(Dollars in thousands except shares & per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

NOTE 2 - SECURITIES

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2007				
U.S. Government and federal agency	$ 39,415	$ 202	$ (9)	$ 39,608
Mortgage backed securities	25,217	245	(34)	25,428
State and municipal	24,353	266	(61)	24,558
Equity Securities	18,003	-	(3)	18,000
Total	$ 106,988	713	$ (107)	$ 107,594
2006				
U.S. Government and federal agency	$ 102,465	$ 30	$ (371)	$ 102,124
Mortgage backed securities	31,746	6	(143)	31,609
State and municipal	25,646	240	(210)	25,676
Corporate bonds	3,010	-	(16)	2,994
Equity Securities	11,503	-	(18)	11,485
Total	$ 174,370	276	$ (758)	$ 173,888

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 2 – SECURITIES (Continued)

Sales of securities available for sale were as follows:

	2007	2006
Proceeds	$ 6,000	$ 53,949
Gross gains	-	91
Gross losses	-	(19)

Restricted equity securities were as follows:

	2007	2006
Federal Home Loan Bank stock	$ 2,164	$ 1,528
Federal Reserve Bank stock	1,626	1,626
Bankers Bank stock	245	245
	$ 4,035	$ 3,399

The fair value of debt securities and carrying amount, if different, at year end 2007 by contractual maturity were as follows. Actual maturities will differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or repayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 35,240	$ 35,305
Due from one to five years	22,553	22,721
Due from five to ten years	3,290	3,335
Due after ten years	2,685	2,805
Mortgage backed securities	25,217	25,428
Equity securities	18,003	18,000
Total	$ 106,988	$ 107,594

Securities pledged at year end 2007 and 2006 had a carrying amount of $64,595 and $63,662 and were pledged to secure public deposits and repurchase agreements. At year end 2007 and 2006, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 2 – SECURITIES (Continued)

Securities with unrealized losses at year-end 2007 and 2006, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2007						
U.S. Govt. agencies	$ -	$ -	$ 4,008	$ (9)	$ 4,008	$ (9)
Mortgage backed securities	-	-	4,245	(34)	4,245	(34)
State and municipal	838	(15)	9,945	(46)	10,783	(61)
Equity Securities	-	-	2,000	(3)	2,000	(3)
Total temporarily impaired	$ 838	$ (15)	$ 20,198	$ (92)	$ 21,036	$ (107)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2006						
U.S. Govt. agencies	$ 23,999	$ (61)	$ 59,917	$ (310)	$ 83,916	$ (371)
Mortgage backed securities	17,264	(28)	6,202	(115)	23,466	(143)
State and municipal	4,225	(17)	13,251	(193)	17,476	(210)
Corporate bonds	1,000	(1)	1,994	(15)	2,994	(16)
Equity Securities	11,503	(18)	-	-	11,503	(18)
Total temporarily impaired	$ 57,991	$ (125)	$ 81,364	$ (633)	$ 139,355	$ (758)

The Company evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 3 – LOANS

Loans at year-end were as follows:

	2007	2006
Commercial	$ 56,353	$ 45,304
Real estate:		
Construction	68,788	42,805
Mortgage	374,161	315,053
Loans to individuals	30,251	28,785
Other	8,515	2,462
Subtotal	538,068	434,409
Less: unearned interest income	(19)	(22)
Allowance for loan losses	(4,626)	(4,242)
Loans, net	$ 533,423	$ 430,145

Activity in the allowance for loan losses was as follows:

	2007	2006
Beginning balance	$ 4,242	$ 4,260
Provision for loan losses	1,080	670
Loans charged-off	(981)	(941)
Recoveries	285	253
Ending balance	$ 4,626	$ 4,242

Impaired loans were as follows:

	2007	2006
Year-end loans with no allocated allowance for loan losses	$ -	$ -
Year-end loans with allocated allowance for loan losses	1,215	6,204
Total	$ 1,215	$ 6,204
Amount of the allowance for loan losses allocated	$ 375	$ 1,128
Average of impaired loans during the year	3,710	5310
Interest income recognized during impairment	29	94
Cash-basis interest income recognized	-	-

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 3 – LOANS (Continued)

Nonperforming loans were as follows:	2007	2006
Loans past due over 90 days still on accrual	$ 230	$ 164
Nonaccrual loans	208	1,998

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:	2007	2006
Land	$ 5,630	$ 4,656
Buildings	13,481	11,772
Furniture, fixtures and equipment	9,570	8,927
Leasehold improvements	170	170
	28,851	25,525
Less: Accumulated depreciation	(11,270)	(10,205)
	$ 17,581	$ 15,320

Depreciation expense was $1,139 and $1,140 for 2007 and 2006.

The Bank leases certain branch properties and some equipment. Rent expense was $102 and $160 for 2007 and 2006. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2008	$ 119
2009	121
2010	121
2011	121
2012	123
Thereafter	646
Total	$ 1,251

(Dollars in thousands except shares & per share amounts)

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

The change in balance for goodwill during the year is as follows:

	2007	2006
Beginning of year	$ 18,869	$ 19,071
Purchase accounting adjustment	-	(202)
End of year	$ 18,869	$ 18,869

During 2006, the Company sold two buildings purchased in the 2005 acquisition. The effect of this sale reduced goodwill by $202 as the transaction tool place within the purchase price allocation period.

Identifiable Intangible Assets

The change in balance for acquired intangible assets during the year is as follows:

	2007	2006
Original cost	$ 9,355	$ 9,355
Accumulated amortization	(4,161)	(2,836)
End of year	$ 5,194	$ 6,519

Aggregate amortization expense was $1,291 and $1,439 for 2007 and 2006.

Estimated amortization expense for each of the next five years:

2008	$ 1,208
2009	1,090
2010	943
2011	797
2012	493

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 6 – CASH SURRENDER VALUE LIFE INSURANCE

The Company holds $9,076 and $9,845 in cash surrender value life insurance at December 31, 2007 and 2006. These insurance policies earned total income of $644 and $404 as of December 31, 2007 and 2006, respectively.

NOTE 7 – RECEIVABLE FROM TRUST

The Company has a receivable from a related party Trust that is set up for the benefit of certain officers and shareholders in the amounts of $6,585 and $5,661 at December 31, 2007 and December 31, 2006. This Trust is the owner and beneficiary of certain life insurance policies. The Company has an agreement with the Trust that requires the Company to fund the majority of the premium payments on these life insurance policies. Payments to fund such premiums create a receivable from the Trust which is backed by an assignment of the cash surrender value of life insurance policies. Such receivable is increased by an amount equal to the earnings of the policy, less mortality costs. This increase is shown in noninterest income and amounted to $175 and $134 in 2007 and 2006. This receivable is due to be repaid when the Trust collects proceeds from the life insurance policies.

