



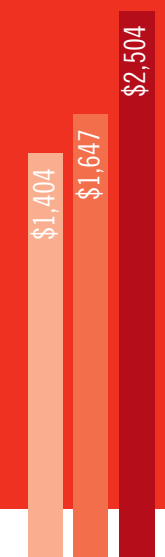
INTEGRITY



INTEGRITY

OUTSTANDING PERFORMANCE

Net Income
52.0%
INCREASE



Total Assets
24.2%
INCREASE



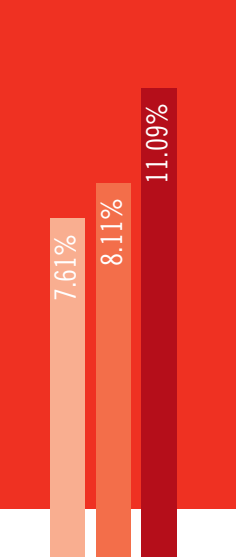
Total Deposits
22.4%
INCREASE



Total Loans
27.4%
INCREASE



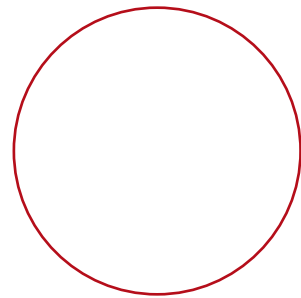
Return On Equity
11.09%



2006
2007
2008

increases since 2007
amounts in thousands

"INTEGRITY BANK WAS FOUNDED ON PROVIDING MORE, FASTER, BETTER BANKING AND THE CENTRAL PENNSYLVANIA MARKET HAS RESPONDED BY CONTINUING TO GIVE INTEGRITY MORE, FASTER, BETTER RESULTS. ALTHOUGH WE ARE NO LONGER CONSIDERED A 'DE NOVO' BANK, I AM STILL PROUD OF THE FACT THAT INTEGRITY BANK WAS THE *HIGHEST PERFORMING NEW BANK EVER IN PENNSYLVANIA.*"



Dear Shareholders:

We are excited to report **2008 earnings increased 52% to \$2.5 million**, up from our previous record earnings of \$1.6 million in 2007. This year's reported net income is after paying \$1.2 million in taxes and allocating \$918,000 to the provision for loan losses.

In 2008, assets of the bank increased 24% to \$390 million, while loans grew to \$356 million, up 27%. Management's decision to not make or invest in sub prime loans has positioned us to focus on new business and improved products and services for our customers instead of working out troubled loans. Over 99.6% of our loans are paying as agreed and average net charge-offs for the last five years have been less than \$28,000 per year.

Integrity had a banner year in 2008 and we anticipate having another outstanding year in 2009. As most of the stock market plummeted, our outstanding performance rewarded our shareholders. Integrity Bancshares stock as of January 2008 was selling at \$22 per share. As of December 2008 the price was \$25 after paying a 5.00% stock dividend. This equates to an unadjusted price per share of \$26.50; a 20% one-year return to our investors. We are extremely proud of this performance. The Board of Directors unanimously approved another 5% stock dividend to shareholders payable in March 2009.

The business model we originally put in place continues to elevate us to profitability levels never seen before by de novo banks in Pennsylvania history. As we enter 2009, the banking environment is extremely turbulent. At Integrity *we're excited* about meeting the 2009 challenges and building upon our strong financial base that has given us unparalleled performance.

I want to give special thanks to the Directors, employees, shareholders and friends for making 2008 an unbelievable success in a very difficult year.

I believe there are two types of customers: those who bank with Integrity and those who need to. If you're in the first group, thank you. If you're in the second group, call us and let us personally introduce you to **More. Faster. Better.** banking.

What a ride!

Sincerely,

James T. Gibson
Chairman, President and CEO

INCREASED
EARNINGS
BY
52%

7 DAY
BANKING

FASTER
DRIVE-
THRU

TOTALLY
FREE
CHECKING

INTEGRITY

BETTER
HOURS

PA'S ^{BEST}
BANK

BETTER
RATES

FREE
ATM's
WORLDWIDE

LOWEST
BANK FEES

FAST
LOAN
APPROVALS

LOCALLY
OWNED



TO THE BOARD OF DIRECTORS

Integrity Bancshares, Inc.
Camp Hill, Pennsylvania

We have audited the accompanying consolidated balance sheets of Integrity Bancshares, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 audits 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 financial position of Integrity Bancshares, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
February 9, 2009



