

INTEGRITY

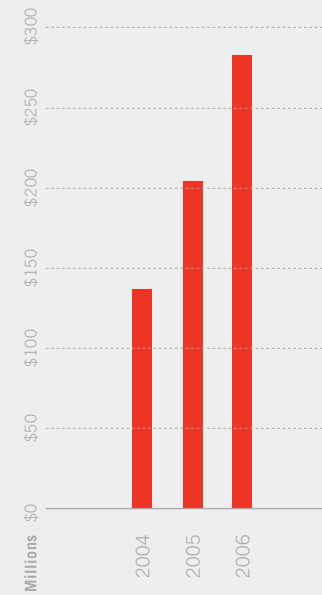
2006 INTEGRITY BANK ANNUAL REPORT

/ unfolding /

FINANCIAL HIGHLIGHTS / Integrity Bank /

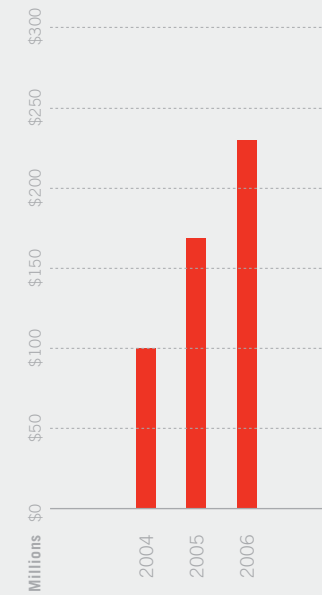


TOTAL ASSETS



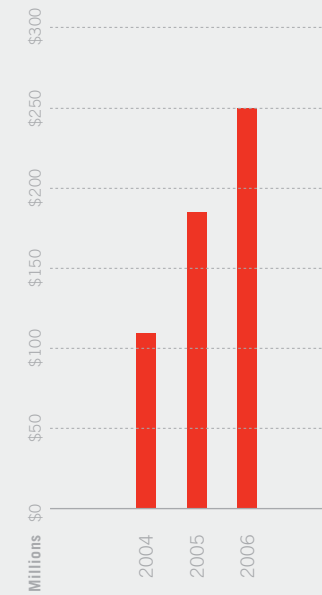
/ 42% Average Annual Growth /

TOTAL LOANS



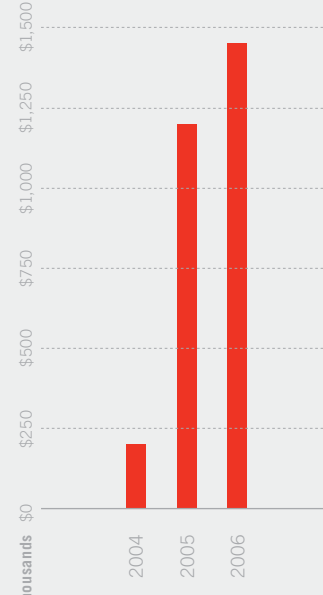
/ 45% Average Annual Growth /

TOTAL DEPOSITS



/ 45% Average Annual Growth /

NET INCOME



/ 53% Average Annual Growth /



Dear Shareholders:

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*.

Integrity attained many milestones during 2006, including the expansion of our franchise with the addition of three new branch offices. Integrity opened its fourth branch in May at Senate Avenue in Camp Hill and our fifth and sixth branches on Allentown Boulevard and Colonial Road in Harrisburg in September.

The financial highlights for 2006 included record totals in assets, deposits, loans and earnings. Total assets increased 37% to \$277 million, up from \$203 million on December 31, 2005 and deposits grew to \$251 million, up from \$181 million on December 31, 2005, a 39% increase. Total loans grew to \$224 million, up 34% from \$167 million, with no delinquent loans at year-end. Earnings grew 23% from \$1,144,000 in 2005 to \$1,404,000 for 2006 even after paying \$733,000 in federal income taxes in 2006 compared to \$87,000 in the prior year.

Other highlights included being one of only two banks nationally to receive the *Omni Award* from Metavante Corporation which is presented annually to banks that achieve excellence in four categories: Creativity, Precision, Strength, and Foundation. Integrity was also the only bank in central Pennsylvania to receive a *5-Star Rating* from Bauer Financial as one of the strongest banks in the nation for the second year in a row.