NOTE 8 – DEPOSITS

Time deposits of $100 thousand or more were $91,575 and $91,497 at year-end 2007 and 2006.

Scheduled maturities of time deposits for the next five years were as follows.

2008	$ 240,029
2009	18,675
2010	8,392
2011	2,684
2012	7,025
Thereafter	619

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES

At year end, advances from the Federal Home Loan Bank were as follows:

	2007	2006
Maturities October 2009 through November 2010, fixed rate at rates from 3.98% to 4.54%, averaging 4.28%	$ 20,000	$ -

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES (Continued)

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $155,271 of first mortgage loans under a blanket lien arrangement at year-end 200. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to $150,860 at year-end 2007.

Payment Information

Required payments over the next five years are:

2008	$ 0
2009	10,000
2010	10,000
2011	0
2012	0

NOTE 10 – SUBORDINATED DEBENTURES

In November 2005, BancIndependent Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 30,928 trust preferred securities with a liquidation amount of $1 per security. The Company issued $30,928 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company may redeem the subordinated debentures at a price equal to the sum of 100% of the principal amount with any accrued and unpaid interest on or after December 15, 2010. The subordinated debentures mature on December 15, 2035. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

The $30,928 in subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate (LIBOR) and 1.75%, which was 6.74% at year-end 2007. The Company's investment in the common stock of the trust was $928 and is allocated in other assets on the balance sheet.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 11 – DEFINED BENEFIT PENSION PLAN

The Company has a funded noncontributory defined benefit pension plan that covers substantially all of its employees. The plan provides defined benefits based on years of service and final average salary. The Company uses a December 31 measurement date for its plans.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87,88,106 and 132(R).* This Statement requires an employer without publicly traded equity securities to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet, beginning with year end 2007, and to recognize changes in the funded status in the year in which the changes occur through comprehensive income beginning in 2008. Adoption had the following effect on individual line items in the 2007 balance sheet:

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No.158
Liability for pension benefits (cost)	$ (363)	$ 1,441	$ 1,078
Deferred income assets	315	534	849
Accumulated other comprehensive income	(538)	(907)	(1,445)
Total stockholders' equity	55,754	(907)	86,636

Information about changes in obligations and plan assets of the defined benefit pension plan follows:

	2007	2006
Projected benefit obligation	$ (7,080)	$ (6,468)
Fair value of plan assets	6,002	5,124
Funded status of plan	(1,078)	(1,344)
Accumulated benefit obligation	5,519	4,875
Net period pension cost	606	506
Employer contributions	979	850
Employee contributions	-	-
Benefits paid	(234)	(186)
Change in minimum liability included in other Comprehensive income	907	-

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

Amounts recognized in accumulated other comprehensive income at December 31, 2007 consist of the net actuarial gain (loss) of $107.

The estimated net loss for the pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending December 31, 2008 is $107.

Prior to adoption of FAS Statement 158, amounts recognized in the balance sheet at December 31, 2006 consist of:

Prepaid benefit cost	$ 949
Accrued benefit cost	(608)
Accumulated other comprehensive income	(383)
Net amount recognized	$ 42

Assumptions

	2007	2006
Weighted-average assumptions used to determine benefit obligations at year-end:		
Discount rate	6.00%	6.00%
Rate of compensation increase	5.00	5.00
Weighted-average assumptions used to determine net cost:		
Discount rate	6.00%	6.00%
Expected return on plan assets	5.00	5.00
Rate of compensation increase	5.00	5.00

Plan Assets

The Company's pension plan assets are primarily invested in deposit accounts at the Company.

Contributions

The Company expects to contribute $975 to its defined benefit pension plan in 2008.

(Dollars in thousands except shares & per share amounts)

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

Estimated Future Payments

The following benefit payments are expected in future periods:

	Pension Benefits
2008	$ 260
2009	261
2010	267
2011	301
2012	307
Following 5 years	1,787

NOTE 12 - OTHER BENEFIT PLANS

Deferred Compensation Plan: The Company provides a deferred compensation program for its directors as an incentive to encourage them to remain members of the Company's board of directors. The Company has established an accrual account to which it credits the board meeting fees which individual directors have elected to be deferred and interest earned at 8.25% on each director's account. The deferral account is an election made by each director via a signed Deferred Fee Agreement. Only Board fees are allowed to be deferred, and they may be deferred for a specified term as designated by the director. The accrual account is not segregated into a separate trust and will be paid from the general assets of the Company, subject to the general unsecured creditors of the Company. The compensation expense amounts related to director's deferred compensation for the years ended December 31, 2007 and 2006 were approximately $193 and $229, respectively. The liabilities at December 31, 2007 and 2006 were approximately $773 and $919, respectively. Payments made to directors were $214 and $201 in 2007 and 2006.

Salary Continuation Plan: The Company maintains salary continuation agreements with certain executives to encourage the executives to remain employees of the Company. The Company has established an accrual account to which it credits the benefit as defined in the agreements. The accrual account is not segregated into a separate trust and will be paid from the general assets of the Company, subject to the general creditors of the Company. The compensation expense amounts related to salary continuation for the years ended December 31, 2007 and 2006 were approximately $468 and $522, respectively. The liabilities at December 31, 2007 and 2006 were approximately $2,210 and $1,742, respectively.

The Company has entered into a consulting agreement with certain executive officers. The agreement requires the Company to make regular monthly payments to these executive officers in exchange for certain consulting services should they choose to retire prior to normal

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 12 – OTHER BENEFIT PLANS (Continued)

retirement age, as defined in the salary continuation agreements. The amount of these payments is likely to be $175 annually, should the executives choose early retirement, and continue until their normal retirement age.

The Company has signed an agreement requiring that it enter into a non-compete agreement with two executive officers should they retire prior to their specified retirement date. The agreement requires the Company to make regular monthly payments to these executive officers in exchange for certain non-compete provisions should the executives choose to retire prior to a specified retirement date. The amount of the payments is likely to be $100 annually.

Incentive Retirement Plan: The Company maintains an incentive retirement plan to encourage certain senior officers to remain employees of the Company. The senior officers may receive either cash or a combination of cash and deferred benefits based on certain performance goals of the Company indicative of its profitability. The Company has established an accrual account to which it credits the deferred portion of the benefit. The accrual account is not segregated into a separate trust and will be paid from the general assets of the Company, subject to general creditors of the Company. The compensation expense amounts related to incentive retirement for the years ended December 31, 2007 and 2006 were approximately $110 and $89, respectively. The liabilities at December 31, 2007 and 2006 were approximately $404 and $300, respectively.