BOARD OF DIRECTORS

- Steven Weingarten / Attorney, McNeese Wallace & Nurick, LLC
- Anthony Schiano / Retired, Former President, Giant Food Stores, LLC
- James T. Gibson / Chairman, President and Chief Executive Officer, Integrity Bancshares, Inc.
- Ron Drnevich / Senior Executive Vice President, Capital Blue Cross
- Michael C. Manning / President, Manning Homes, LLC; Vice Chairman, Integrity Bancshares, Inc.
- Larry Sollenberger, MD / Physician, Sollenberger Colon and Rectal Surgery, Ltd.
- James David Novinger / Owner and President, Novinger Group, Inc.
- Jean Ann Capello / Real Estate Investor and Developer
- Lowell R. Gates / Attorney, Gates, Halbruner, Hatch & Guise, PC

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CONSOLIDATED BALANCE SHEETS*(dollars in thousands, except share data)*

	December 31,	
	2008	2007
ASSETS		
Cash and due from banks	\$4,862	\$5,668
Interest bearing demand deposits	45	30
Federal funds sold	9,640	12,793
	<hr/>	<hr/>
Cash and Cash Equivalents	14,547	18,491
	<hr/>	<hr/>
Interest bearing time deposits	2,131	2,178
Securities available for sale	682	1,145
Securities held to maturity	817	0
Loans receivable, net of allowance for loan losses \$4,052 in 2008; \$3,218 in 2007	351,963	276,309
Premises and equipment, net	6,807	7,555
Accrued interest receivable	1,077	1,200
Bank owned life insurance	8,356	5,068
Other assets	3,127	1,634
	<hr/>	<hr/>
Total Assets	\$389,507	\$313,580
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand, noninterest bearing	\$22,939	\$21,739
Interest bearing	312,950	252,750
	<hr/>	<hr/>
Total Deposits	335,889	274,489
	<hr/>	<hr/>
Federal Home Loan Bank advances	20,000	10,000
Junior subordinated debenture	8,500	6,500
Other liabilities	1,251	1,389
	<hr/>	<hr/>
Total Liabilities	365,640	292,378
SHAREHOLDERS' EQUITY		
Preferred stock, par value \$1 per share; authorized 10,000,000 shares; none issued and outstanding	0	0
Common stock, par value \$1 per share; authorized 10,000,000 shares; issued and outstanding: 1,709,000 shares in 2008, 1,623,000 shares in 2007	1,709	1,623
Additional paid-in capital	18,275	16,401
Retained earnings	3,892	3,173
Accumulated other comprehensive income (loss)	(9)	5
	<hr/>	<hr/>
Total Shareholders' Equity	23,867	21,202
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	\$389,507	\$313,580

CONSOLIDATED STATEMENTS OF INCOME*(dollars in thousands)*

	Years Ended December 31,	
	2008	2007
INTEREST INCOME		
Loans receivable, including fees	\$20,371	\$19,842
Securities, taxable	69	219
Federal funds sold and other	308	514
	<hr/>	<hr/>
Total Interest Income	20,748	20,575
INTEREST EXPENSE		
Deposits	8,546	9,937
Federal funds purchased	54	59
Federal Home Loan Bank advances	714	343
Junior subordinated debenture	385	482
	<hr/>	<hr/>
Total Interest Expense	9,699	10,821
	<hr/>	<hr/>
Net Interest Income	11,049	9,754
PROVISION FOR LOAN LOSSES		
	<hr/>	<hr/>
Net Interest Income after Provision for Loan Losses	918	755
	<hr/>	<hr/>
Net Interest Income after Provision for Loan Losses	10,131	8,999
NONINTEREST INCOME		
Service charges on deposits	663	376
Loan fees	240	168
Gain on sale of premises and other	412	352
Earnings on bank owned life insurance	288	68
Other	829	559
	<hr/>	<hr/>
Total Noninterest Income	2,432	1,523
NONINTEREST EXPENSES		
Salaries and employee benefits	3,836	3,412
Occupancy and equipment	2,124	1,962
Advertising and marketing	523	624
Professional fees	152	137
Other	2,220	1,871
	<hr/>	<hr/>
Total Noninterest Expenses	8,855	8,006
	<hr/>	<hr/>
Income Before Taxes	3,708	2,516
Federal Income Taxes	1,204	869
	<hr/>	<hr/>
Net Income	\$2,504	\$1,647

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2008 and 2007

<i>(dollars in thousands)</i>	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE - DECEMBER 31, 2006	\$1,608	\$16,058	\$1,526	(\$33)	\$19,159
Comprehensive income:					
Net income			1,647		1,647
Unrealized gain on securities available for sale, net of tax of \$18				38	38
Total comprehensive income					1,685
Exercise of 15,200 options	15	209			224
Stock option expense		134			134
BALANCE - DECEMBER 31, 2007	1,623	16,401	3,173	5	21,202
5% Stock dividend	81	1,703	(1,785)		(1)
Comprehensive income:					
Net income			2,504		2,504
Unrealized loss on securities available for sale, net of tax benefit of \$6				(14)	(14)
Total comprehensive income					2,490
Exercise of 4,560 options	5	45			50
Stock option expense		126			126
BALANCE - DECEMBER 31, 2008	<u>\$1,709</u>	<u>\$18,275</u>	<u>\$3,892</u>	<u>(\$9)</u>	<u>\$23,867</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

(dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$2,504	\$1,647
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	918	755
Deferred income tax benefit	(235)	(425)
Provision for depreciation and amortization	853	790
Deferred gain on sale of land	(90)	(68)
Amortization on securities, net	5	9
Deferred loan (fees) costs	9	(67)
Stock option expense	126	134
(Increase) decrease in accrued interest receivable and other assets	261	(74)
Gain on sale of premises and other	(412)	(352)
Earnings on cash surrender value of BOLI	(288)	(68)
Increase (decrease) in other liabilities	(48)	359
Net Cash Provided by Operating Activities	<u>3,603</u>	<u>2,640</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and principal repayments of securities available for sale	438	11,236
Proceeds from maturities and principal repayments of securities held to maturity	194	0
Purchases of securities held to maturity	(1,012)	0
Net increase in loans receivable	(80,179)	(55,540)
Proceeds from sale of premises and other	412	1,777
Proceeds from sale foreclosed assets	3,347	0
Purchases of premises and equipment	(105)	(81)
Purchase of bank owned life insurance	(3,000)	(5,000)
Net redemptions (purchases) of interest bearing time deposits	47	(1,683)
Restricted investment in bank stock, net	(1,138)	(115)
Net Cash Used in Investing Activities	<u>(80,996)</u>	<u>(49,406)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	61,400	23,711
Net increase in Federal Home Loan Bank advances	10,000	10,000
Net increase in junior subordinated debenture	2,000	0
Cash in lieu of fractional shares	(1)	0
Proceeds from exercise of stock options	50	224
Net Cash Provided by Financing Activities	<u>73,449</u>	<u>33,935</u>
Net Decrease in Cash and Cash Equivalents	<u>(3,944)</u>	<u>(12,831)</u>
CASH AND CASH EQUIVALENTS – BEGINNING	<u>18,491</u>	<u>31,322</u>
CASH AND CASH EQUIVALENTS – ENDING	<u>\$14,547</u>	<u>\$18,491</u>
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	<u>\$9,810</u>	<u>\$10,619</u>
Taxes paid	<u>\$1,355</u>	<u>\$1,075</u>
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING ACTIVITIES		
Other real estate acquired in settlement of loans	<u>\$3,597</u>	<u>\$0</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Integrity Bancshares, Inc. and its wholly-owned subsidiaries, Integrity Bank (“Bank”) and Integrity Service Corporation, and Integrity Financial Management, LLC, that is jointly owned by the Bank and Integrity Service Corporation, (collectively the “Corporation”). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting policies discussed below are followed consistently by the Corporation. These policies are in accordance with accounting principles generally accepted in the United States of America and conform to common practices in the banking industry.

Nature of Operations

The Bank filed applications with the Pennsylvania Department of Banking (Department) in 2007 to begin the process of forming Integrity Bancshares, Inc., a financial holding company. The Department approved the Bank’s application on January 4, 2008. Subsequently, all regulatory and shareholder approvals were received, and the Bank became a wholly-owned subsidiary of Integrity Bancshares, Inc. pursuant to a plan of reorganization and merger that was consummated on July 10, 2008. Stockholders of the Bank exchanged one share of common stock of the Bank for one share of common stock of the holding company. The transaction was accounted for in a manner similar to the pooling-of-interest method of accounting. Accordingly, the financial information relating to the periods prior to July 10, 2008 are reported under the name of Integrity Bancshares, Inc. The shareholders of the Bank are now shareholders of the Corporation with the same rights and privileges as existed prior to the formation of Integrity Bancshares, Inc.

The Bank is a Pennsylvania-chartered, FDIC insured commercial bank, regulated by the Pennsylvania Department of Banking that was incorporated on November 26, 2002, and commenced operations on June 5, 2003. The Bank operates as a traditional community bank serving the Central Pennsylvania market with an emphasis on commercial and consumer banking.

Integrity Service Corporation is a Delaware corporation that is wholly owned by Integrity Bancshares, Inc. that was formed in July 2008 for investing activities. Integrity Financial Management, LLC is a Delaware corporation that is jointly owned by Integrity Bank and Integrity Service Corporation that was formed in July 2008 for investing activities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, and the potential impairment of restricted investment in bank stock.

Concentration of Credit Risk

The Bank grants commercial loans, commercial mortgages, residential mortgages and consumer loans primarily to businesses and individuals located in central Pennsylvania. The concentration of credit by type of loan is set forth in Note 4. The debtors’ ability to honor their contracts is influenced by the region’s economy.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and short-term investments, all of which have an original maturity of less than ninety days.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank’s assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than the cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. Past due status is based on the contractual terms of the loan. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses.

Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management’s periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures unless such loans are the subject of a restructuring agreement.