Integrity Bank continues to be on the cutting-edge of technology with our Express Banker product, which allows merchants to make deposits to their accounts without ever leaving their offices. Integrity was also the third bank in the entire Philadelphia Federal Reserve district to convert to Check 21 in March, which eliminates processing of paper checks and instead, electronically processes check images for clearing. We also introduced a new website that features our excellent products and services, www.integritybankonline.com.

I am extremely thankful to the Board of Directors, Management and the Integrity Bank staff that have made this success possible. Our past performance has been unparalleled, but I am even more excited for our future.

What a ride!

Sincerely,

James T. Gibson
Chairman, President and CEO



**DELIVERING MORE, FASTER, BETTER
TO OUR CUSTOMERS, EVERY DAY** / that's Integrity /

**DELIVERING PRODUCTS AND
SERVICES NO OTHER BANK OFFERS** / that's Integrity unfolding /



**ONE OF ONLY TWO BANKS NATIONWIDE
TO WIN THE PRESTIGIOUS OMNI AWARD** / *that's Integrity* /

**THE ONLY BANK IN THE REGION TO
RECEIVE A "SUPERIOR FIVE-STAR RATING"** / *that's Integrity unfolding* /

MORE, FASTER, BETTER / results in 2006 /

More Branches / Opened three new branches

More Income / Net income up 23% to 1,404,000

Faster Service / First bank in Central PA to allow merchants to make deposits directly from their offices

Faster Processing / Only the third bank in the Philadelphia Federal Reserve district to convert to Check 21

Better Performance / Remained Pennsylvania's highest performing new bank ever

Better Acclaim / One of two banks nationally to receive the prestigious Omni Award; the only bank in Central PA to receive a Five-Star Rating from Bauer Financial

MORE, FASTER, BETTER / banking every day /

More / Open 7 days per week and over 900,000 free ATM locations worldwide

Faster / Drive-thru service with our three-step system

Better / Rates on checking and savings accounts

BOARD OF DIRECTORS / the very definition of Integrity /

Anthony J. Schiano / President and CEO, Giant Food Stores, LLC

James D. Novinger / Owner and President, Novinger Group, Inc.

James T. Gibson / Chairman, President and Chief Executive Officer, Integrity Bank

Jean Ann Capello / Real Estate Investor and Developer

Larry Sollenberger, MD / Physician, Sollenberger Colon Rectal Surgery, Ltd.

Lowell R. Gates / Founder of Gates, Halbruner & Hatch, P.C.

Michael C. Manning / President, Michael C. Manning & Associates; Vice Chairman, Integrity Bank

Ronald J. Drnevich, P.E. / Chairman and CEO, Gannett Fleming, Inc.

Steven J. Weingarten / Attorney and Managing Member, McNees Wallace & Nurick, LLC

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TO THE BOARD OF DIRECTORS

Integrity Bank, Camp Hill, Pennsylvania



We have audited the accompanying balance sheets of Integrity Bank as of December 31, 2006 and 2005, and the related statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank'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 financial statements referred to above present fairly, in all material respects, the financial position of Integrity Bank as of December 31, 2006 and 2005, and the 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.

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
February 17, 2007

BALANCE SHEETS

December 31,

(dollars in thousands except share data)	2006	2005
ASSETS		
Cash and due from banks	\$14,313	\$5,513
Interest bearing deposits	748	272
Federal funds sold and short-term investments	16,756	18,220
Cash and Cash Equivalents	31,817	24,005
Securities available for sale	12,334	5,955
Loans receivable, net of allowance for loan losses		
\$2,482 in 2006; \$1,938 in 2005	221,457	164,932
Premises and equipment, net	9,245	6,027
Accrued interest receivable	1,004	685
Other assets	1,234	1,043
Total Assets	\$277,091	\$202,647
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand, noninterest bearing	\$21,390	\$15,846
Interest bearing	229,388	164,689
Total Deposits	250,778	180,535
Federal funds purchased	0	4,000
Junior subordinated debenture	6,500	0
Other liabilities	654	527
Total Liabilities	257,932	185,062
SHAREHOLDERS' EQUITY		
Common stock, par value \$1 per share;		
Authorized: 10,000,000 shares;		
Issued and outstanding:		
1,607,800 shares (2006),		
1,600,000 shares (2005)	1,608	1,600
Surplus	16,058	15,957
Retained earnings	1,526	122
Accumulated other comprehensive loss	(33)	(94)
Total Shareholders' Equity	19,159	17,585
Total Liabilities and Shareholders' Equity	\$277,091	\$202,647

See notes to financial statements.