401(k) Plan: The Bank has a 401(k) plan whereby substantially all employees participate in the plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Company makes a discretionary contribution allocated based on the basis of the employee's contributed amount. Discretionary contributions vest to the employees at 100% after five years of service. For the years ended December 31, 2007 and 2006, discretionary contributions were approximately $131 and $152, respectively.

NOTE 13 - INCOME TAXES

Income tax expense (benefit) was as follows:	2007	2006
Current federal	$ 1,760	$ 985
Current state	306	228
Deferred	(232)	462
Total	$ 1,834	$ 1,675

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 13 - INCOME TAXES (Continued)

Effective tax rates differ from federal statutory rate of 34% applied to income before income taxes due to the following.

	2007	2006
Federal statutory rate times financial statement income	$ 2,921	$ 2,378
Effect of:		
Tax-exempt income	(257)	(248)
Investment tax credits	(421)	(442)
State taxes, net of federal benefit	175	136
Officers' life insurance	(258)	(160)
Dividend received deduction	(225)	-
Other, net	(101)	11
Total	$ 1,834	$ 1,675

Year-end deferred tax assets and liabilities were due to the following.

	2007	2006
Deferred tax assets:		
Allowance for loan losses	$ 1,480	$ 1,272
Retirement and other benefit plans	1,173	889
Real estate investments	164	123
Unrealized loss on securities available for sale	-	178
Intangible assets	-	48
Unrealized pension benefit obligation	849	-
Other	-	26
	3,666	2,536
Deferred tax liabilities:		
Deferred late fees	(61)	(59)
Depreciation	(367)	(325)
Intangible assets	(164)	-
Unrealized gains on securities available for sale	(225)	-
Other	(19)	-
	(836)	(384)
Net deferred tax asset	$ 2,830	$ 2,152

(Continued)

NOTE 14 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates at year-end 2007 and 2006 were $2,958 and $2,207.

Deposits from principal officers, directors, and their affiliates at year-end 2007 and 2006 were $5,972 and $5,775.

See also the related party Trust receivable discussed in Note 7.

NOTE 15 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2007 and 2006, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (in millions) and ratios are presented below at year-end.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2007						
Total Capital to risk weighted assets						
BancIndependent Incorporated	$ 69,214	11%	$ 48,606	8%	NA	NA
Bank Independent	66,816	11%	48,496	8%	60,619	10%
Tier 1 (Core) Capital to risk weighted assets						
BancIndependent Incorporated	$ 64,588	11%	$ 24,303	4%	$ NA	NA
Bank Independent	62,190	10%	24,248	4%	36,372	6%
Tier 1 (Core) Capital to average assets						
BancIndependent Incorporated	$ 64,588	9%	$ 28,729	4%	$ NA	NA
Bank Independent	62,190	9%	28,673	4%	35,841	5%

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 15 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2006						
Total Capital to risk weighted assets						
BancIndependent Incorporated	$ 66,189	14%	$ 38,763	8%	$ N/A	N/A
Bank Independent	65,475	14%	38,642	8%	48,302	10%
Tier 1 (Core) Capital to risk weighted assets						
BancIndependent Incorporated	$ 49,922	10%	$ 19,382	4%	$ N/A	N/A
Bank Independent	61,232	13%	19,321	4%	28,981	6%
Tier 1 (Core) Capital to average assets						
BancIndependent Incorporated	$ 49,922	7%	$ 29,151	4%	$ N/A	N/A
Bank Independent	61,232	8%	29,117	4%	36,397	5%

The Bank is also subject to state regulations restricting the amount of dividends payable to the Company. At year end 2007, the Bank had $23,676 of retained earnings available for dividends under these regulations.

NOTE 16 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year end.

	2007	2006
Unused lines of credit	$ 134,674	$ 73,647
Letters of credit	1,801	2,151

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 17 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair values of financial instruments were as follows at year-end:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 26,435	$ 26,435	$ 27,596	$ 27,596
Securities available for sale	107,594	107,594	173,888	173,888
Restricted equity securities	4,035	4,035	3,399	3,399
Loans held for sale	1,192	1,192	87	87
Net loans	533,423	532,457	430,145	424,553
Bank owned life insurance and related investments	15,661	15,661	15,506	15,506
Tax incentive investments	2,292	2,292	2,716	2,716
Accrued interest receivable	3,821	3,821	4,118	4,118
Financial liabilities				
Deposits	$ 609,962	$ 611,035	$ 595,785	$ 596,920
Federal funds purchased and repurchase agreements	16,495	16,495	11,929	11,929
Subordinated notes	30,928	32,212	30,928	28,589
Accrued interest payable	3,768	3,768	3,498	3,498
Other borrowings	20,000	20,175		

The methods and assumptions used to estimate fair value are described as follows.

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is not material as the interest rates charged are substantially equivalent to market rates considering credit quality.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 18 – OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related tax effects were as follows:

	2007	2006
Net income	$ 6,759	$ 5,319
Unrealized holding gains on available for sale securities	1,088	1,197
Reclassified for adjustments for loss realized in income	-	(72)
Net unrealized gains	1,088	1,125
Tax effect	(404)	(414)
Net-of-tax amount	684	711
Adjustment to initially apply FAS 158, net of tax ($849)	(1,445)	-
Net unrealized gain (loss), recognized in other comprehensive income	(761)	711
Comprehensive income	$ 5,998	$ 6,030

BANCINDEPENDENT INCORPORATED
Sheffield, Alabama

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

BANCINDEPENDENT INCORPORATED
Sheffield, Alabama

Consolidated Financial Statements
December 31, 2008 and 2007

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
BancIndependent Incorporated
Sheffield, Alabama

We have audited the consolidated balance sheets of BancIndependent Incorporated as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BancIndependent Incorporated as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 10, the Company adopted Statement of Financial Accounting Standards 158 "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132(R)" at the end of 2007 which requires the Company to recognize the underfunded status of the defined benefit pension plan as a liability on the balance sheet. This change is recorded through comprehensive income.

