas

2011 THIRD QUARTER REPORT (Unaudited)

BALANCE SHEET

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 2,893,718	\$ 1,917,954
Investments	57,485,827	56,121,692
Loans, net	226,037,641	252,071,696
Property and equipment, net	1,602,303	1,507,535
Other assets	12,812,664	11,119,664
Total Assets	\$ 300,832,152	\$ 322,738,541
Liabilities and Shareholders' Equity		
NOW/Money Market/Savings	\$ 90,032,323	\$ 75,942,760
Certificates of Deposit	128,386,904	164,264,220
Total Deposits	218,419,227	240,206,980
Other borrowings	43,800,000	46,000,000
Other liabilities	1,368,165	2,070,341
Total Liabilities	263,587,391	288,277,321
Shareholders' Equity:	37,244,761	34,461,220
Total Liabilities and Shareholders' Equity	\$ 300,832,152	\$ 322,738,541

STATEMENT OF EARNINGS

	Nine Months Ended	
	September 30, 2011	September 30, 2010
Interest income	\$ 12,589,463	\$ 14,134,234
Interest expense	2,798,327	4,454,637
Net interest income	9,791,136	9,679,597
Provision for loan losses	325,000	975,000
Other income	361,824	637,356
Other expenses	7,007,591	6,780,920
OREO operations, net	302,605	489,134
Earnings before income taxes	2,517,764	2,071,900
Income taxes	928,756	871,468
Net earnings	\$ 1,589,008	\$ 1,200,432
Common shares issued and outstanding	4,371,220	4,210,310
Basic earnings per share	\$ 0.37	\$ 0.29
Return on average assets (annualized)	0.67%	0.46%
Return on average equity (annualized)	5.88%	4.75%
Net interest margin	4.35%	3.93%
Efficiency ratio	69.02%	65.73%

SELECTED RATIOS

Tier 1 leverage capital ratio	12.22%	10.11%
Tier 1 risk-based capital ratio	14.99%	12.42%
Total risk-based capital ratio	16.25%	13.68%
Allowance for loan losses as a % of total loans net of charge off	2.17%	2.22%
Classified asset as a % of total loan and REO	4.51%	7.85%
Net chargeoffs as a % of total loans	0.46%	0.56%
Basic book value per share	\$ 8.52	\$ 8.18