STATEMENTS OF INCOME

Years ended December 31,

(dollars in thousands)	2006	2005
INTEREST INCOME		
Loans receivable, including fees	\$14,432	\$8,710
Securities, taxable	275	302
Federal funds sold and other	300	126
Total Interest Income	15,007	9,138
INTEREST EXPENSE		
Deposits	7,061	3,727
Federal funds purchased	220	20
Junior subordinated debenture	248	0
Total Interest Expense	7,529	3,747
Net Interest Income	7,478	5,391
PROVISION FOR LOAN LOSSES		
	574	925
Net Interest Income after Provision for Loan Losses	6,904	4,466
NONINTEREST INCOME		
Service charges on deposits	152	118
Loan fees	179	379
Other	157	127
Total Noninterest Income	488	624
NONINTEREST EXPENSES		
Salaries and employee benefits	2,355	1,928
Occupancy and equipment	1,169	556
Advertising and marketing	466	376
Professional fees	81	122
Other	1,184	877
Total Noninterest Expenses	5,255	3,859
Income Before Taxes	2,137	1,231
Federal Income Taxes	733	87
Net Income	\$1,404	\$1,144

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2006 and 2005

(dollars in thousands)	Common Stock	Surplus	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE					
DECEMBER 31, 2004	\$1,600	\$15,957	(\$1,022)	(\$24)	\$16,511
Comprehensive income:					
Net income			1,144		1,144
Unrealized loss on securities, net of tax benefit of \$0				(70)	(70)
Total comprehensive income					1,074
BALANCE					
DECEMBER 31, 2005	\$1,600	\$15,957	\$122	(\$94)	\$17,585
Comprehensive income:					
Net income			1,404		1,404
Unrealized gain on securities, net of tax benefit of \$16				61	61
Total comprehensive income					1,465
Exercise of 7,800 options	8	101			109
BALANCE					
DECEMBER 31, 2006	\$1,608	\$16,058	\$1,526	(\$33)	\$19,159

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31,

(dollars in thousands)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$1,404	\$1,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	574	925
Deferred income tax expense (benefit)	69	(3)
Provision for depreciation and amortization	417	227
Amortization on securities, net	15	22
Increase in accrued interest receivable and other assets	(563)	(687)
Increase in other liabilities	127	390
Net Cash Provided by Operating Activities	2,043	2,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and principal repayments of securities available for sale		
	1,151	1,676
Purchases of securities available for sale	(7,500)	0
Net increase in loans receivable	(57,099)	(66,791)
Purchases of premises and equipment	(3,635)	(3,822)
Net Cash Used in Investing Activities	(67,083)	(68,937)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	70,243	69,857
Net increase (decrease) in federal funds purchased	(4,000)	4,000
Proceeds from junior subordinated debenture	6,500	0
Proceeds from exercise of stock options	109	0
Net Cash Provided by Financing Activities	72,852	73,857
Net Increase in Cash and Cash Equivalents	7,812	6,938
Cash and Cash Equivalents – Beginning	24,005	17,067
Cash and Cash Equivalents – Ending	\$31,817	\$24,005
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	\$7,220	\$3,706
Taxes paid	\$815	\$315

NOTES TO FINANCIAL STATEMENTS**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies discussed below are followed consistently by Integrity Bank (the Bank). 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 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.

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 and the valuation of deferred tax assets.

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 mature within 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.

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.

NOTES TO FINANCIAL STATEMENTS**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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.

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.

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 also owns stock in the Atlantic Central Bankers Bank. The stock is carried at cost and is reported in other assets. Amounts were \$449,000 and \$347,000 at December 31, 2006 and 2005, respectively.

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 securities gains or losses.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Stock-Based Compensation

Effective January 1, 2006, the Bank 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 compensation expense in the statement of income at fair value. Under the prospective transition method, the Bank would recognize an expense over the required service period for any stock options granted, modified or settled subsequent to January 1, 2006, of which there were none.

Prior to January 1, 2006, the Bank accounted for options under Accounting Principles Board Opinion (APB) No. 25. Since stock options were granted at exercise prices not less than the fair value of the common stock on the date of grant, no compensation expense was recognized prior to 2006.

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.