Crowe Horwath LLP

Brentwood, Tennessee
___________, 2009

BANCINDEPENDENT INCORPORATED
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007
(Dollars in thousands except shares & per share amounts)

	2008	2007
ASSETS		
Cash and due from financial institutions	$ 25,959	$ 23,695
Federal funds sold	-	2,600
Interest-bearing deposits in other financial institutions	1,873	140
Cash and cash equivalents	27,832	26,435
Securities available for sale	87,483	107,594
Loans held for sale	2,248	1,192
Loans, net	688,203	534,725
Restricted equity securities	5,094	4,035
Foreclosed assets, net	894	1,766
Premises and equipment, net	25,188	17,581
Cash surrender value life insurance	12,244	9,076
Receivable from trust	7,557	6,585
Tax incentive investments	1,864	2,292
Goodwill	24,052	18,869
Intangible assets	5,366	5,194
Accrued interest receivable and other assets	10,135	9,520
	$ 898,160	$ 744,864
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 174,639	$ 139,581
Interest bearing	558,112	470,381
Total deposits	732,751	609,962
Federal Home Loan Bank Advances	35,000	20,000
Federal funds purchased and securities sold under agreements to repurchase	25,296	16,495
Subordinated notes	30,928	30,928
Accrued interest payable and other liabilities	11,474	10,818
Total liabilities	835,449	688,203
Shareholders' equity		
Class A common stock, $1.00 par value; 425,000 shares authorized; 155,898 shares issued at December 31, 2008 and 2007; and 143,781 shares outstanding at December 31, 2008 and 2007	156	144
Class B common stock, $1.00 par value; 75,000 shares authorized; 37,294 shares and 37,294 shares outstanding at December 31, 2008 and December 31, 2007	45	45
Additional paid-in capital	42,299	36,943
Retained earnings	26,745	23,676
Treasury stock, at cost, 7,752 and 8,005 shares at December 31, 2008 and 2007	(3,000)	(3,084)
Accumulated other comprehensive income (loss)	(3,534)	(1,063)

See accompanying notes to consolidated financial statements.

BANCINDEPENDENT INCORPORATED

Total shareholders' equity	62,711	56,661
	$ 898,160	$ 744,864

See accompanying notes to consolidated financial statements.

BANCINDEPENDENT INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2008 and 2007
(Dollars in thousands except shares & per share amounts)

	2008	2007
Interest and dividend income		
Loans, including fees	$ 41,906	$ 36,128
Taxable securities	3,827	6,134
Tax exempt securities	718	748
Federal funds sold and other	135	528
	46,586	43,538
Interest expense		
Deposits	11,697	14,004
Subordinated debentures	1,759	2,262
Federal funds purchased and securities sold under agreements to repurchase	603	497
Federal Home Loan Bank advances and other debt	1,406	133
	15,465	16,896
Net interest income	31,121	26,642
Provision for loan losses	1,700	1,080
Net interest income after provision for loan losses	29,421	25,562
Noninterest income		
Service charges on deposit accounts	6,356	5,584
Other charges, commissions & fees	1,801	1,631
Net gains on sales of loans	227	172
Gain on sale of premises and equipment	2	5
Cash surrender value life insurance	422	644
Receivable from trust income	223	175
Insurance commissions	10	36
Gain on sale of securities	286	-
Other	505	408
	9,832	8,655
Noninterest expense		
Salaries and employee benefits	17,109	15,251
Occupancy and equipment	3,885	3,412
Data processing	798	872
Communications	1,320	1,135
Foreclosed assets, net	60	9
Advertising	557	456
Supplies	448	386
Amortization of intangibles	1,200	1,290
Other	6,347	2,813
	31,724	25,624
Income before income taxes	7,529	8,593
Income tax expense	1,650	1,834
Net income	$ 5,879	$ 6,759

See accompanying notes to consolidated financial statements.

BANCINDEPENDENT INCORPORATED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2008 and 2007
(Dollars in thousands except shares & per share amounts)

	ClassA Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2006	$ 144	$ 45	$ 36,943	$ 19,662	$ (302)	$ (85)	$ 56,407
Comprehensive income:							
Net income	-	-	-	6,759	-	-	6,759
Change in net unrealized gain (loss) on securities available for sale, net of deferred tax of $225	-	-	-	-	684	-	684
Adjustment to initially apply SFAS No. 158, net of tax					(1,445)		(1,445)
Total comprehensive income							5,998
Cash dividends declared	-	-	-	(2,745)	-	-	(2,745)
Purchase of 7,752 shares of treasury stock	-	-	-	-	-	(2,999)	(2,999)
Balance at December 31, 2007	144	45	36,943	23,676	(1,063)	(3,084)	56,661
Comprehensive income:							
Net income	-	-	-	5,879	-	-	5,879
Change in net unrealized gain (loss) on securities available for sale, net of deferred tax of $ 573	-	-	-	-	(129)	-	(129)
Adjustment to initially apply SFAS No. 158, net of tax					(2,342)		(2,342)
Total comprehensive income							(2,471)
Cash dividends declared	-	-	-	(2,810)	-	-	(2,810)
Sale of common stock	12		5,356				5,368
Sale of 253 shares of treasury stock	-	-	-	-	-	84	84
Balance at December 31, 2008	$ 156	$ 45	$ 42,299	$ 26,745	$ (3,534)	$ (3,000)	$ 62,711

See accompanying notes to consolidated financial statements.

See accompanying notes to consolidated financial statements.

BANCINDEPENDENT INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007
(Dollars in thousands except shares & per share amounts)

	2008	2007
Cash flows from operating activities)		
Net income	$ 5,878	$ 6,759
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	1,700	1,080
Depreciation and amortization	2,391	2,463
Net amortization of securities	(83)	(69)
Restricted equity securities stock dividends	-	(184)
Net (gain) loss on sale of securities	(286)	-
Net (gain) loss on sale of OREO	24	(9)
Net (gain) on sale of mortgage loans	-	(172)
Proceeds from sales of loans	22,041	24,812
Loans originated for sale	(23,097)	(25,745)
Net change in:		
Cash surrender value life insurance	(1,343)	(155)
Other assets and accrued interest receivable	273	(2,884)
Accrued expenses and other liabilities	(3,412)	902
Net cash from operating activities	4,086	6,798
Cash flows from investing activities		
Available-for-sale securities:		
Sales	16,483	6,000
Maturities, prepayments and calls	47,097	77,055
Purchases	(11,049)	(15,604)
Purchase of restricted equity securities	(1,059)	(452)
Loan originations and payments, net	(114,186)	(106,143
Acquisition of Citizen's Bancorp of Lawrence net of cash	(7,189)	
Premises and equipment, net	(7,508)	(2,266)
Investments in bank owned life insurance	-	0
Proceeds from sale of OREO	1,947	28
Investment from tax incentive investments	428	424
Net cash from investing activities	(75,036)	(40,958)
Cash flows from financing activities		
Net change in deposits	45,905	14,177
Net change in federal funds purchased and securities sold under agreements to repurchase	8,799	4,566
Proceeds from Federal Home Loan Bank advances	15,000	20,000
Cash dividends paid	(2,810)	(2,745)
Issuance of common stock	5,368	
Issuance of treasury stock	85	(2,999)
Net cash from financing activities	72,347	32,999
Net change in cash and cash equivalents	1,395	(1,161)
Beginning cash and cash equivalents	26,434	27,596
Ending cash and cash equivalents	$ 27,831	$ 26,435
Supplemental cash flow information:		
Interest paid	$ 14,262	$ 14,457
Income taxes paid	3,459	1,988
Supplemental noncash disclosures:		
Transfers from loans to foreclosed assets	(1,099)	1,785