Bank Owned Life Insurance

Integrity Bank purchased bank owned life insurance (BOLI) policies that provide nontaxable funding for employee benefits. Income on the policies was \$288,000 for 2008 and \$68,000 for 2007 and is included in other noninterest income. BOLI is carried at its net cash surrender value on the balance sheet.

Premises and Equipment

Land is carried at cost; property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets’ estimated useful lives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Restricted Investment in Bank Stock

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. The Bank owned \$1,652,000 and \$514,000 of FHLB stock at December 31, 2008 and 2007, respectively. In December 2008 the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of excess capital stock. The Bank also owns stock in the Atlantic Central Bankers Bank in the amount of \$50,000 at December 31, 2008 and 2007. The stock is carried at cost and is reported in other assets.

Management evaluates the restricted stock for impairment in accordance with Statement of Position (SOP) 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others". Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of December 31, 2008 and 2007.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items along with net income are components of comprehensive income (loss). The Bank's source of other comprehensive income (loss) is limited to unrealized gains or losses on securities available for sale.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carry-forwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Effective January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Adoption did not have a significant impact. The tax years subject to examination by the taxing authorities are the years ended December 31, 2004 through 2008.

Stock-Based Compensation

Effective January 1, 2006, the Corporation adopted SFAS 123(R) using the prospective method. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as expense in the statement of income at fair value. Under the prospective transition method, the Corporation recognizes an expense over the required service period for any stock options granted, modified or settled subsequent to January 1, 2006. During 2008 and 2007, the Corporation recognized \$126,000 and \$134,000, respectively of expense related to stock options.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded on the balance sheet when they are funded.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation format. Such reclassifications had no impact on the Corporation's net income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

In October 2008, the United States Treasury Department (Treasury) announced a voluntary Capital Purchase Program (CPP) as part of the Troubled Asset Relief Program (TARP) to encourage healthy U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Integrity Bancshares, Inc. applied for the maximum amount of these capital funds in November 2008 and received approval on January 7, 2009 for \$9,375,000 of TARP funds.

The Board of Directors of the Corporation plans to decide in March 2009 whether it will accept the funds based on the analysis of the terms and conditions set by the Treasury.

NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANK BALANCES

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. The amount of these average required reserve balances was \$227,000 and \$39,000 at December 31, 2008 and 2007, respectively.

NOTE 3 – SECURITIES

A summary of amortized cost and approximate fair value of securities available for sale (AFS) and held to maturity (HTM) at December 31 is as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2008				
AFS Mortgage-backed securities	\$695	\$0	(\$13)	\$682
HTM Mortgage-backed securities	817	0	(10)	807
	\$1,512	\$0	(\$23)	\$1,489
December 31, 2007				
AFS Mortgage-backed securities	\$1,138	\$7	\$0	\$1,145
	\$1,138	\$7	\$0	\$1,145

Information pertaining to securities with gross unrealized losses at December 31, 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is presented in the table below (in thousands). There were no securities in an unrealized loss position at December 31, 2007.

	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2008				
Mortgage-backed securities	\$23	\$1,489	\$0	\$0
	\$23	\$1,489	\$0	\$0

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Securities with a fair value of \$1,489,000 and \$1,145,000 were pledged as collateral for public deposits as required or permitted by law at December 31, 2008 and 2007, respectively. There were no sales of securities in 2008 or 2007.

NOTE 4 – LOANS RECEIVABLE / ALLOWANCE FOR LOAN LOSSES

The composition of net loans receivable consists of the following as of December 31 (in thousands):

	2008	2007
Commercial	\$54,216	\$37,578
Consumer	7,267	4,680
Real estate:		
Construction	66,977	60,857
Farmland	417	871
Residential	80,881	74,579
Home equity lines of credit	12,069	6,954
Commercial	134,188	94,008
Total Loans	356,015	279,527
Allowance for loan losses	(4,052)	(3,218)
Net Loans	\$351,963	\$276,309

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net deferred loan costs included in total loans were \$57,000 and \$66,000 at December 31, 2008 and 2007, respectively. The change in the allowance for loan losses consists of the following for the years ended December 31 (in thousands):

	2008	2007
Beginning Balance	\$3,218	\$2,482
Provision for loan losses	918	755
Loans charged off	(94)	(30)
Recoveries of loans previously charged off	10	11
Ending Balance	<u>\$4,052</u>	<u>\$3,218</u>

As of December 31, 2008, the Bank had impaired loans totaling \$89,000 with a valuation allowance of \$47,000. Impaired loans with no valuation allowance were \$3,426,000 at December 31, 2008. The average investment in impaired loans was \$3,012,000 and interest income recognized on impaired loans under the accrual basis was \$208,000. No additional funds are committed to be advanced in connection with impaired loans. At December 31, 2008, there were no loans past due ninety days or more and still accruing and nonaccrual loans were \$856,000.