NOTE 2 — RESTRICTIONS ON CASH AND DUE FROM BANK BALANCES

The Bank is required to maintain average reserve balances with the Federal Reserve Bank through its correspondent bank. The amount of these average required reserve balances was \$2,848,000 and \$115,000 at December 31, 2006 and 2005, respectively.

NOTE 3 — SECURITIES AVAILABLE FOR SALE

A summary of amortized cost and approximate fair value of securities at December 31 is as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006				
U.S. Government Agency Bonds	\$10,500	\$0	(\$27)	\$10,473
Mortgage-backed securities	1,883	3	(25)	1,861
	\$12,383	\$3	(\$52)	\$12,334
December 31, 2005				
U.S. Government Agency Bonds	\$3,000	\$0	(\$57)	\$2,943
Mortgage-backed securities	3,049	0	(37)	3,012
	\$6,049	\$0	(\$94)	\$5,955

Information pertaining to securities with gross unrealized losses at December 31, 2006, aggregated by investment category and length of time that individual securities have been in a continuous loss position is presented in the table below (in thousands).

Securities with gross unrealized losses at December 31, 2005 as presented in the table above had been in a continuous loss position less than twelve months.

December 31, 2006	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government Agency Bonds	\$6	\$7,494	\$21	\$2,979
Mortgage-backed securities	0	0	25	1,515
	\$6	\$7,494	\$46	\$4,494

Securities that have been in a continuous loss position greater than twelve months at December 31, 2006 are comprised of three securities that will mature or reprice in less than one year. Management considers the impairment on these securities to be temporary and due solely to changes in interest rates subsequent to the date of purchase of the specific securities. 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 — SECURITIES AVAILABLE FOR SALE (CONTINUED)

The amortized cost and fair value of securities at December 31, 2006, by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
December 31, 2006		
Due after one year through five years	\$10,500	\$10,473
Mortgage-backed securities	1,883	1,861
	\$12,383	\$12,334

Securities with a fair value of \$12,334,000 and \$5,955,000 were pledged as collateral for public deposits as required or permitted by law at December 31, 2006 and 2005, respectively. There were no sales of securities in 2006 or 2005.

NOTE 4 — LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

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

	2006	2005
Commercial	\$28,376	\$20,142
Consumer	4,680	3,542
Real estate:		
Construction	53,669	27,672
Farmland	651	541
Residential	66,365	54,325
Home equity lines of credit	6,344	6,981
Commercial	63,854	53,667
Total Loans	223,939	166,870
Allowance for loan losses	(2,482)	(1,938)
Net Loans	\$221,457	\$164,932

Deferred loan fees included in total loans were \$1,000 and \$94,000 at December 31, 2006 and 2005, respectively. The change in the allowance for loan losses consists of the following for the years ended December 31 (in thousands):

	2006	2005
Beginning Balance	\$1,938	\$1,018
Provision for loan losses	574	925
Loans charged off	(30)	(5)
Ending Balance	\$2,482	\$1,938

As of December 31, 2006 the Bank had impaired loans of \$671,000, none of which required a valuation allowance. The average investment in impaired loans was \$669,000 and interest income recognized on impaired loans under the accrual basis was \$47,000. No additional funds are committed to be advanced in connection with impaired loans. At December 31, 2006, there were no loans past due ninety days or more or nonaccrual loans.

As of December 31, 2005 the Bank had impaired loans totaling \$747,000 with a valuation allowance of \$179,000. Impaired loans with no valuation allowance were \$317,000 at December 31, 2005. The average investment in impaired loans was \$573,000 and interest income recognized on impaired loans under the accrual basis was \$40,000. No additional funds are committed to be advanced in connection with impaired loans. At December 31, 2005, loans past due ninety days or more and still accruing were \$317,000 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):

	2006	2005
Land	\$2,776	\$2,716
Buildings and improvements	4,768	2,582
Furniture, fixtures and equipment	2,497	1,108
	10,041	6,406
Accumulated depreciation	(796)	(379)
	\$9,245	\$6,027

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, 2006 and 2005 was \$349,000 and \$87,000 respectively. At December 31, 2006 future minimum lease payments for noncancelable operating leases are payable as follows (in thousands):

2007	\$581
2008	552
2009	546
2010	472
2011	439
Thereafter	4,491
Total Minimum Lease Payments	\$7,081