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include BancIndependent Incorporated and its wholly-owned subsidiary, Bank Independent, together referred to as "the Company". All material intercompany transactions have been eliminated in consolidation.

BancIndependent Incorporated is a one-bank holding company that owns all of the outstanding stock of Bank Independent "the Bank". The Bank provides banking services to northwest Alabama markets.

The consolidated financial statements also include the accounts of Shoals Title Center, LLC (the LLC), a limited liability company formed in 2002 to offer title insurance services to northwest Alabama markets. At December 31, 2008, the Company was a 60% owner of the LLC. Minority interest in the LLC, is reflected in other liabilities. Earnings and losses of minority interest are reported in other non-interest expense.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities: Debt securities are classified as available for sale. Management determines the appropriate classification of debt securities at the time of purchase based on its intent. Securities available for sale are carried at fair value, with unrealized gains and losses, reported other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method anticipating prepayments. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Declines in the fair value of securities below their cost are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Restricted Equity Securities: Restricted equity securities consist of Federal Home Loan Bank stock, Federal Reserve Bank stock and Bankers Bank stock. Stock balances are carried at cost. Both cash and stock dividends are reported as income.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less estimated selling costs when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method.

Cash Surrender Value Life Insurance: The Company has purchased life insurance policies on certain key executives. Cash surrender value life insurance is recorded at its cash surrender value, or the amount that can be realized. Upon adoption of EITF 06-5, which is discussed further below, cash surrender value life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Prior to adoption of EITF 06-5, the Company recorded owned life insurance at its cash surrender value.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance){Issue}.* This Issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the Issue requires disclosure when there are contractual restrictions on the Company's ability to surrender a policy. The adoption of EITF 06-5 on January 1, 2007 had no impact on the Company's financial condition or results of operation.

Tax Incentive Investments: The Company invests in limited partnerships that operate qualified affordable housing projects and that generate tax credits. The Company accounts for the investments under a method that approximates the equity method.

The Company invests in a qualified zone academy bond that generates tax credits. The Company accounts for the tax credit as earned assets.

Insurance Arrangements: The Company is self-insured for health insurance claims. The Company purchases health insurance coverage for all health care claims in excess of $1,614 (with an annual aggregate stop-loss limit of approximately $1,000 for all claims). Insurance claims are accrued monthly based on prior claim experience.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on a straight-line or accelerated basis over their estimated useful lives. Intangible assets are assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Income Taxes: The Company accounts for taxes under the asset and liability method. Under the asset and liability method, balance sheet amounts of deferred income taxes are recognized for the temporary differences between the bases of assets and liabilities measured by tax laws and their bases as reported in the financial statements. Recognition of deferred tax asset balance sheet amounts is based on management's belief that it is more likely than not that the tax benefit associated with certain temporary differences will be realized. Deferred tax expense or benefit is then recognized for the changes in deferred tax liabilities or assets between periods. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Income tax-expense represents the total of the current year income tax due or refundable and the change in the deferred tax assets and liabilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement Plan: The Company maintains a defined benefit retirement plan for its employees. Employees are eligible to participate provided they are 21 years old and have completed one year of service. The Company makes minimum contributions as allowed by ERISA. Retirement plan expense is net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized.

Securities Sold Under Agreement To Repurchase: Securities sold under agreements to repurchase are secured by specific debt securities with a carrying amount of $25,294 and $16,495 at year-end 2008 and 2007.

Securities sold under agreements to repurchase are financing arrangements that mature within one year. At maturity, the securities underlying the agreements are returned to the Company.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, and changes in funded status of pension plan, which is also recognized as separate components of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Long-Term Assets: Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivatives: Derivative financial instruments are recognized as assets or liabilities at fair value. The Company's derivative consists of an interest rate swap agreement, which is used as part of its asset liability management to help manage interest rate risk. The Company does not use derivatives for trading purposes.

(Continued)

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Derivatives: Derivative financial instruments are recognized as assets or liabilities at fair value. The Company had one derivative that consisted of an interest rate swap agreement, which was used as part of its asset liability management to help manage interest rate risk. The Company does not use derivatives for trading purposes.

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used

(Dollars in thousands except shares & per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

NOTE 2 - SECURITIES

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2008				
U.S. Government and federal agency	$ 10,400	$ 65	$ -	$ 10,465
Mortgage backed securities	42,615	775	-	43,390
State and municipal	21,739	99	-	21,838
Other debt securities	11,681		891	10,790
Equity securities	1,000	-	-	1,000
Total	$ 87,435	939	$ 891	$ 87,483
2007				
U.S. Government and federal agency	$ 39,415	$ 202	$ (9)	$ 39,608
Mortgage backed securities	25,217	245	(34)	25,428
State and municipal	24,353	266	(61)	24,558

(Continued)

Other debt securities				
Equity securities	18,003	-	(3)	18,000
Total	$ 106,988	713	$ (107)	$ 107,594

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 2 – SECURITIES (Continued)

Sales of securities available for sale were as follows:

	2008	2007
Proceeds	$ 16,170	$ 6,000
Gross gains	286	-
Gross losses	-	-

Restricted equity securities were as follows:

	2008	2007
Federal Home Loan Bank stock	$ 3,105	$ 2,164
Federal Reserve Bank stock	1,626	1,626
Bankers Bank stock	363	245
	$ 5,094	$ 4,035

The fair value of debt securities and carrying amount, if different, at year end 2008 by contractual maturity were as follows. Actual maturities will differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or repayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 14,812	$ 14,856
Due from one to five years	10,938	11,025
Due from five to ten years	6,488	6,473
Due after ten years	4,547	4,539
Mortgage backed securities	38,549	39,354
Equity securities	12,100	11,326
Total	$ 87,434	$ 87,483