As of December 31, 2007, the Bank had impaired loans totaling \$95,000 with a valuation allowance of \$47,000. Impaired loans with no valuation allowance were \$3,293,000 at December 31, 2007. The average investment in impaired loans was \$2,968,000 and interest income recognized on impaired loans under the accrual basis was \$276,000. No additional funds are committed to be advanced in connection with impaired loans. At December 31, 2007, loans past due ninety days or more and still accruing were \$37,000 and there were no nonaccrual loans.

NOTE 5 – PREMISES AND EQUIPMENT

The carrying amounts of the components of premises and equipment are as follows as of December 31 (in thousands):

	2008	2007
Land	\$1,735	\$1,735
Buildings and improvements	4,823	4,821
Furniture, fixtures and equipment	2,688	2,585
	<u>9,246</u>	<u>9,141</u>
Accumulated depreciation	(2,439)	(1,586)
	<u>\$6,807</u>	<u>\$7,555</u>

During 2008, the Bank sold its right to purchase the land that was previously leased to the Bank to an unrelated party. The Bank realized a gain of \$412,000 on the transaction which is included in noninterest income.

During 2007, the Bank completed a sale/leaseback transaction with an unrelated party for the sale of land. The Bank realized a gain of \$796,000 on the transaction of which \$444,000 was deferred and will be amortized over the five-year term of the lease. Amortization for the years ended December 31, 2008 and 2007 was \$90,000 and \$68,000, respectively.

Land and buildings are leased under noncancelable operating lease agreements that expire at various dates through 2036. Net rental expense for the periods ended December 31, 2008 and 2007 was \$709,000 and \$675,000, respectively. At December 31, 2008, future minimum lease payments for noncancelable operating leases are payable as follows (in thousands):

2009	\$756
2010	647
2011	576
2012	486
2013	468
Thereafter	<u>3,304</u>
Total Minimum Lease Payments	<u>\$6,237</u>

NOTE 6 – DEPOSITS

The components of deposits consist of the following as of December 31 (in thousands):

	2008	2007
Demand, noninterest bearing	\$22,939	\$21,739
Demand, interest bearing	87,256	90,663
Savings and money market	38,230	37,747
Time, \$100,000 and over	81,635	83,042
Time, other	105,829	41,298
Total Deposits	<u>\$335,889</u>	<u>\$274,489</u>

Brokered deposits included in time deposits totaled \$42,859,000 at December 31, 2008 and \$0 at December 31, 2007. As of December 31, 2008, the scheduled maturities of time deposits are as follows (in thousands):

2009	\$163,974
2010	12,459
2011	4,173
2012	1,998
2013	4,860
	<u>\$187,464</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – BORROWINGS

The Bank has unsecured federal funds lines of credit with several correspondent banks totaling \$10 million. There were no advances outstanding on the lines at December 31, 2008 or 2007.

The Bank has an agreement with the Federal Home Loan Bank of Pittsburgh (FHLB) which allows for borrowings up to a percentage of qualifying collateral assets. At December 31, 2008, the Bank has approved funding available from the FHLB of \$97.4 million. Advances totaling \$20 million were outstanding at December 31, 2008. Advances totaling \$10 million were outstanding at December 31, 2007. Interest on the advances is payable quarterly; \$10 million of the advances at a rate of 4.91% mature in April 2009 and \$10 million at a rate of 2.34% in February 2013. The \$10 million advance maturing in February 2013 contains a convertible option. This option allows the FHLB, at quarterly intervals, to change the note to an adjustable rate advance. The FHLB has not converted this note as of December 31, 2008. The Bank has the option to repay the convertible advance at each option date without penalty. Accordingly, the contractual maturity may differ from the expected maturity.

During 2008, the Corporation issued an unsecured junior subordinated debenture to a financial institution in the amount of \$8.5 million. The debt matures in July 2013 and carries a variable interest rate equal to LIBOR (London Interbank Offered Rate) plus 200 basis points. Interest is payable quarterly. A portion of the proceeds was used to repay the junior subordinated debenture in the amount of \$6.5 million that was outstanding at December 31, 2007.