NOTES TO FINANCIAL STATEMENTS

NOTE 6 — DEPOSITS

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

	2006	2005
Demand, noninterest bearing	\$21,390	\$15,846
Demand, interest bearing	80,257	24,787
Savings and money market	61,169	80,485
Time, \$100,000 and over	50,618	33,310
Time, other	37,344	26,107
Total Deposits	\$250,778	\$180,535

As of December 31, 2006, the scheduled maturities of time deposits are as follows (in thousands):

2007	\$73,444
2008	1,913
2009	1,659
2010	8,723
2011	2,223
	\$87,962

NOTE 7 — BORROWINGS

The Bank has federal funds lines of credit with several correspondent banks totaling \$9.5 million, of which \$7.5 million is on an unsecured basis. There were no advances outstanding on the lines at December 31, 2006. Advances on these lines of \$4 million were outstanding at December 31, 2005.

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, 2006 the Bank has approved but unused funding available from the FHLB of \$89.5 million.

During 2006, the Bank issued an unsecured junior subordinated debenture to a financial institution in the amount of \$6.5 million. The debt matures in 2013 and carries a variable interest rate equal to LIBOR (London Interbank Offered Rate) plus 200 basis points. Interest is payable quarterly.

NOTE 8 — FEDERAL INCOME TAXES

The provision for income taxes for the year ended December 31, 2005 is reduced due to the net operating loss carry-forward incurred in 2003 and utilized in 2004 and 2005. At December 31, 2005 the Bank has utilized the net operating loss carry-forward available for federal income tax purposes in full.

Income tax expense is comprised of the following items (in thousands):

	2006	2005
Federal income tax at statutory rate	\$726	\$419
Non-deductible expenses	7	6
Reversal of valuation allowance	0	(338)
	\$733	\$87

The components of income tax expense are as follows (in thousands):

	2006	2005
Current expense	\$664	\$428
Deferred expense (benefit)	69	(3)
Benefit of operating loss carry-forward	0	(338)
	\$733	\$87

The components of the net deferred tax assets consist of the following as of

December 31 (in thousands):	2006	2005
Deferred tax assets:		
Allowance for loan losses	\$660	\$465
Start-up costs	12	21
Unrealized security losses	17	0
	689	486
Deferred tax liabilities:		
Premises and equipment	(141)	(61)
Cash basis adjustments	(459)	(288)
Other	(4)	0
	(604)	(349)
Net Deferred Tax Assets	\$85	\$137

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 \$6,639,000 and \$6,392,000 as of December 31, 2006 and 2005, respectively. As of December 31, 2006 and 2005, respectively, related party loans totaled \$8,018,000 and \$8,268,000. During 2006, loan advances were \$3,109,000 and repayments were \$3,359,000. A law firm in which a director of the Bank is a partner received payment for professional fees totaling \$35,000 and \$59,000 during 2006 and 2005, respectively. A floral business owned by the wife of a director received payments of \$59,000 and \$38,000 in 2006 and 2005, respectively, to provide fresh floral arrangements for the branches and bank functions.

NOTES TO FINANCIAL STATEMENTS

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.

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

	2006	2005
Commitments to grant loans	\$27,927	\$26,122
Unfunded commitments under lines of credit	25,629	15,631
Letters of credit	2,440	3,352
	\$55,996	\$45,105

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, 2006 and 2005 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 Bank's financial statements.

NOTE 12 — STOCK ISSUANCE, WARRANTS AND STOCK OPTION PLANS

The Bank issued stock purchase warrants in connection with its stock offering, giving certain organizers the right to purchase a total of 172,000 shares of common stock at the initial offering price of \$10 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, 200,000 shares are reserved for issuance. Employees are eligible to receive options to purchase shares of common stock at the fair market value on the date the option is granted. One-fourth of each grant vests immediately and the remainder will vest over a three-year period and will 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, 100,000 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.

As permitted by the plans, the Board of Directors voted to accelerate the vesting of all options outstanding at December 31, 2005. For 2005, the weighted-average grant-date fair value for stock options granted was \$3.80. The 2005 fair values were estimated using the Black-Scholes model and minimum value method with the following weighted-average assumptions: no expected dividends or volatility, average option life of 7 years, and an average risk-free interest rate of 4.24%.