Securities pledged at year end 2008 and 2007 had a carrying amount of $71,137 and $64,595 and were pledged to secure public deposits and repurchase agreements. At year end 2008 and 2007, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 2 – SECURITIES (Continued)

Securities with unrealized losses at year-end 2008 and 2007, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2008						
U.S. Govt. agencies	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage backed securities	6,676	172	-	-	6,676	172
State and municipal	4,544	157	-	-	4,544	157
Othr debt/preferred stk	5,743	1,354			5,743	1,354
Equity Securities	-	-	-	-		-
Total temporarily impaired	$ 16,963	$ 1,683	$ -	$ -	$ 16,963	$ 1,683

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2007						
U.S. Govt. agencies	$ -	$ -	$ 4,008	$ (9)	$ 4,008	$ (9)
Mortgage backed securities	-	-	4,245	(34)	4,245	(34)
State and municipal	838	(15)	9,945	(46)	10,783	(61)
Equity Securities	-	-	2,000	(3)	2,000	(3)
Total temporarily impaired	$ 838	$ (15)	$ 20,198	$ (92)	$ 21,036	$ (107)

The Company evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 3 – LOANS

Loans at year-end were as follows:

	2008	2007
Commercial	$ 50,712	$ 56,353
Real estate:		
Construction	104,805	68,788
Mortgage	470,264	374,161
Loans to individuals	50,505	30,251
Other	17,978	8,515
Subtotal	694,264	538,068
Less: unearned interest income	(15)	(19)
Allowance for loan losses	(6,046)	(4,626)
Loans, net	$ 688,206	$ 533,423

Activity in the allowance for loan losses was as follows:

	2008	2007
Beginning balance	$ 4,626	$ 4,242
Citizen's allowance for loan losses	795	0
Provision for loan losses	1,700	1,080
Loans charged-off	(1,455)	(981)
Recoveries	380	285
Ending balance	$ 6,046	$ 4,626

Impaired loans were as follows:

	2008	2007
Year-end loans with no allocated allowance for loan losses	$ -	$ -
Year-end loans with allocated allowance for loan losses	1,201	1,215
Total	$ 1,201	$ 1,215
Amount of the allowance for loan losses allocated	$ 152	$ 375
Average of impaired loans during the year	1,208	3,710
Interest income recognized during impairment	29	29
Cash-basis interest income recognized	-	-

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 3 – LOANS (Continued)

Nonperforming loans were as follows:	2008	2007
Loans past due over 90 days still on accrual	$ 296	$ 230
Nonaccrual loans	284	208

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:	2008	2007
Land	$ 8,323	$ 5,630
Buildings	19,474	14,648
Furniture, fixtures and equipment	11,178	9,570
Leasehold improvements	170	170
	37,656	28,851
Less: Accumulated depreciation	(12,470)	(11,270)
	$ 26,675	$ 18,748

Depreciation expense was $1,243 and $1,139 for 2008 and 2007.

The Bank leases certain branch properties and some equipment. Rent expense was $131 and $102 for 2008 and 2007. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2009	$ 132,530
2010	125,660
2011	121,460
2012	132,260
2013	105,751
Thereafter	463,700
Total	$ 1,081,361

NOTE 5 – FAIR VALUE

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

(Continued)

NOTE 5 - FAIR VALUE (Continued)

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used to in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Our derivative instrument consists of an interest rate swap that trades in liquid markets. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgements (level 2 inputs).

The fair value of loans held for sale is based upon binding quotes from 3rd party investors. (Level 2 inputs)

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets	Significant Other	Significant

(Continued)

	for Identical Assets	Observable Inputs	Unobservable Inputs

NOTE 5 - FAIR VALUE (Continued)

	(Level One)	(Level 2)	(Level 3)
Assets:			
Available for sale securities	$ -	$87,483	$ -
Derivatives	-	1,839	
-			

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Loans held for sale	$ -	$ 2,248	$ -
Impaired loans	-	-	507

The following represent impairment charges recognized during the period:

Loans held for sale are carried at lower of cost or fair value.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $660, with a valuation allowance of $153, resulting in an additional provision-for loan losses of $153 for the period.

Fair value of Financial Instruments

Carrying amount and estimated fair values of financial instruments were as follows at year-end:

(Dollars in thousands except shares & per share amounts)

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 27,832	$ 27,832	$ 26,435	$ 26,435
Securities available for sale	87,483	87,483	107,594	107,594
Restricted equity securities	5,094	5,094	4,035	4,035
Loans held for sale	2,248	2,248	1,192	1,192
Net loans	688,203	690,878	533,423	532,457
Bank owned life insurance and related investments	12,244	12,244	15,661	15,661
Tax incentive investments	7,557	7,557	2,292	2,292
Accrued interest receivable	3,992	3,992	3,821	3,821
Financial liabilities				
Deposits	$ 732,751	$ 737,270	$ 609,962	$ 611,035
Federal funds purchased and repurchase agreements	25,296	25,296	16,495	16,495
Subordinated notes	30,928	36,814	30,928	32,212
Accrued interest payable	3,965	3,965	3,768	3,768
Other borrowings	35,000	35,561	20,000	20,175

The methods and assumptions used to estimate fair value are described as follows.

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is not material as the interest rates charged are substantially equivalent to market rates considering credit quality.

NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

(Continued)

(Dollars in thousands except shares & per share amounts)

The change in balance for goodwill during the year is as follows:

	2008	2007
Beginning of year	$ 18,869	$ 18,869
Purchase accounting adjustment	4,860	-
End of year	$ 23,729	$ 18,869

Identifiable Intangible Assets

The change in balance for acquired intangible assets during the year is as follows:

	2008	2007
Original cost	$ 11,083	$ 9,355
Accumulated amortization	(5,394)	(4,161)
End of year	$ 5,689	$ 5,194

Aggregate amortization expense was $1,200 and $1,291 for 2008 and 2007.

Estimated amortization expense for each of the next five years:

2009	$ 1,402
2010	1,224
2011	1,046
2012	710
2013	522

(Dollars in thousands except shares & per share amounts)

NOTE 7 – CASH SURRENDER VALUE LIFE INSURANCE

The Company holds $12,244 and $9,076 in cash surrender value life insurance at December 31, 2008 and 2007. These insurance policies earned total income of $421 and $644 as of December 31, 2008 and 2007, respectively.