NOTE 8 – FEDERAL INCOME TAXES

A reconciliation of the statutory income tax at a rate of 34% to the income tax included in the consolidated statements of income for the years ended December 31, 2008 and 2007 is as follows (in thousands):

	2008	2007
Federal income tax at statutory rate	\$1,261	\$855
Nontaxable income on bank owned life insurance	(98)	(22)
Non deductible expenses	41	36
	<u>\$1,204</u>	<u>\$869</u>

The components of income tax expense for the years ended December 31 2008 and 2007 are as follows (in thousands):

	2008	2007
Current expense	\$1,439	\$1,294
Deferred expense (benefit)	(235)	(425)
	<u>\$1,204</u>	<u>\$869</u>

The components of the net deferred tax asset consist of the following as of December 31 (in thousands):

	2008	2007
Deferred tax assets:		
Allowance for loan losses	\$1,165	\$852
Start-up costs	0	4
Deferred gain on sale/leaseback	97	128
Stock option expenses- non qualified options	35	19
Unrealized security losses	4	0
	<u>1,301</u>	<u>1,003</u>
Deferred tax liabilities:		
Premises and equipment	(69)	(46)
Cash basis adjustments	(500)	(460)
Unrealized security gains	0	(2)
Other	0	(4)
	<u>(569)</u>	<u>(512)</u>
Net Deferred Tax Asset	<u>\$732</u>	<u>\$491</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

The Bank has had, and may be expected to have in the future, banking transactions with its executive officers, directors, their immediate families and affiliated companies (commonly referred to as related parties). Deposits of related parties totaled \$4,633,000 and \$5,648,000 as of December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, respectively, related party loans totaled \$9,905,000 and \$9,291,000. During 2008, loan advances were \$7,454,000 and repayments were \$6,840,000. A law firm in which a director of the Bank is a partner received payment for professional fees totaling \$110,000 and \$54,000 during 2008 and 2007, respectively. A floral business owned by the spouse of a director received payments of \$31,000 and \$44,000 in 2008 and 2007, respectively, to provide fresh floral arrangements for the branches and Bank functions. The Bank paid a real estate sales commission for the sale of other real estate of \$39,000 in 2008 to the firm where the spouse of a director is employed.

NOTE 10 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial instruments were outstanding whose contract amounts represent credit risk as of December 31 (in thousands):

	2008	2007
Commitments to grant loans	\$35,562	\$32,440
Unfunded commitments under lines of credit	38,453	28,908
Letters of credit	13,063	13,591
	\$87,078	\$74,939

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held typically consists of real estate.

Outstanding letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2008 and 2007 for guarantees under standby letters of credit issued is not material.

NOTE 11 – LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's financial statements.

NOTE 12 – STOCK ISSUANCE, WARRANTS AND STOCK OPTION PLANS

The Bank paid a 5% stock dividend in March 2008. All share and per share amounts have been restated to reflect the payment of the dividend.

In 2003, stock purchase warrants were issued in connection with the Bank's initial stock offering, giving certain organizers the right to purchase a total of 180,600 shares of common stock at the offering price of \$9.52 per share. These warrants were granted in consideration of the risks undertaken by the organizers, are exercisable in full and expire in June 2013.

Under the 2003 Equity Incentive Stock Option Plan, 310,000 shares are reserved for issuance. In 2008, the shareholders approved an increase in the number of shares reserved for issuance from 210,000 to 310,000. Employees are eligible to receive options to purchase shares of common stock at the fair market value on the date the option is granted. Shares vest based on one of the following two vesting schedules: (1) One-fourth of each grant vests immediately and the remainder will vest over a three-year period, or (2) One-fourth of each grant vests immediately for each year employed by the Corporation. For example, a grant to an employee who has been employed by the Corporation for three years will be vested 75% immediately and the remaining 25% will vest one year from the grant date. All grants expire no later than ten years from the date of the grant. Other provisions of the plan allow for awards of non-qualified stock options and restricted stock.

Under the 2004 Directors' Compensation Plan, 105,000 shares are reserved for issuance. Non-employee directors are eligible to receive options to purchase shares of common stock at the fair market value on the date the option is granted. Options are exercisable after one year and will expire no later than ten years from the date of the grant. Other provisions of the plan allow for awards of cash, common stock, and restricted stock as compensation for services.

For 2008, the weighted-average grant-date fair value for stock options granted was \$4.01. The 2008 fair values were estimated using the Black-Scholes model with the following weighted-average assumptions: no expected dividends, 10% volatility, average option life of 5.5 years, and an average risk-free interest rate of 3.28%.

For 2007, the weighted-average grant-date fair value for stock options granted was \$4.54. The 2007 fair values were estimated using the Black-Scholes model with the following weighted-average assumptions: no expected dividends, 10% volatility, average option life of 5.5 years, and an average risk-free interest rate of 4.66%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2008 and 2007, the Corporation recognized \$126,000 and \$134,000, respectively, of stock option expense relating to the above stock options granted. For 2008 and 2007, the tax benefit recognized was \$16,000 and \$19,000, respectively. At December 31, 2008, there was \$7,000 of unrecognized compensation expense related to these options which will be recognized over the next two years.

The option exercise price range was \$9.52 to \$19.05 for the end of 2007 and \$9.52 to \$20.05 at the end of 2008. As of December 31, 2008, there were 162,055 options available for grant.