NOTES TO FINANCIAL STATEMENTS

NOTE 12 — STOCK ISSUANCE, WARRANTS AND STOCK OPTION PLANS (CONTINUED)

Information regarding the Bank's stock option plan as of December 31, 2006 is as follows (dollars in thousands):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Options outstanding at beginning of year	180,500	\$12.73	8.7 years	\$725,610
Granted	0	0.00		
Exercised	(7,800)	13.95		47,000
Forfeited	(900)	13.11		
Options outstanding at end of year	171,800	\$12.67	7.7 years	\$1,259,294
Exercisable at December 31	171,800	\$12.67	7.7 years	\$1,259,294
Option price range at end of year	\$10.00-\$16.75			

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 I capital (as defined in the regulations) to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2006 and 2005, that 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.

As of December 31, 2006, 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 I risk-based and Tier I leverage ratios as set forth in the following tables. The Federal Deposit Insurance Corporation requires that the Bank maintain a ratio of Tier I leverage capital to average assets of at least 8% during the first three years of operations. 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, 2006 and 2005 are presented in the following table (dollars in thousands).

	Total Capital to Risk-weighted Assets		Tier I Capital to Risk-weighted Assets		Tier I Capital to Average Assets	
	2006	2005	2006	2005	2006	2005
ACTUAL						
Amount	\$28,174	\$19,617	\$19,192	\$17,679	\$19,192	\$17,679
Ratio	12.70%	12.10%	8.65%	10.90%	7.54%	9.59%
FOR CAPITAL ADEQUACY PURPOSES						
Amount ≥	\$17,742	\$12,972	\$8,871	\$6,486	\$10,178	\$14,746
Ratio ≥	8.00%	8.00%	4.00%	4.00%	4.00%	8.00%
TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS						
Amount ≥	\$21,178	\$16,215	\$13,307	\$9,729	\$12,723	\$14,746
Ratio ≥	10.00%	10.00%	6.00%	6.00%	5.00%	8.00%

NOTES TO FINANCIAL STATEMENTS

NOTE 15 — FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Bank'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 Bank could have realized in a sales transaction on the date indicated.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank'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 Bank's disclosures and those of other banks may not be meaningful.

The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2006 and 2005.

Cash and Cash Equivalents

The carrying amounts reported in the balance sheets for cash and short-term instruments approximate those assets' fair values.

Securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying amounts reported in the balance sheets for FHLB and ACBB stock approximate those assets' fair value since this would be the expected redemption value of the stocks.

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 other loans such as consumer loans and fixed-rate mortgage loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

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 on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Funds Purchased

The carrying amount reported in the balance sheets for federal funds purchased approximates its fair value.

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 Bank's off-balance sheet instruments are based on fees currently charged 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):

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	\$31,817	\$31,817	\$24,005	\$24,005
Securities	12,334	12,334	5,955	5,955
FHLB and ACBB stock	449	449	347	347
Loans receivable, net	221,457	219,362	164,932	162,449
Accrued interest receivable	1,004	1,004	685	685
FINANCIAL LIABILITIES				
Deposits	\$250,778	\$250,761	\$180,535	\$180,514
Federal funds purchased	0	0	4,000	4,000
Junior subordinated debenture	6,500	6,500	0	0
Accrued interest payable	385	385	76	76
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 Bank will be held on Wednesday, May 23, 2007 at the West Shore Country Club, 100 Brentwater Drive, Camp Hill, PA 17011 at 5:45 p.m.

COMMON STOCK

The Bank has 1,607,800 shares of Common Stock outstanding. Approximately 90% of the shareholders live in the Central Pennsylvania area. The Bank paid no dividends during 2006.

MARKET FOR COMMON STOCK

The Bank 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 Bank**

Attn: Laurel Leitzel, SVP/CFO
3314 Market Street, Suite 301
Camp Hill, PA 17011
717-920-4900

INDEPENDENT ACCOUNTANT

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

EQUAL OPPORTUNITY EMPLOYER

As an equal opportunity employer, Integrity Bank 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 Bank's 2006 Annual Report as filed with the Federal Deposit Insurance Corporation (FDIC) is available without charge to shareholders upon written request to Laurel L. Leitzel, Senior Vice President and Chief Financial Officer, Integrity Bank, 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.

INTEGRITY BANK**Corporate Headquarters**

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Senate Avenue Branch

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Colonial Road Branch

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Harrisburg, PA 17109
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6085 Allentown Boulevard
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**“WHAT A YEAR. WHAT A PERFORMANCE. WHAT A RIDE.
BUT STAY TUNED, OUR STORY IS UNFOLDING.”**

/ James T. Gibson, Chairman, President and CEO /



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