NOTE 8 – RECEIVABLE FROM TRUST

The Company has a receivable from a related party Trust that is set up for the benefit of certain officers and shareholders in the amounts of $7,557 and $6,585 at December 31, 2008 and December 31, 2007. This Trust is the owner and beneficiary of certain life insurance policies. The Company has an agreement with the Trust that requires the Company to fund the majority of the premium payments on these life insurance policies. Payments to fund such premiums create a receivable from the Trust which is backed by an assignment of the cash surrender value of life insurance policies. Such receivable is increased by an amount equal to the earnings of the policy, less mortality costs. This increase is shown in noninterest income and amounted to $223 and $175 in 2008 and 2007. This receivable is due to be repaid when the Trust collects proceeds from the life insurance policies.

NOTE 9 – DEPOSITS

Time deposits of $100 thousand or more were $113,176 and $91,575 at year-end 2008 and 2007.

Scheduled maturities of time deposits for the next five years were as follows.

2009	$ 223,370
2010	35,360
2011	31,102
2012	10,810
2013	16,431
Thereafter	21

NOTE 10 – FEDERAL HOME LOAN BANK ADVANCES

At year end, advances from the Federal Home Loan Bank were as follows:

	2008	2007
Maturities October 2009 through November 2010, fixed rate at rates from 3.98% to 4.54%, averaging 4.28%	$ 35,000	$ 20,000

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 10 – FEDERAL HOME LOAN BANK ADVANCES (Continued)

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $155,271 of first mortgage loans under a blanket lien arrangement at year-end 2008. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to $150,860 at year-end 2008.

Payment Information

Required payments over the next five years are:

2009	$ 10,000
2010	15,000
2011	5,000
2012	0
2013	5,000

NOTE 11 – SUBORDINATED DEBENTURES

In November 2005, BancIndependent Statutory Trust I, a trust formed by the Company, closed a pooled private offering of 30,928 trust preferred securities with a liquidation amount of $1 per security. The Company issued $30,928 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company may redeem the subordinated debentures at a price equal to the sum of 100% of the principal amount with any accrued and unpaid interest on or after December 15, 2010. The subordinated debentures mature on December 15, 2035. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

The $30,928 in subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the sum of the three month London Interbank Offered Rate (LIBOR) and 1.75%, which was 3.75% at year-end 2008. The Company's investment in the common stock of the trust was $928 and is allocated in other assets on the balance sheet.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 12 – DEFINED BENEFIT PENSION PLAN

The Company has a funded noncontributory defined benefit pension plan that covers substantially all of its employees. The plan provides defined benefits based on years of service and final average salary. The Company uses a December 31 measurement date for its plans.

Information about changes in obligations and plan assets of the defined benefit pension plan follows:

	2008	2007
Projected benefit obligation	$ (8,000)	$ (7,080)
Fair value of plan assets	6,238	6,002
Funded status of plan	(1,762)	(1,078)
Accumulated benefit obligation	6,149	5,519
Net period pension cost	680	606
Employer contributions	333	979
+-+- Employee contributions	-	-
Benefits paid	(245)	(234)
Change in minimum liability included in other Comprehensive income	280	907

(Dollars in thousands except shares & per share amounts)

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

Amounts recognized in accumulated other comprehensive income at December 31, 2008 consist of the net actuarial gain (loss) of $336.

The estimated net loss for the pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs during the year ending December 31, 2009 is $336.

Assumptions

	2008	2007
Weighted-average assumptions used to determine benefit obligations at year-end:		
Discount rate	6.00%	6.00%
Rate of compensation increase	5.00	5.00
Weighted-average assumptions used to determine net cost:		
Discount rate	6.00%	6.00%
Expected return on plan assets	5.00	5.00
Rate of compensation increase	5.00	5.00

Plan Assets

The Company's pension plan assets are primarily invested in deposit accounts at the Company.

Contributions

The Company expects to contribute $250 to its defined benefit pension plan in 2009.

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

Estimated Future Payments

The following benefit payments are expected in future periods:

	Pension Benefits
2009	$ 265
2010	271
2011	307
2021	316
2013	326
Following 5 years	2,083

NOTE 13 - OTHER BENEFIT PLANS

Deferred Compensation Plan: The Company provides a deferred compensation program for its directors as an incentive to encourage them to remain members of the Company's board of directors. The Company has established an accrual account to which it credits the board meeting fees which individual directors have elected to be deferred and interest earned at 8.25% on each director's account. The deferral account is an election made by each director via a signed Deferred Fee Agreement. Only Board fees are allowed to be deferred, and they may be deferred for a specified term as designated by the director. The accrual account is not segregated into a separate trust and will be paid from the general assets of the Company, subject to the general unsecured creditors of the Company. The compensation expense amounts related to director's deferred compensation for the years ended December 31, 2008 and 2007 were approximately $179 and $193, respectively. The liabilities at December 31, 2008 and 2007 were approximately $599 and $773, respectively. Payments made to directors were $240 and $214 in 2008 and 2007.

Salary Continuation Plan: The Company maintains salary continuation agreements with certain executives to encourage the executives to remain employees of the Company. The Company has established an accrual account to which it credits the benefit as defined in the agreements. The accrual account is not segregated into a separate trust and will be paid from the general assets of the Company, subject to the general creditors of the Company. The compensation expense amounts related to salary continuation for the years ended December 31, 2008 and 2007 were approximately $512 and $468, respectively. The liabilities at December 31, 2008 and 2007 were approximately $2,723 and $2,210, respectively.

The Company has entered into a consulting agreement with certain executive officers. The agreement requires the Company to make regular monthly payments to these executive officers in exchange for certain consulting services should they choose to retire prior to normal

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 13 – OTHER BENEFIT PLANS (Continued)

retirement age, as defined in the salary continuation agreements. The amount of these payments is likely to be $175 annually, should the executives choose early retirement, and continue until their normal retirement age.

The Company has signed an agreement requiring that it enter into a non-compete agreement with two executive officers should they retire prior to their specified retirement date. The agreement requires the Company to make regular monthly payments to these executive officers in exchange for certain non-compete provisions should the executives choose to retire prior to a specified retirement date. The amount of the payments is likely to be $100 annually.

Incentive Retirement Plan: The Company maintains an incentive retirement plan to encourage certain senior officers to remain employees of the Company. The senior officers may receive either cash or a combination of cash and deferred benefits based on certain performance goals of the Company indicative of its profitability. The Company has established an accrual account to which it credits the deferred portion of the benefit. The accrual account is not segregated into a separate trust and will be paid from the general assets of the Company, subject to general creditors of the Company. The compensation expense amounts related to incentive retirement for the years ended December 31, 2008 and 2007 were approximately $32 and $110, respectively. The liabilities at December 31, 2008 and 2007 were approximately $429 and $404, respectively.