The information regarding the Corporation's stock option plans is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
December 31, 2007				
Options outstanding at beginning of year	180,390	\$12.07	7.7 years	\$1,259,294
Granted	35,070	19.05	9.0 years	
Exercised	(15,960)	14.03		\$95,745
Forfeited	(2,047)	15.90		
Options outstanding at end of year	197,453	\$13.11	7.0 years	\$1,547,652
Exercisable at December 31	186,795	\$12.74	6.9 years	\$1,533,498
December 31, 2008				
Options outstanding at beginning of year	197,453	\$13.11	7.0 years	\$1,547,652
Granted	32,183	20.95	9.0 years	
Exercised	(4,560)	10.97		\$63,521
Forfeited	(840)	20.48		
Options outstanding at end of year	224,236	\$14.25	6.4 years	\$2,410,537
Exercisable at December 31	222,465	\$14.21	6.4 years	\$2,402,340

NOTE 13 – EMPLOYMENT AGREEMENTS

The Bank has an employment agreement with its President which includes minimum annual salary commitments and change of control provisions. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreement.

NOTE 14 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2008 and 2007, the Bank meets all capital adequacy requirements to which it is subject to be considered well capitalized.

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings. In addition, dividends would be prohibited if the effect would cause the Bank's capital to fall below minimum capital ratios.

The Federal Reserve Board approved a final rule in February 2006 that expands the definition of a small bank holding company (BHC) under the Board's Small Bank Holding Company Policy Statement and the Board's risk-based and leveraged capital guidelines for bank holding companies. In its revisions to the Policy Statement, the Federal Reserve Board raised the small BHC asset size threshold from \$150 million to \$500 million and amended the qualitative criteria for determining eligibility as a small BHC for the purposes of the policy statement and the capital guidelines. The policy statement facilitates the transfer of ownership of small community banks by permitting debt levels at small BHCs that are higher than what would typically be permitted for larger BHCs. Because small BHCs may, consistent with the policy statement, operate at a level of leverage that generally is inconsistent with the capital guidelines, the capital guidelines provide an exemption for small BHCs. Based on this ruling, Integrity Bancshares, Inc. meets the eligibility criteria of a small BHC and is exempt from regulatory capital requirements administered by federal banking agencies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that Management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios as of December 31, 2008 and 2007 are presented in the following tables (dollars in thousands):

December 31, 2008	Actual	For Capital Adequacy Purposes	To Be Well Capitalized
<i>Total Capital to risk weighted assets</i>			
Amount	\$36,428	≥ \$27,109	≥ \$33,875
Ratio	10.75%	≥ 8.00%	≥ 10.00%
<i>Tier I Capital to risk weighted assets</i>			
Amount	\$32,376	≥ \$13,550	≥ \$20,325
Ratio	9.56%	≥ 4.00%	≥ 6.00%
<i>Tier I Capital to average assets</i>			
Amount	\$32,376	≥ \$14,913	≥ \$18,641
Ratio	8.68%	≥ 4.00%	≥ 5.00%

December 31, 2007	Actual	For Capital Adequacy Purposes	To Be Well Capitalized
<i>Total Capital to risk weighted assets</i>			
Amount	\$30,915	≥ \$22,259	≥ \$27,824
Ratio	11.11%	≥ 8.00%	≥ 10.00%
<i>Tier I Capital to risk weighted assets</i>			
Amount	\$21,197	≥ \$11,130	≥ \$16,694
Ratio	7.62%	≥ 4.00%	≥ 6.00%
<i>Tier I Capital to average assets</i>			
Amount	\$21,197	≥ \$12,026	≥ \$15,283
Ratio	6.93%	≥ 4.00%	≥ 5.00%

NOTE 15 – FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the date indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new standard is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. In October 2008, the FASB issued FASB Staff Position 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active" (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our December 31, 2008 financial statements. The adoption of SFAS 157, FSP 157-2 and FSP 157-3 had no impact on the amounts reported in the consolidated financial statements.

The primary effect of SFAS 157 on the Corporation was to expand the required disclosures pertaining to the methods used to determine fair values. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 1 – Quoted Prices in Active Markets for Identical Assets: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Significant Other Observable Inputs: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Significant Unobservable Inputs: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows (in thousands):

December 31, 2008	Carrying Amount	Level 1	Level 2	Level 3
Securities available for sale	\$682	\$0	\$682	\$0

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows (in thousands):

December 31, 2008	Carrying Amount	Level 1	Level 2	Level 3
Impaired loans	\$42	\$0	\$0	\$42

The following valuation techniques were used to measure fair value of the assets in the tables above:

- Available for sale securities – The Corporation utilizes a third-party source to determine the fair value of its fixed income securities. The methodology consists of pricing models based on asset class and included available trade, bid, or other market information, broker quotes, proprietary models, various databases and trading desk quotes, some of which are heavily influenced by unobservable inputs.
- Impaired loans – The Corporation accounts for impaired loans under FASB Statement No. 114 "Accounting by Creditors for Impairment of a Loan" (SFAS 114), in which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties; or discounted cash flows based upon the expected proceeds. These assets are included in Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of \$89,000 less their specific valuation allowances of \$47,000 as determined under SFAS 114.

The Corporation has partially applied SFAS 157. In accordance with FSP 157-2, we have delayed, until our year ending December 31, 2009, applying the provisions of SFAS 157 to other real estate owned, carried at the lower of cost or fair value less costs to sell.

Below is management's estimate of the fair value of financial instruments which were carried at cost on the consolidated financial statements and not measured or recorded at fair value on a recurring basis. The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful.

The following methods and assumptions were used to estimate the fair values of the Corporation's financial instruments at December 31, 2008 and 2007.

Cash, cash equivalents and interest bearing deposits:

The carrying amounts reported in the balance sheets for cash equivalents and interest bearing deposits approximate those assets' fair values.

Securities held to maturity:

The Bank utilizes a third-party source to determine the fair value of its fixed income securities. The methodology consists of pricing models based on asset class and includes available trade, bid, other market information, broker quotes, proprietary models, various databases and trading desk quotes, some of which are heavily influenced by unobservable inputs.

FHLB and ACBB stock:

The carrying amount of restricted investment in bank stocks approximates fair value, and considers the limited marketability of such securities.

Loans receivable:

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deposit liabilities:

The fair values disclosed for demand deposits, by definition are equal to the amount payable on demand at the reporting date. Fair values of these demand deposits, which include interest and noninterest checking and savings accounts, are based on carrying values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank Advances:

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Junior subordinated debenture:

The fair value of the debt is based on the carrying value because the debt is issued with a variable interest rate that reprices quarterly.

Accrued interest receivable and payable:

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Off-balance sheet instruments:

Fair values for the Corporation's off-balance sheet instruments are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Bank's financial instruments at December 31, were as follows (in thousands):

	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash / cash equivalents	\$14,547	\$14,547	\$18,491	\$18,491
Interest bearing				
time deposits	2,131	2,131	2,178	2,178
Securities HTM	817	807	0	0
FHLB and ACBB stock	1,702	1,702	564	564
Loans receivable, net	351,963	355,768	276,309	277,433
Accrued interest				
receivable	1,077	1,077	1,200	1,200
Financial Liabilities:				
Deposits	\$335,889	\$336,413	\$274,489	\$274,800
FHLB advances	20,000	20,078	10,000	10,090
Junior subordinated				
debenture	8,500	8,500	6,500	6,500
Accrued interest payable	476	476	587	587
Off-Balance Sheet Financial Instruments:				
Commitments to grant loans	\$0	\$0	\$0	\$0
Standby letters of credit	0	0	0	0

SHAREHOLDER INFORMATION

Annual Meeting

The Annual Meeting of the shareholders of Integrity Bancshares, Inc. will be held on Wednesday, May 20, 2009 at the West Shore Country Club, 100 Brentwater Drive, Camp Hill, PA 17011 at 5:45 p.m.

Common Stock

The Corporation has 1,709,000 shares of Common Stock outstanding. Approximately 90% of the shareholders live in the Central Pennsylvania area. The Corporation paid no cash dividends during 2008.

Market for Common Stock

The Corporation is not required to register its common stock due to the size and number of shareholders; consequently, there is no public trading market for the common stock.

Stock Transfer Agent and Registrar

Integrity Bancshares, Inc.
Attn: Laurel Leitzel, EVP/CFO
3314 Market Street, Suite 301
Camp Hill, PA 17011
717-920-4900

Independent Accountant

Beard Miller Company LLP
Certified Public Accountants
320 W Market Street
Harrisburg, PA 17108-0625

Equal Opportunity Employer

As an equal opportunity employer, Integrity Bancshares, Inc. pledges to recruit, hire, train and promote persons in all job classifications, without regard to race, color, religion, sex, national origin, age, disability or veteran status.

Annual Financial Disclosure Statement

A copy of Integrity Bancshares, Inc. 2008 Annual Report as filed with the Federal Deposit Insurance Corporation (FDIC) is available without charge to shareholders upon written request to Laurel L. Leitzel, Executive Vice President and Chief Financial Officer, Integrity Bancshares, Inc., 3314 Market Street, Suite 301, Camp Hill, PA 17011.

This Annual Report serves as the annual financial disclosure statement furnished pursuant to the FDIC's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the FDIC.

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York Branch

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717-718-8000

New Cumberland Branch

440 Bridge Street, New Cumberland, PA 17070
717-901-5500

Senate Avenue Branch

100 Senate Avenue, Camp Hill, PA 17011
717-920-8700

Colonial Road Branch

301 Colonial Road, Harrisburg, PA 17109
717-920-3200

Allentown Blvd. Branch

6085 Allentown Blvd., Harrisburg, PA 17112
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