401(k) Plan: The Bank has a 401(k) plan whereby substantially all employees participate in the plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Company makes a discretionary contribution allocated based on the basis of the employee's contributed amount. Discretionary contributions vest to the employees at 100% after five years of service. For the years ended December 31, 2008 and 2007, discretionary contributions were approximately $159 and $131, respectively.

NOTE 14 - INCOME TAXES

Income tax expense (benefit) was as follows:	2008	2007
Current federal	$ -	$ 1,760
Current state	-	306
Deferred	-	(232)
Total	$ -	$ 1,834

(Dollars in thousands except shares & per share amounts)

NOTE 14 - INCOME TAXES (Continued)

Effective tax rates differ from federal statutory rate of 34% applied to income before income taxes due to the following.

	2008	2007
Federal statutory rate times financial statement income	$ -	$ 2,921
Effect of:		
Tax-exempt income	-	(257)
Investment tax credits	-	(421)
State taxes, net of federal benefit	-	175
Officers' life insurance	-	(258)
Dividend received deduction	-	(225)
Other, net	-	(101)
Total	$ -	$ 1,834

Year-end deferred tax assets and liabilities were due to the following.

	2008	2007
Deferred tax assets:		
Allowance for loan losses	$ -	$ 1,480
Retirement and other benefit plans	-	1,173
Real estate investments	-	164
Unrealized loss on securities available for sale	-	-
Intangible assets	-	-
Unrealized pension benefit obligation	-	849
Other	-	-
	-	3,666
Deferred tax liabilities:		
Deferred late fees	-	(61)
Depreciation	-	(367)
Intangible assets	-	(164)
Unrealized gains on securities available for sale	-	(225)
Other	-	(19)
	-	(836)
Net deferred tax asset	$ -	$ 2,830

(Continued)

NOTE 15 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates at year-end 2008 and 2007 were $3,030 and $2,958.

Deposits from principal officers, directors, and their affiliates at year-end 2008 and 2007 were $6,657 and $5,972.

See also the related party Trust receivable discussed in Note 7.

NOTE 16 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2008 and 2007, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (in millions) and ratios are presented below at year-end.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2008						
Total Capital to risk weighted assets						
BancIndependent Incorporated	$ 75,081	11%	$ 56,313	8%	$ NA	NA
Bank Independent	74,121	11%	56,263	8%	70,329	10%
Tier 1 (Core) Capital to risk weighted assets						
BancIndependent Incorporated	$ 60,193	9%	$ 28,157	4%	$ NA	NA
Bank Independent	68,074	10%	28,131	4%	42,197	6%
Tier 1 (Core) Capital to average assets						
BancIndependent Incorporated	$ 60,193	8%	$ 31,942	4%	$ NA	NA
Bank Independent	68,074	9%	31,886	4%	39,857	5%

(Continued)

(Continued)

(Dollars in thousands except shares & per share amounts)

NOTE 16 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2007						
Total Capital to risk weighted assets						
BancIndependent Incorporated	$ 69,214	11%	$ 48,606	8%	NA	NA
Bank Independent	66,816	11%	48,496	8%	60,619	10%
Tier 1 (Core) Capital to risk weighted assets						
BancIndependent Incorporated	$ 64,588	11%	$ 24,303	4%	$ NA	NA
Bank Independent	62,190	10%	24,248	4%	36,372	6%
Tier 1 (Core) Capital to average assets						
BancIndependent Incorporated	$ 64,588	9%	$ 28,729	4%	$ NA	NA
Bank Independent	62,190	9%	28,673	4%	35,841	5%

The Bank is also subject to state regulations restricting the amount of dividends payable to the Company. At year end 2008, the Bank had $ 0 of retained earnings available for dividends under these regulations without regulatory permission.

NOTE 17 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year end.

	2008	2007
Unused lines of credit	$ 91,750	$ 134,674
Letters of credit	3,176	1,801

(Dollars in thousands except shares & per share amounts)

NOTE 18 – OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related tax effects were as follows:

	2008	2007
Net income	$ 5,879	$ 6,759
Unrealized holding gains on available for sale securities	48	606
Reclassified for adjustments for loss realized in income	-	-
Net unrealized gains	48	606
Tax effect	(18)	(225)
Net-of-tax amount	30	381
Adjustment to initially apply FAS 158, net of tax ($925)	(1,575)	(1,445)
Unrealized holding losses on TPS rate swap	(1,839)	
Net unrealized gain (loss), recognized in other comprehensive income	(3,384)	(1,064)
Comprehensive income	$ 2,495	$ 5,695

NOTE 19 – INTEREST RATE SWAP

The Company utilized an interest rate swap agreement as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swap does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreement.

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with notional amounts totaling $30,000 as of December 31, 2008 were designated as cash flow hedges of the Company's subordinated debentures and were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other liabilities with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

(Dollars in thousands except shares & per share amounts)

Summary information about the interest-rate swaps designated as cash flow hedges as of year-end is as follows:

	2008
Notional amounts	$ 30,000
Weighted average pay rates	5.29%
Weighted average receive rates	4.57%
Weighted average maturity	4 years
Unrealized gains (losses)	$ (1,838)

Interest income (expense) recorded on these swap transactions totaled $1,389 during 2008 and is reported as a component of interest expense on the subordinated debentures.

NOTE 20 - BUSINESS COMBINATION(S)

On December 5, 2008, the Company acquired 100% of the outstanding shares of The Citizens Bancorp of Lawrence, parent of The Citizens Bank, Moulton. Operating results of The Citizens Bancorp of Lawrence are included in the consolidated financial statements since the date of the acquisition. As a result of this acquisition, the Company expects to further solidify its market share in the Lawrence and Morgan county markets, expand its customer base to enhance deposit fee income, provide an opportunity to market additional products and services to new customers, and reduce operating costs through economies of scale.

The aggregate purchase price was $20,840 all paid in cash. The purchase price resulted in approximately $4,860 in goodwill, and $1,729 in core deposit and customer relationship intangibles. The intangible asset will be amortized over 10 years, using an accelerated method. Goodwill will not be amortized but instead evaluated periodically for impairment. This was a tax free acquisition, therefore, goodwill and the intangible asset are not deductible for tax purposes

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition.

Securities available for sale	$32,609
Loans	42,201
Goodwill	4,860
Core deposit and other intangibles	1,729
Other assets	18,112
Total assets acquired	99,511
Deposits	76,884
Other liabilities	1,787
Total liabilities assumed	78,671

Net assets acquired	$ 20,840